

## 2015 Annual Report

**Chase Park Plaza**  
Saint Louis, Missouri



March 18, 2016

Dear Shareholder:

The Company, which was originally structured as a finite-life investment program, continues in the asset disposition phase of its lifecycle. Completion of this phase is a necessary step in winding up the operations of the Company and making a final liquidating distribution to shareholders.

During December 2015, the Company entered into contracts to sell its Royal Island and Las Colinas Commons properties. The sale of Las Colinas Commons was completed in February 2016. The Royal Island sale is pending approval of the Bahamian government, but is currently expected to be completed during the second quarter of 2016.

During 2015, the Company marketed for sale its Northborough Tower property in Houston. The Company did not receive any offers greater than Northborough Tower's mortgage loan balance. This non-recourse mortgage loan matured in January 2016. The Company is working with the lender to transfer the property through a foreclosure or deed-in-lieu of foreclosure during the second quarter of 2016.

In 2015, the Company's partner in the Central Europe Joint Venture disposed of three individual properties within the joint venture and is marketing for sale the joint venture's remaining 18 locations. The Company is continuing to evaluate options for disposing of its other remaining investments—Northpoint Central, Frisco Square, Ablon at Frisco Square, Chase Park Plaza and The Lodge & Spa at Cordillera.

The Company is in the late stages of the asset disposition phase of its lifecycle with few assets (in several asset classes) remaining to be sold. The Company's board of directors elected not to

establish a new estimated share value (ESV) in 2015 since a new ESV could inadvertently serve as a cap on values that buyers might pay. The board also considered that a valuation analysis of the Company's assets would be performed and disclosed in connection with seeking shareholder approval of a liquidation plan or other exit strategy.

The most recent ESV was \$3.58 established in November 2014. The ESV was based on the estimated value of the assets less the estimated value of liabilities as of September 30, 2014. That ESV did not take into account property selling costs, liquidation costs, or the challenging market conditions that have occurred since those assets were valued.\* Given these factors, management currently estimates that the amount of any final liquidating distribution will be less than \$3.58 per share.

The board of directors is focused on an orderly disposition of the Company's remaining investments or other appropriate exit strategy in the best interests of shareholders. However, the board can make no assurances as when this process will be completed. Economic or market conditions may cause the Company to hold its investments for a longer period of time or sell an investment at a lower than anticipated price.

Sincerely,



Thomas P. Kennedy  
President

\*A full description of the methodologies used to determine the ESV is included in Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities-Market Information" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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**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, 2015**

**Commission File Number: 000-51961**

**Behringer Harvard Opportunity REIT I, Inc.**  
(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)  
**15601 Dallas Parkway, Suite 600, Addison, Texas**  
(Address of principal executive offices)

**20-1862323**  
(I.R.S. Employer  
Identification No.)  
**75001**  
(Zip Code)

Registrant's telephone number, including area code: **(866) 655-3650**

Securities registered pursuant to section 12(b) of the Act:  
**None**

Securities registered pursuant to section 12(g) of the Act:  
**Common Stock, \$.0001 par value per share**  
(Title of Class)

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 Section 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐

Accelerated filer ☐

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

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

There is no established market for the Registrant's common stock. The Registrant has adopted an Amended and Restated Policy for Estimation of Common Stock Value pursuant to which it has estimated the per share value of its common stock. As of November 10, 2014, the board established an estimated per share value of \$3.58 based on financial information as of October 31, 2014. For a full description of the methodologies used to estimate the value of the Registrant's common stock as of November 10, 2014, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Market Information" included in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014. There were approximately 56,500,472 shares of common stock held by non-affiliates of the Registrant as of June 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter. As of February 29, 2016, the Registrant had 56,500,472 shares of common stock outstanding.

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## Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements include discussion and analysis of the financial condition of Behringer Harvard Opportunity REIT I, Inc. and our subsidiaries (which may be referred to herein as the “Company,” “REIT,” “we,” “us,” or “our”), including our ability to rent space on favorable terms, to address our debt maturities and to fund our liquidity requirements, the value of our assets, our anticipated capital expenditures, the amount and timing of anticipated cash distributions to our stockholders, the estimated per share value of our common stock and other matters. Words such as “may,” “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “could,” “should” and variations of these words and similar expressions are intended to identify forward-looking statements.

These forward-looking statements are not historical facts but reflect the intent, belief or current expectations of our management based on their knowledge and understanding of the business and industry, the economy and other future conditions. These statements are not guarantees of future performance, and we caution stockholders not to place undue reliance on forward-looking statements. Actual results may differ materially from those expressed or forecasted in the forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to the factors listed and described under Item 1A, “Risk Factors” in this Annual Report on Form 10-K and the factors described below:

- market and economic challenges experienced by the U.S. and global economies or real estate industry as a whole and the local economic conditions in the markets in which our properties are located;
- the availability of cash flow from operating activities for capital expenditures;
- conflicts of interest arising out of our relationships with our advisor and its affiliates;
- our ability to retain our executive officers and other key personnel of our advisor, our property manager and their affiliates;
- our level of debt and the terms and limitations imposed on us by our debt agreements;
- the availability of credit generally, and any failure to refinance or extend our debt as it comes due or a failure to satisfy the conditions and requirements of that debt;
- the need to invest additional equity in connection with debt financings as a result of reduced asset values and requirements to reduce overall leverage;
- future increases in interest rates;
- our ability to raise capital in the future by issuing additional equity or debt securities, selling our assets or otherwise;
- impairment charges;
- unfavorable changes in laws or regulations impacting our business or our assets; and
- factors that could affect our ability to qualify as a real estate investment trust.

Forward-looking statements in this Annual Report on Form 10-K reflect our management’s view only as of the date of this Report, and may ultimately prove to be incorrect. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. We intend for these forward-looking statements to be covered by the applicable safe harbor provisions created by Section 27A of the Securities Act and Section 21E of the Exchange Act.

## Cautionary Note

The representations, warranties, and covenants made by us in any agreement filed as an exhibit to this Annual Report on Form 10-K are made solely for the benefit of the parties to the agreement, including, in some cases, for the purpose of allocating risk among the parties to the agreement, and should not be deemed to be representations, warranties, or covenants to or with any other parties. Moreover, these representations, warranties, or covenants should not be relied upon as accurately describing or reflecting the current state of our affairs.

**BEHRINGER HARVARD OPPORTUNITY REIT I, INC.**  
**FORM 10-K**  
**Year Ended December 31, 2015**

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## PART I

### Item 1. Business.

#### Organization

Behringer Harvard Opportunity REIT I, Inc. (which may be referred to as the “Company,” “we,” “us,” or “our”) was incorporated in November 2004 as a Maryland corporation and has elected to be taxed, and currently qualifies, as a real estate investment trust (“REIT”) for federal income tax purposes.

We operate commercial real estate and real estate-related assets located in and outside the United States. With our opportunistic and value-add investment strategy, we have focused generally on acquiring properties with significant possibilities for capital appreciation, such as those requiring development, redevelopment, or repositioning, or those located in markets and submarkets with higher volatility, lower barriers to entry, and high growth potential. We have acquired a wide variety of properties, including office, retail, hospitality, recreation and leisure, multifamily, industrial, and other properties. We have purchased existing and newly constructed properties and properties under development or construction. As of December 31, 2015, we wholly owned four properties and consolidated three properties through investments in joint ventures on our consolidated balance sheet, including our Las Colinas Commons office building, located in Irving, Texas, which is classified as real estate held for sale on our consolidated balance sheet at December 31, 2015. We sold Las Colinas Commons on February 2, 2016. In addition, we have a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 18 properties as of December 31, 2015, that is accounted for using the equity method.

In September 2007, we made mezzanine loans to the owner and developer of Alexan Black Mountain Apartments, a multifamily community located in Henderson, Nevada, and obtained an option to purchase the property after completion of construction. On August 18, 2015, we entered into a letter agreement with the owner pursuant to which we consented to the sale of Alexan Black Mountain Apartments to a third party for an amount less than the senior mortgage loan on the property and released our option rights in exchange for a payment of less than \$0.1 million. The sale of the property closed on August 19, 2015. Our mezzanine loan, which was fully reserved, was retired and the proceeds were recorded as other income.

Substantially all of our business is conducted through Behringer Harvard Opportunity OP I, LP, a Texas limited partnership organized in November 2004 (the “Operating Partnership”), or its subsidiaries. Our wholly owned subsidiary, BHO, Inc., a Delaware corporation, owns less than a 0.1% interest in the Operating Partnership as its sole general partner. The remaining interest of the Operating Partnership is held as a limited partnership interest by our wholly owned subsidiary, BHO Business Trust, a Maryland business trust. We have entered our disposition phase and are currently considering liquidity options for our stockholders. Therefore, we are not actively seeking to purchase additional properties. We will seek stockholder approval prior to liquidating our entire portfolio. Our investment properties are located in Colorado, Missouri, Texas, The Commonwealth of The Bahamas, the Czech Republic, and Poland.

We are externally managed and advised by Behringer Harvard Opportunity Advisors I, LLC, a Texas limited liability company (the “Advisor”). The Advisor is responsible for managing our day-to-day affairs and providing services that are essential to us, including asset disposition decisions and property management and leasing services.

#### Public Offering of Common Stock; Use of Proceeds

In September 2005, we commenced a public offering (the “Offering”) of shares of our common stock pursuant to which we offered 53,270,000 shares at a price of \$10 per share in our primary offering and 965,331 shares of common stock at a price of \$9.50 per share in our distribution reinvestment plan (the “DRP”).

On December 28, 2007, we terminated the primary component of the Offering. We had earlier terminated the DRP on November 16, 2007. Aggregate gross offering proceeds from the Offering totaled approximately \$538.7 million and net offering proceeds after selling commissions, dealer manager fees, and organization and offering expenses totaled approximately \$481.8 million. We used the net proceeds from the Offering primarily to acquire real estate and real estate-related assets consistent with our investment objectives. As of December 31, 2015, we have invested all of the net offering proceeds.

On November 16, 2007, we commenced a second distribution reinvestment plan offering (the “Second DRP”) of up to 6,315,790 shares of common stock at an initial price of \$9.50 per share. Shares in the Second DRP were sold at \$8.17 from July 26, 2009 through January 14, 2010; at \$8.03 from January 15, 2010 through January 13, 2011; and \$7.66 from January 14, 2011 through April 15, 2011 as a result of our board of directors announcing estimated per share values pursuant to our amended and restated policy for estimation of common stock value (the “Valuation Policy”) of \$8.17, \$8.03, and \$7.66 on June 22, 2009, January 8, 2010 and January 10, 2011, respectively. We terminated the Second DRP effective April 15, 2011. As of the termination of the Second DRP, we had issued 3,374,198 shares under the Second DRP resulting in gross and net proceeds of \$29.8 million. The proceeds raised in the Second DRP were used for general corporate purposes, including, but not limited to, investment in real estate and real estate-related securities, payment of fees and other costs, repayment of debt, and funding for our share redemption program.

As of December 31, 2015, we had issued 56,500,472 shares of our common stock, including 21,739 shares indirectly owned by Behringer Harvard Holdings, LLC (“Behringer”), 940,387 shares issued pursuant to the DRP, 3,374,198 shares issued pursuant to the Second DRP, and redeemed 984,267 shares. In addition, we had 1,000 shares of non-participating, non-voting convertible stock outstanding and no shares of preferred stock issued and outstanding.

Our common stock is not listed on a national exchange.

### **Investment Objectives**

We have entered our disposition phase and are focused on selling our assets in an orderly manner. We are not actively seeking to purchase additional properties. The primary objective of our business plan is to continue to sustain and enhance the property values through additional leasing or capital expenditures, where necessary, while identifying and implementing disposition strategies for the remaining properties in our portfolio. Properties may be sold individually or as a portfolio. There can be no assurance that future dispositions will occur as planned, or if they occur, that they will help us to meet our liquidity demands. Once we anticipate selling all or substantially all of our assets, we will seek stockholder approval before liquidating our entire portfolio.

Our investment policies were designed in order that we could make investments that were consistent with our focus on acquiring properties with significant possibilities for capital appreciation. When making investment decisions, we followed rigorous acquisition criteria and closing conditions and reviewed other required documentation. These criteria were designed to assess and manage investment risks and support our basis for making investment decisions in the best interests of our stockholders.

Our investment objectives were:

- to realize growth in the value of our investments to enhance the value received upon our ultimate sale of such investments;
- to preserve, protect, and return stockholders’ capital contribution through our ultimate sale of our investments; and
- to provide stockholders with a return of their investment by liquidating and distributing net sales proceeds.

### **Investment Policies**

We have invested in commercial properties, such as office, retail, multifamily, industrial, hospitality, and recreation and leisure properties that were initially identified as opportunistic and value-add investments with significant possibilities for capital appreciation due to their property specific characteristics or their market characteristics. We have disposed of 15 of our original portfolio assets through December 31, 2015. We are in our disposition phase and our board of directors is considering the orderly disposition of our assets or other appropriate exit strategy in the best interest of our stockholders. We can make no assurances as to the timing in which we will complete this process. Economic or market conditions may cause us to hold our investments for longer periods of time or sell an investment at a lower than anticipated price.

Our real estate investments are held in fee title or a long-term leasehold estate through the Operating Partnership or indirectly through limited liability companies or through investments in joint ventures, partnerships, co-tenancies or other co-ownership arrangements with the developers of the properties, affiliates of Behringer Opportunity Advisors I or other persons.

### **Borrowing Policies**

There is no limitation on the amount we may invest in or borrow related to any single property or other investment. Under our charter, the maximum amount of our indebtedness shall not exceed 300% of the Company’s “net assets” (as defined in our charter) as of the date of any borrowing; however, we may exceed that limit if approved by a majority of our board of directors. In addition to our charter limitation and indebtedness target, our board has adopted a policy to limit our aggregate borrowings to approximately 75% of the aggregate value of our assets, unless substantial justification exists that borrowing a greater amount is in our best interests. Our policy limitation, however, does not apply to individual real estate assets. Our board of directors reviews the Company’s aggregate borrowings at least quarterly. We believe that these borrowing limitations reduce risk of loss and are in the best interests of the Company’s stockholders.

## **Disposition Policies**

We are in our disposition phase and are focused on selling our assets in an orderly manner. We currently make decisions to dispose of properties based on factors including, but not limited to, the following:

- the property's current and expected future performance;
- potential opportunities to increase revenues and property values;
- capital required to maintain the property; and
- the estimated value we may receive by selling the property.

We may sell an asset before the end of the expected holding period if we believe that market conditions have maximized its value to us or the sale of the asset would otherwise be in the best interests of our shareholders.

## **Tax Status**

We elected to be taxed as a REIT for federal income tax purposes and believe that we have qualified as a REIT since the year ended December 31, 2006. As long as we qualify as a REIT, we generally will not be subject to federal income tax at the corporate level (except for the operations of our wholly-owned taxable REIT subsidiaries), to the extent that we distribute at least 90% of our REIT taxable income to our stockholders on an annual basis. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless entitled to relief under specific statutory provisions, we also will be disqualified for taxation as a REIT for the four taxable years following the year in which we lose our qualification. Even if we qualify as a REIT, we may be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

## **Competition**

We are subject to significant competition in seeking tenants for the leasing of our properties and buyers to purchase our properties. In addition, as we seek to dispose of properties, we suffer from a lack of demand for opportunistic asset types such as land and development properties. We compete with many third parties engaged in real estate investment activities, including other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, lenders, hedge funds, governmental bodies, and other entities. We also face competition from other real estate investment programs for buyers and tenants that may be suitable for us. Many of our competitors have substantially greater financial and other resources than we have and may have substantially more operating experience than either us or the Advisor.

## **Regulations**

Our investments are subject to various federal, state, and local laws, ordinances, and regulations (including those of foreign jurisdictions), including, among other things, zoning regulations, land use controls, environmental controls relating to air and water quality, noise pollution, and indirect environmental impacts such as increased motor vehicle activity. We believe that we have all permits and approvals necessary under current law to operate our investments.

## **Environmental**

As an owner of real estate, we are subject to various environmental laws of federal, state, and local governments. Compliance with existing laws has not had a material adverse effect on our financial condition or results of operations, and management does not believe it will have such an impact in the future. However, we cannot predict the impact of unforeseen environmental contingencies, new or changed laws or regulations on properties in which we hold an interest, or on properties that may be acquired directly or indirectly in the future.

## **Distribution Policies**

Distributions are authorized at the discretion of our board of directors based on its analysis of our forthcoming cash needs, earnings, cash flow, anticipated cash flow, capital expenditure requirements, cash on hand, general financial condition and other factors that our board deems relevant. The board's decision will be influenced, in substantial part, by its obligation to ensure that we maintain our status as a REIT. In connection with entering our disposition phase, on March 28, 2011, our board of directors discontinued regular quarterly distributions. Any future distributions will be based on available cash from asset sales after weighing operational needs.

Historically, distributions paid to stockholders have been funded through various sources, including cash flow from operating activities, proceeds raised as part of our initial public offering, reinvestment through our distribution reinvestment plan and/or additional borrowings. We had no distributions during the years ended December 31, 2015 and 2014.



## Significant Tenants

As of December 31, 2015, we had one lease that accounted for 10% or more of our aggregate annual rental revenue from our consolidated office properties. Northborough Tower, a single-tenant office building, accounted for \$5.7 million, or 40%, of our aggregate annual rental revenue from our consolidated office properties, and 11% of our total revenues, excluding revenues for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015. During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. We did not pay the outstanding principal balance of the loan at maturity, January 11, 2016, which constituted an event of default. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account, consisting primarily of tenant rental payments, to be deposited into a lender-controlled and administered bank account to be applied to the outstanding principal balance. In December 2015, the lender exercised its right to control the operating funds of the property. The lender has been funding the operations of the property from the tenant rental funds and indicated they expect to continue to do so. The loan is non-recourse to the Company and we have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016. The balance of the nonrecourse debt, secured by Northborough, was \$18.5 million at December 31, 2015. The carrying value of the asset was \$15.2 million at December 31, 2015.

See Item 2, Properties for additional information on our office building leases.

The following table presents information about our significant tenant lease at our consolidated office properties as of December 31, 2015, excluding Las Colinas Commons, which was classified as real estate held for sale at December 31, 2015:

Tenant	Property	Tenant Industry	Square Feet	% of Rentable Office Sq. Ft. Leased	Annualized Base Rent Statistics <sup>(1)</sup>			Lease Expiration
					Annualized Base Rent (in 000s)	% of Office Annualized Base Rent	Annualized Base Rent per Square Foot	
Noble Energy, Inc. <sup>(2)</sup>	Northborough Tower	Crude Petroleum and Natural Gas Extraction	204,779	36%	\$5,836	40%	\$28.50	4/30/2018

(1) Annualized Base Rent Statistics reflect contractual base rental income from our consolidated office properties without consideration of tenant contraction or termination rights. Tenant reimbursements generally include payment of real estate taxes, operating expenses, and common area maintenance and utility charges.

(2) During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. We did not pay the outstanding principal balance of the debt secured by Northborough at maturity, January 11, 2016, which constituted an event of default. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account, consisting primarily of tenant rental payments, to be deposited into a lender-controlled and administered bank account to be applied to the outstanding principal balance. In December 2015, the lender exercised its right to control the operating funds of the property.

## Employees

We have no employees. The Advisor and other affiliates of Behringer perform a full range of real estate services for us, including acquisitions, dispositions, accounting, legal, asset management, property management, and investor relations services.

We are dependent on affiliates of Behringer for services that are essential to us, including asset disposition decisions, property management, and other general administrative responsibilities. In the event that these companies were unable to provide these services to us, we would be required to provide such services ourselves or obtain such services from other sources.

## Financial Information About Industry Segments

Our current business consists of owning, managing, operating, leasing, developing, investing in, and disposing of real estate assets. We internally evaluate all of our real estate assets as one industry segment, and, accordingly, we do not report segment information.

## Available Information

We electronically file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports with the SEC. We also have filed with the SEC registration statements in connection with the offerings of our common stock. Copies of our filings with the SEC may be obtained from our website at

[www.behringerinvestments.com](http://www.behringerinvestments.com) or at the SEC's website at [www.sec.gov](http://www.sec.gov). Access to these filings is free of charge. We are not incorporating our website or any information from the website into this Form 10-K.

## **Item 1A. Risk Factors.**

The factors described below represent the principal risks that could cause our actual results to differ materially from those presented in our forward-looking statements. Other factors may exist that we do not consider to be significant based on information that is currently available or that we are not currently able to anticipate. Our stockholders may be referred to as “you” or “your” in this Item 1A, “Risk Factors” section.

### **Risks Related to an Investment in Us**

***Because no public trading market for your shares exists and because we have delayed the liquidation or the listing of our shares of common stock on a national securities exchange beyond December 2013; you may not realize the cash value of your investment in us for an extended period.***

There is no public market for your shares and we currently have no plans to list our shares on a national securities exchange. On January 10, 2011, our board of directors suspended all redemptions under our share redemption program until further notice. Therefore, it will be difficult for you to sell your shares promptly or at all. You may not be able to sell your shares in the event of an emergency. If you are able to sell your shares, the price you receive for the shares of our common stock is likely to be less than the proportionate value of our investments. It is also likely that your shares would not be accepted as primary collateral for a loan.

Our charter required that we seek stockholder approval of our liquidation if our shares were not listed for trading on a national securities exchange by December 2013, the sixth anniversary of the termination of our initial public offering, unless a majority of our board of directors, including a majority of our independent directors, vote to extend the deadline. Following our 2012 annual meeting of stockholders, our board of directors met and voted to extend the deadline by which we must list or liquidate to June 30, 2020, subject to the ability to further defer this deadline upon the approval of the majority of the board of directors, including a majority of the independent directors. We can provide no assurances as to when we may seek to provide our stockholders with a liquidity event.

***We may not successfully implement our exit strategy, in which case you may have to hold your investment for an indefinite period.***

Our primary investment objectives are to focus on the disposition of the properties remaining in our portfolio, while continuing to preserve capital and sustain and enhance property value. However, we are under no obligation to complete a disposition process within a specified time period and market conditions and other factors could delay our ability to dispose of the assets remaining in our portfolio. If we are not successful in implementing our exit strategy, your shares may continue to be illiquid and you may, for an indefinite period of time, be unable to convert your investment into cash easily and could suffer losses on your investment.

***The estimated value per share of our common stock may not reflect the value that stockholders will receive for their investment.***

On November 10, 2014, pursuant to the Amended and Restated Policy for Estimation of Common Stock Value, the Valuation Policy, our board of directors approved an estimated per share value of the Company's common stock as of October 31, 2014 of \$3.58, as described under “Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities-Market Information” included in Part II, Item 5 herein. The value per share was based on the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares outstanding, all as of September 30, 2014. This was our most recent estimated share valuation (“ESV”). The ESV did not take into account property selling costs, our liquidation costs, or the challenging market conditions that have occurred since those assets were valued. Given these factors, we estimate that any distribution will be less than \$3.58 per share. There is no assurance of the extent to which the estimated valuation should be relied upon for any purpose after its effective date regardless that it may be published on any statement issued by us or otherwise.

The ESV was based upon consultation with the Advisor and an independent, third party valuation and advisory firm engaged by us, using what the board of directors deems to be appropriate valuation methodologies and assumptions under current circumstances in accordance with the Valuation Policy.

We provided this estimated value per share to assist broker-dealers in connection with their obligations under applicable Financial Industry Regulatory Authority (“FINRA”) rules with respect to customer account statements. FINRA rules provide no guidance on the methodology an issuer must use to determine its estimated value per share. As with any valuation methodology, our methodology is based upon a number of estimates and assumptions that may prove later to be inaccurate or incomplete. Further, different parties using different assumptions and estimates could derive a different estimated value per

share, which could be significantly different from our board's estimated value per share. The estimated per share value determined by our board of directors neither represents the fair value according to generally accepted accounting principles in the United States ("GAAP") of our assets less liabilities, nor does it represent the amount our shares would trade at on a national securities exchange or the amount a stockholder would obtain if he tried to sell his shares or if we liquidated our assets. The Company can give no assurance that the methodologies used to estimate the Company's value per share would be acceptable to FINRA or under ERISA for compliance with their respective reporting requirements.

Further, the value of our shares will fluctuate over time in response to developments related to individual assets in our portfolio and the management of those assets and in response to the real estate and finance markets. For a full description of the methodologies used to value our assets and liabilities in connection with the calculation of the estimated value per share, as of October 31, 2014, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Market Information."

***We rely on affiliates of Behringer, including our Advisor, to manage our operations and our portfolio of real estate assets and any adverse changes in the financial health of Behringer could hinder our Advisor's ability to provide these services to us and consequently impair our operating results and negatively affect the return on your investment.***

Behringer, through one or more of its subsidiaries, owns and controls our Advisor and our property manager. The operations of our Advisor and our property manager rely substantially on Behringer. Behringer is largely dependent upon the fees and other compensation that it receives from the public programs it sponsors (including us) to conduct its operations.

In August 2012, TIER REIT, Inc. ("TIER REIT") (f/k/a Behringer Harvard REIT I, Inc.), a mature program sponsored by Behringer, completed a transition to self-management. In June 2015, TIER REIT terminated its administrative services agreement with Behringer and exercised a buy-out option with respect to its property management agreement. As a result, TIER REIT no longer pays Behringer any fees. Monogram Residential Trust, Inc. (f/k/a Behringer Harvard Multifamily REIT I, Inc.) ("Monogram"), another public program sponsored by Behringer, completed a transition to a self-managed structure in June 2014 and as of June 2015, Behringer no longer receives any fees from Monogram.

Going forward, Behringer expects to rely on revenue from those service relationships, its current resources, including amounts received by Behringer as a result of and in connection with the self-management transactions described above, its balance sheet, and fee income from us and Behringer Harvard Opportunity REIT II, Inc., a mature program sponsored by Behringer that reported \$343.8 million of assets as of December 31, 2015, and other investment funds advised by Behringer. If Behringer's income and other resources are inadequate to cover its operating expenses, Behringer may need to secure additional capital or it may become unable to meet its obligations or it may be forced to scale back its operations and may not be able to continue to provide the same level of service that we have received to date. If this occurs, we might be required to find alternative service providers, which could result in a significant disruption of our business and may adversely affect the value of your investment in us. Further, given the non-solicitation agreements we have with our Advisor and property manager, it would be difficult for us to utilize any current employees that provide services to us.

***If we lose or are unable to obtain key personnel, our ability to implement our investment strategies could be delayed or hindered.***

Our success depends to a significant degree upon the continued contributions of certain executive officers and other key personnel, of us, our Advisor and its affiliates, including Thomas P. Kennedy, Michael D. Cohen, Lisa Ross and Terri Warren Reynolds, each of whom would be difficult to replace. We do not have employment agreements with our executive officers and other key personnel, and we cannot guarantee that they will remain affiliated with us. Also, our executive officers and key personnel do not have employment agreements with our Advisor, and we cannot guarantee that such persons will remain affiliated with our Advisor. The departure of any of our current executive officers or key personnel could cause our operating results to suffer. We do not intend to separately maintain key person life insurance on any of our key personnel.

Further, we believe that our future success depends, in large part, upon our Advisor's and its affiliates' ability to hire and retain highly skilled managerial and operational personnel. Competition for persons with these skills is intense, and we cannot assure you that our Advisor will be successful in attracting and retaining such skilled personnel.

In addition, we have established, and intend in the future to establish, strategic relationships with firms that have special expertise in certain services or as to assets both nationally and in certain geographic regions. Maintaining these relationships will be important for us to manage and liquidate our assets. We cannot assure you that we will be successful in attracting and retaining such strategic relationships. If we lose or are unable to obtain the services of key personnel or do not establish or maintain appropriate strategic relationships, our ability to implement our investment strategies could be delayed or hindered.

***We are restricted in our ability to replace our property manager, an affiliate of our Advisor.***

Under the terms of our property management agreement, we may terminate the agreement upon 30 days' notice in the event of, and only in the event of, a showing of willful misconduct, gross negligence, or deliberate malfeasance by the property manager in performing its duties. Our board of directors may find the performance of our property manager to be unsatisfactory. However, unsatisfactory performance by the property manager may not constitute "willful misconduct, gross negligence, or deliberate malfeasance." As a result, we may be unable to terminate the property management agreement at the desired time, which may have an adverse effect on the management and profitability of our properties.

***Payment of fees and reimbursement of expenses to our Advisor and its affiliates will reduce cash available for funding our operating activities.***

Our Advisor and its affiliates perform services for us in connection with the management and leasing of our properties, and the administration of our other investments and the disposition of our assets. They are paid substantial fees for these services. These fees and expense reimbursements reduce the amount of cash available for funding our operating activities.

***Your percentage interest in Behringer Harvard Opportunity REIT I will be reduced if we issue additional shares.***

Stockholders do not have preemptive rights to any shares issued by us in the future. Our charter currently has authorized 400,001,000 shares of capital stock, of which 350,000,000 shares are designated as common stock, 1,000 shares are designated as convertible stock and 50,000,000 are designated as preferred stock. Subject to any limitations set forth under Maryland law, 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. Stockholders will likely experience dilution of their equity investment in us in the event that we (i) sell additional shares in the future, (ii) sell securities that are convertible into shares of our common stock, (iii) issue shares of our common stock in a private offering of securities to institutional investors, (iv) issue shares of common stock upon the conversion of our convertible stock, (v) issue shares of our common stock upon the exercise of any options granted to our independent directors or employees of our Advisor and HPT Management or their affiliates, (vi) issue shares to our Advisor, its successors or assigns, in payment of an outstanding fee obligation as set forth under our advisory management agreement, or (vii) issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of the Operating Partnership. In addition, the partnership agreement for the Operating Partnership contains provisions which would allow, under certain circumstances, other entities, including other Behringer-advised programs, to merge into or cause the exchange or conversion of their interest for interests of the Operating Partnership. Because the limited partnership interests of the Operating Partnership may be exchanged for shares of our common stock, any merger, exchange or conversion between the Operating Partnership and another entity ultimately could result in the issuance of a substantial number of shares of our common stock, thereby diluting the percentage ownership interest of other stockholders. You should not expect to be able to own a significant percentage of our shares.

**Risks Related to Our Business**

***If we set aside insufficient working capital reserves, we may be required to defer necessary property improvements.***

If we do not estimate sufficient reserves for working capital to supply needed funds for capital improvements throughout the life of the investment in a property, and there is insufficient cash available from our operations, we may be required to defer necessary improvements to the property that may cause the property 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. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

***Volatility in the financial markets and challenging economic conditions may continue to adversely impact aspects of our operating results and operating condition.***

Our business may continue to be affected by market and economic challenges experienced by the U.S. and global economies. These conditions may materially affect the value and performance of our properties, and may affect the availability or the terms of financing that we have or may anticipate utilizing, and our ability to make principal and interest payments on, or refinance, any outstanding debt when due. These challenging economic conditions may also impact the ability of certain of our tenants to enter into new leasing transactions or satisfy rental payments under existing leases. Specifically, adverse economic conditions may have many consequences including, but not limited to, these listed below:

- the financial condition of our tenants may be adversely affected, which may result in us having to increase concessions, reduce rental rates or make capital improvements beyond those contemplated at the time we acquired the properties in order to maintain occupancy levels or to negotiate for reduced space needs, which may result in a decrease in our occupancy levels;
- significant job losses may occur, which may decrease demand for our office space, our multifamily communities and our hospitality properties and result in lower occupancy levels, which will result in decreased revenues and which could diminish the value of our properties, which depend, in part, upon the cash flow generated by our properties;
- an increase in the number of bankruptcies or insolvency proceedings of our tenants and lease guarantors, which could delay our efforts to collect rent and any past due balances under the relevant leases and ultimately could preclude collection of these sums;
- credit spreads for major sources of capital may widen as investors demand higher risk premiums, resulting in lenders increasing the cost for debt financing;
- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could result in our investment operations generating lower overall economic returns and a reduced level of cash flow;
- a reduction in the amount of capital that is available to finance real estate, which, in turn, could lead to a decline in real estate values generally, slow real estate transaction activity, reduce the loan to value ratio upon which lenders are willing to lend, and result in difficulty refinancing our debt;
- the value of certain of our properties may have decreased below the amounts we paid for them, which may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans;
- one or more counterparties to our derivative financial instruments could default on their obligations to us, or could fail, increasing the risk that we may not realize the benefits of these instruments; and
- the value and liquidity of our short-term investments could be reduced as a result of the dislocation of the markets for our short-term investments and increased volatility in market rates for such investments or other factors.

***Disruptions in the financial markets and adverse economic conditions could adversely affect the value of our investments.***

Market volatility will likely make the valuation of our investment properties more difficult. There may be significant uncertainty in the valuation, or in the stability of the value, of our properties that could result in a substantial decrease in the value of our properties. As a result, we may not be able to recover the carrying amount of our properties, and we may be required to recognize impairment charges, which will reduce our reported earnings.

***We are uncertain of our sources for funding of future capital needs, which could adversely affect the value of our investments.***

Our ability to fund future property capital needs, such as tenant improvements, leasing commissions and capital expenditures, will depend on our ability to borrow, sell assets or interests in assets, or generate additional cash flows from operations. We will establish capital reserves on a property-by-property basis, as we deem appropriate. In addition to any reserves we establish, a lender may require escrow of capital reserves in excess of our established reserves. If these reserves are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. Accordingly, in the event that we develop a need for additional capital in the future for the improvement of our properties or for any other reason, we have not identified any sources for such funding, and we cannot assure you that such sources of funding will be available to us for future potential capital needs.

***We are subject to additional risks due to our international investments.***

We have purchased real estate assets located outside the United States and have made mortgage, bridge, mezzanine or other loans or participations in mortgage, bridge, mezzanine or other loans made by a borrower located outside the United

States or secured by property located outside the United States. As of December 31, 2015, we have two foreign investments remaining, an ownership interest in a noncontrolling unconsolidated joint venture with 18 properties and our Royal Island investment. These investments may be affected by factors peculiar to the laws of the jurisdiction in which the borrower or 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:

- governmental laws, rules and policies, including laws relating to the foreign ownership of real property or mortgages 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;
- variations in currency exchange rates;
- adverse market conditions caused by inflation or other changes in national or local economic conditions;
- changes in relative interest rates;
- changes in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- changes in real estate and other tax rates, the tax treatment of transaction structures and other changes in operating expenses in a particular country where we invest;
- our REIT tax status not being respected under foreign laws, in which case income or gains from foreign sources would likely be subject to foreign taxes, withholding taxes, transfer taxes, and value added taxes;
- lack of uniform accounting standards (including availability of information in accordance with GAAP);
- changes in land use and zoning laws;
- more stringent environmental laws or changes in such laws;
- changes in the social stability or other political, economic or diplomatic developments in or affecting a country where we have an investment;
- we, our sponsor, and its affiliates have relatively less experience with respect to investing in real property or other investments outside the United States as compared to domestic investments; and
- legal and logistical barriers to enforcing our contractual rights.

Any of these risks could have an adverse effect on our business, results of operations and the return to our stockholders.

***Our revenue and net income may vary significantly from one period to another due to investments in opportunity-oriented properties, which could reduce the funds available to return to our stockholders.***

Our opportunistic and value-add property-acquisition strategy included investments in properties in various phases of development, redevelopment or repositioning, which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when our projects in development or redevelopment or those with significant capital requirements increase without a corresponding increase in stable revenue-producing properties, our revenues and net income will likely decrease. Many factors may have a negative impact on the level of revenues or net income produced by our portfolio of properties and projects, including higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project.

***Development projects in which we have invested may not be completed successfully, and guarantors of the projects may not have the financial resources to perform their obligations under the guaranties they provide.***

We have equity investments in real estate development projects. Our return on these investments is dependent upon the projects being completed successfully. To help ensure performance by the developers of properties that are under construction, completion of these properties is generally guaranteed either by a completion bond or performance bond. Our Advisor may rely upon the substantial net worth of the contractor or developer or a personal guarantee accompanied by financial statements showing a substantial net worth provided by an affiliate of the entity entering into the construction or development contract as an alternative to a completion bond or performance bond. For a particular investment, we may obtain guaranties that the project will be completed on time, on budget and in accordance with the plans and specifications and that the mezzanine loan will be repaid. However, we may not obtain such guaranties and cannot ensure that the guarantors will have the financial resources to



perform their obligations under the guaranties they provide. If we are unable to manage these risks effectively, our results of operations and financial condition will be adversely affected.

***Our operating results will be affected by economic and regulatory changes that have an adverse impact on the real estate market in general, and we cannot assure you that we will be able to sustain or enhance the value of our real estate properties.***

Our operating results will be subject to risks generally incident to the ownership of real estate, including:

- changes in general economic or local conditions;
- changes in supply of or demand for similar or competing properties in an area;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive;
- the illiquidity of real estate investments generally;
- changes in tax, real estate, environmental and zoning laws; and
- periods of high interest rates and tight money supply.

For these and other reasons, we cannot assure you that we will realize growth in the value of our real estate properties.

### **Risks Related to Conflicts of Interest**

We are subject to conflicts of interest arising out of our relationships with our Advisor and its affiliates, including the material conflicts discussed below.

***Because other Behringer-advised real estate programs use investment strategies that are similar to ours, our executive officers, our Advisor and its executive officers face conflicts of interest relating to the leasing and disposition of properties, and such conflicts may not be resolved in our favor.***

There may be periods during which one or more Behringer-advised programs are seeking to dispose of similar properties and other real estate-related investments. As a result, we may be trying to sell our properties and other real estate-related investments at the same time as one or more of the other Behringer-advised programs managed by officers and employees of our Advisor and/or its affiliates, and these other Behringer-advised programs may use disposition strategies that are similar to ours. Our executive officers and the executive officers of our Advisor are also the executive officers of other Behringer-advised REITs and their advisors, the general partners of Behringer-advised partnerships and/or the advisors or fiduciaries of other Behringer-advised programs, and these entities are and will be under common control. In the event these conflicts arise, we cannot assure you that our best interests will be met when officers and employees acting on behalf of our Advisor and on behalf of advisors and managers of other Behringer-advised programs decide whether to pursue a specific buyer of real estate on our behalf or on behalf of another Behringer-advised program or affiliate of our Advisor, which may have a disposition strategy that is similar to ours. In addition, we have acquired properties in geographic areas where other Behringer-advised programs own properties. If one of the other Behringer-advised programs attracts a tenant for which we are competing, we could suffer a loss of revenue due to delays in locating another suitable tenant. You will not have the opportunity to evaluate the manner in which these conflicts of interest are resolved.

***Our Advisor and its affiliates, including all of our executive officers and some of our directors, face conflicts of interest caused by their compensation arrangements with us, which could result in actions that are not in the long-term best interests of our stockholders.***

Our Advisor and its affiliates, including our property manager, are entitled to substantial fees from us under the terms of our advisory management agreement and property management agreement. These fees could influence our Advisor's advice to us, as well as the judgment of affiliates of our Advisor performing services for us. Among other matters, these compensation arrangements could affect their judgment with respect to:

- continuing, renewing, or enforcing our agreements with our Advisor and its affiliates, including the advisory management agreement and the property management agreement;
- property sales, which reduce the asset management fees payable to our Advisor;
- borrowings to refinance our existing indebtedness, which increases the debt financing fees payable to our Advisor; and
- determining the compensation paid to employees for services provided to us, which could be influenced in part by whether or not the Advisor is reimbursed by us for the related salaries and benefits.

The fees our Advisor received in connection with transactions involving the purchase of an asset and the management of an asset are based on the cost of the investment, including the amount expended for the development, construction, and improvement of each asset, and not based on the quality of the investment or the quality of the services rendered to us. This may have influenced our Advisor to recommend riskier transactions to us.

***Our Advisor's executive officers and key personnel and the executive officers and key personnel of Behringer-affiliated entities that conduct our day-to-day operations face competing demands on their time, and this may cause our investment returns to suffer.***

We rely upon the executive officers of our Advisor and the executive officers and employees of Behringer-affiliated entities to conduct our day-to-day operations. These persons also conduct the day-to-day operations of other Behringer-advised programs and may have other business interests as well. Because these persons have competing interests on their time and resources, they may have conflicts of interest in allocating their time between our business and these 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 this occurs, the returns on our investments may suffer.

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

Certain of our executive officers are also officers of our sponsor Behringer, our Advisor, our property manager, and other entities affiliated with our Advisor, including the advisors and fiduciaries to other Behringer-advised programs. As a result, these individuals owe fiduciary duties to these other entities and their investors, which may conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities and investors could result in action or inaction that is detrimental to our business, which could harm the implementation of our business strategy and our investment and leasing opportunities. Conflicts with our business and interests are most likely to arise from involvement in activities related to (i) management of time and services between us and the other entities, (ii) the timing and terms of the sale of an asset, (iii) development of our properties by affiliates of our Advisor, (iv) compensation to our Advisor, and (v) our relationship with our property manager. If we do not successfully implement our business strategy, we may be unable to maintain or increase the value of our assets.

## **Risks Related to Debt Financing**

***We incur mortgage indebtedness and other borrowings, which increases our business risks.***

We have incurred mortgage indebtedness and other borrowings in connection with our acquisition of real properties. In addition, we may incur or increase our mortgage debt by obtaining loans secured by some or all of our real properties to obtain funds for funding our ongoing operations. There is no limitation on the amount we may invest in any single improved property or other asset or on the amount we can borrow for the purchase of any individual property or other investment. Under our charter, the maximum amount of our indebtedness shall not exceed 300% of our net assets as of the date of any borrowing. We may incur indebtedness in excess of the limit if the excess is approved by a majority of our independent directors.

Our board of directors has adopted a policy that we will generally limit our aggregate borrowings to approximately 75% of the aggregate value of our assets, which is defined as our total assets plus acquired below-market lease intangibles, each as reflected on our balance sheet at the time of the calculation, without giving effect to any accumulated depreciation or amortization attributable to our real estate assets, unless substantial justification exists that borrowing a greater amount is in our best interests and a majority of our independent directors approve the greater borrowing. Our policy limitation, however, does not apply to individual real estate assets.

Generally, we do not borrow money secured by a particular real property unless we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow, then the amount available to fund our ongoing operations may be affected. In addition, incurring mortgage debt increases the risk of (1) loss in investment value is generally borne entirely by the borrower until such time as the investment value declines below the principal balance of the associated debt and (2) 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 properties. When we give a guaranty on behalf of an entity that owns one of our 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, the return on your investment in us will be adversely affected.

We continually evaluate our liquidity and ability to fund future operations and debt obligations. During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the

tenant has continued to make its monthly rental payment. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account to be deposited into a lender-controlled and administered bank account. In December 2015, the lender exercised its right to control the operating funds of the property.

We have been actively marketing the Northborough Tower property for sale; however, we have not received any offers above the loan balance. The outstanding principal balance of the loan as of December 31, 2015 is approximately \$18.5 million. The loan matured on January 11, 2016. We did not pay the outstanding principal balance of the loan at maturity, which constituted an event of default. As a result of the maturity default, the lender may apply all tenant rental payments towards the outstanding balance of the debt. In December 2015, the lender exercised its right to control the operating funds of the property. The lender has been funding the operations of the property from the tenant rental funds and indicated they expect to continue to do so. The loan is non-recourse to the Company and we have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016.

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

When we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when the properties are refinanced, we may not be able to finance the properties at reasonable rates and our income could be reduced. If this occurs, it would reduce cash available for distribution from asset sales to our stockholders, and it may prevent us from borrowing more money.

***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 financing, a lender could impose restrictions on us that affect our ability to incur additional debt and 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, discontinue insurance coverage or replace our Advisor or may impose other limitations. Any such restriction or limitation may have an adverse effect on our operations.

***Interest-only indebtedness may increase our risk of default and ultimately may reduce our funds available to return to our stockholders.***

We have financed some of our property acquisitions using interest-only mortgage indebtedness. During the interest-only period, the amount of each scheduled payment will be less than that of a traditional amortizing mortgage loan. The principal balance of the mortgage loan will not be reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the interest-only period, we will be required either to make scheduled payments of amortized principal and interest or to make a lump-sum or "balloon" payment at maturity. These required principal or balloon payments will increase the amount of our scheduled payments and may increase our risk of default under the related mortgage loan. If the mortgage loan has an adjustable interest rate, the amount of our scheduled payments also may increase at a time of rising interest rates. Increased payments and substantial principal or balloon maturity payments will reduce the funds available to return to our stockholders because cash otherwise available for distribution will be required to pay principal and interest associated with these mortgage loans.

***Increases in interest rates could increase the amount of our debt payments and adversely affect funds available to return to our stockholders.***

We have borrowed money that bears interest at a variable rate. In addition, from time to time we may pay mortgage loans or refinance our properties in a rising interest rate environment. Accordingly, increases in interest rates could increase our interest costs, which could have a material adverse effect on our operating cash flow and our ability to make distributions to you. In addition, if rising interest rates cause us to need additional capital to repay indebtedness in accordance with its terms or otherwise, we may be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on the investments. Prolonged interest rate increases also negatively impact our ability to make investments with positive economic returns.

***Financing arrangements involving balloon payment obligations may adversely affect funds available to return to our stockholders.***

Some 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 property. At the time the balloon payment is due, we 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. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments

of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT and/or avoid federal income tax. Any of these results would have a significant, negative impact on your investment.

***From time to time, we may rely on financial institutions for debt financing and, as a result, may be adversely affected by the failure of a financial institution to honor its lending obligations.***

From time to time, we may rely on financial institutions for financing development projects in which we invest, for funding credit facilities used for general corporate purposes or for other funding needs. Some of these financial institutions may become insolvent, enter into receivership or otherwise become unable to fulfill or be prevented from fulfilling their respective financial obligations to their borrowers. Should a financial institution on which we rely fail to meet its funding obligations to us or to an entity in which we have invested, our liquidity or the liquidity of the entity in which we have invested could be materially adversely affected and we could suffer losses on development projects or other investments that require additional capital. Furthermore, if the loan is made to an entity in which we have invested, such as a development project, and we and our affiliates are not parties to the loan, we will be unable to take direct action against the financial institution to compel it to honor its financial obligations. In addition, if a financial institution on which we rely becomes insolvent or enters into receivership, or if other regulatory action is taken against it, we may not be able to enforce any contractual rights we would otherwise have against it.

### **General Risks Related to Investments in Real Estate**

***Properties that have significant vacancies could be difficult to sell, which could diminish the return of your investment.***

A property may incur vacancies either by the continued default of tenants under their leases or the expiration of tenant leases. During the third quarter of 2015, the sole tenant of Northborough Tower, Noble Energy, which accounts for 11% of our total revenues in 2015, excluding Las Colinas Commons which was classified as held for sale at December 31, 2015, vacated the building. However, their lease runs until April 2018 and the tenant has continued to make its monthly rental payment. We have been actively marketing the Northborough Tower property for sale; however, we have not received any offers above the loan balance. The outstanding principal balance of the loan as of December 31, 2015 is approximately \$18.5 million. The loan matured on January 11, 2016. We did not pay the outstanding principal balance of the loan at maturity, which constituted an event of default. As a result of the maturity default, the lender may apply all tenant rental payments towards the outstanding balance and may initiate foreclosure proceedings, sell the property, or have a receiver appointed to operate the property. In December 2015, the lender exercised its right to control the operating funds of the property. The lender has been funding the operations of the property from the tenant rental funds and indicated they expect to continue to do so. The loan is non-recourse to the Company and we have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016.

If vacancies continue for a long period of time, we may suffer reduced revenues resulting in decreased distributions to stockholders. In addition, the 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.

***Many of our investments are dependent on tenants for revenue, and lease terminations could reduce our ability to fund our ongoing operations.***

The success of our real property investments often will be materially dependent on the financial stability of our tenants. A default by a significant tenant on its lease payments to us would cause us to lose the revenue associated with such lease and cause us to have to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. 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. If significant leases are terminated, we cannot assure you that we will be able to lease the property for the rent previously received or sell the property without incurring a loss. Additionally, loans that we make generally will relate to real estate. As a result, the borrower's ability to repay the loan may be dependent on the financial stability of the tenants leasing the related real estate.

***We may be unable to secure funds for future tenant improvements, which could adversely impact our ability to fund our ongoing operations.***

When tenants do not renew their leases or otherwise vacate their space, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. If we have insufficient capital reserves, we will have to obtain financing from other sources. We intend to establish capital reserves on a property-by-property basis, as we deem necessary. In addition to any reserves we establish, a lender may require escrow of capital reserves in excess of our established reserves. If these reserves or any reserves otherwise established are designated for other uses or are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated

sources to fund our cash requirements. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, certain reserves required by lenders may be designated for specific uses and may not be available for capital purposes such as future tenant improvements. Additional borrowing for capital purposes will increase our interest expense, and therefore our financial condition and our ability to fund our ongoing operations may be adversely affected.

***We may be unable to sell a property if or when we decide to do so, which could adversely impact our ability to fund ongoing operations which could adversely affect the return of your investment in us.***

We intend to hold the various real properties in which we invest until such time as our Advisor determines that a sale or other disposition appears to be advantageous to achieve our investment objectives or until it appears that such objectives will not be met. Our Advisor, subject to approval of our board of directors, may exercise its discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time, except upon our liquidation.

The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any asset for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of an asset. If we are unable to sell an asset when we determine to do so, it could have a significant adverse effect on our cash flow and results of operations.

***Our co-venture partners could take actions that decrease the value of an investment to us and lower your overall return.***

We have entered into joint ventures with third parties for the acquisition, development or improvement of properties, as well as the acquisition of real estate-related investments. Such investments may involve risks not otherwise present with other forms of real estate investment, including, for example:

- the possibility that our co-venturer in an investment might become bankrupt;
- the possibility that the investment requires additional capital that we do and/or our partner does not have; which lack of capital could affect the performance of the investment and/or dilute our interest if the partner were to contribute our share of the capital;
- the possibility that a co-venturer in an investment might breach a loan agreement or other agreement or otherwise, by action or inaction, act in a way detrimental to us or the investment;
- that such co-venturer may at any time have economic or business interests or goals that are or that become inconsistent with our business interests or goals;
- the possibility that we may incur liabilities as the result of the action taken by our partner or co-investor; or
- that such co-venturer may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT; or
- that such partner may exercise buy/sell rights that force us to either acquire the entire investment, or dispose of our share, at a time and price that may not be consistent with our investment objectives.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce our returns on that investment.

***Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect your returns.***

Our Advisor will attempt to ensure that all of our properties are adequately insured to cover casualty losses. The nature of the activities at certain properties we may acquire will expose us and our operators to potential liability for personal injuries and, in certain instances, such as with marinas, property damage claims. In addition, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, cyber-terrorism, earthquakes, pollution, environmental matters or extreme weather conditions such as hurricanes, floods and snowstorms that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Mortgage lenders generally insist that specific coverage against terrorism be purchased by commercial property owners as a condition for providing mortgage, bridge or mezzanine loans. It is uncertain whether such insurance policies will be available, or available at reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for such losses. In the event that any of our properties incur a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured

loss. In addition, other than the capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property, and we cannot assure you 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 insurance, we could suffer reduced earnings that would adversely affect the return on your investment in us.

***Our operating results may be negatively affected by potential development and construction delays and result in increased costs and risks, which could diminish the return of your investment.***

We have invested in the acquisition, development and/or redevelopment of properties upon which we will develop and construct improvements. We could incur substantial capital obligations in connection with these types of investments. We will be subject to risks relating to uncertainties associated with rezoning for development and environmental concerns of governmental entities and/or community groups and our builder's ability to control construction costs or to build in conformity with plans, specifications and timetables. The builder's failure to perform may necessitate legal action by us to rescind the purchase or the construction contract or to compel performance. Performance may also be affected or delayed by conditions beyond the builder's control. Delays in completion of construction could also give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to such builders prior to completion of construction. These and other such factors can result in increased costs of a project or loss of our investment. Substantial capital obligations could delay our ability to make distributions. 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 a property upon completion of construction when agreeing upon 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 the return on our investment could suffer.

In addition, we have invested in unimproved real property. Returns from development of unimproved properties are also subject to risks and uncertainties associated with rezoning the land for development and environmental concerns of governmental entities and/or community groups. Your investment is subject to the risks associated with investments in unimproved real property.

***A concentration of our investments in any one property class or geographic region may leave our profitability vulnerable to a downturn in such sector or geographic region.***

At any one time, a significant portion of our consolidated investments could be in one property class or concentrated in one or several geographic regions. The following excludes Las Colinas Commons which was classified as real estate held for sale as of December 31, 2015 and the mineral rights we received in 2015 of less than \$0.1 million. For the year ended December 31, 2015, 60%, 32% and 8% of our total revenues were derived from properties in Missouri, Texas and Colorado, respectively. Additionally, 68%, 28% and 4% of our total revenues for the year ended December 31, 2015 were from our three asset types, hotel, office building, and multifamily, respectively. To the extent that our portfolio is concentrated in limited geographic regions, types of assets, industries or business sectors, downturns relating generally to such region, type of asset, industry or business sector may result in defaults by our tenants within a short time period, which may reduce our net income and the value of our common stock and accordingly limit our ability to fund our operations.

In particular, two of our office buildings, Northborough Tower and Northpoint Central, are located in the Greenspoint submarket in Houston, Texas. Demand for commercial properties in this submarket is weak due to several large blocks of space that became available as large scale users have vacated the submarket. With the uncertainty created from these relocations as well as the current volatility within the energy sector, and the limited number of office building transactions, it is difficult to underwrite commercial assets in this submarket. During the year ended December 31, 2014, we recorded a non-cash impairment charge for Northborough Tower. During the year ended December 31, 2015, we recorded non-cash impairment charges on our Northborough Tower and Northpoint Central office buildings. See Note 4, Assets and Liabilities Measured at Fair Value, for information on impairment charges recorded during the years ended December 31, 2015, 2014 and 2013. For the year ended December 31, 2015, 27% of our total revenues, without consideration of tenant contraction or termination rights and excluding Las Colinas Commons, which was classified as held for sale as of December 31, 2015, were derived from our office buildings, which are all located in Texas. Further, Northborough Tower serves as security for a non-recourse mortgage that we assumed in connection with our 2008 acquisition of Northborough Tower. The mortgage loan matured on January 11, 2016. We did not repay the loan at maturity, which constituted an event of default. We have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016. Northborough Tower, a single-tenant office building, accounted for \$5.7 million, or 40%, of our aggregate annual rental revenue from our consolidated office properties, and 11% of our total revenues, excluding revenues for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015. Chase Park Plaza Hotel, which is located in Missouri, accounted for 61% of our total revenues, without consideration of tenant contraction or termination rights and excluding Las Colinas Commons, which was classified as held for sale as of December 31, 2015.



***Concerns regarding the European debt crisis and other geopolitical issues and market perceptions concerning the instability of the Euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the Euro entirely, could adversely affect our business, results of operation and financing.***

We own a joint venture interest in a portfolio of Central European properties located in the Czech Republic and Poland. Concerns persist with respect to the sovereign debt situation of several countries, including Greece, Ireland, Italy, Spain and Portugal, which together with the risk of contagion to other more financially stable countries, has also raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Concern over such uncertainties has been exacerbated in recent months by other geopolitical issues that may affect the Eurozone. Any further deterioration in the global or Eurozone economy could have a significant adverse effect on our joint venture investment in Central Europe.

In addition, we currently hold assets that are denominated in Euros. Further deterioration in the Eurozone economy could have a material adverse effect on the value of our investment in such assets and amplify the currency risks faced by us.

If any country were to leave the Eurozone, or if the Eurozone were to break up entirely, the treatment of debt obligations previously denominated in Euros is uncertain. A number of issues would be raised, such as whether obligations that are expressed to be payable in Euros would be re-denominated into a new currency. The answer to this and other questions is uncertain and would depend on the way in which the break-up occurred and also on the nature of the transaction; the law governing it; which courts have jurisdiction in relation to it; the place of payment; and the place of incorporation of the payor. If we were to hold any investments in Euros at the time of any Eurozone exits or break-up, this uncertainty and potential re-denomination could have a material adverse effect on the value of our investments and the income from them.

***Short-term multifamily and apartment leases expose us to the effects of declining market rent, which could adversely impact our ability to make cash distributions to our stockholders.***

We expect that substantially all of our apartment leases will be for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms.

***Our investments in apartment communities face competition from other apartment communities and the increased affordability of single-family homes and condominiums, which may limit our profitability and returns to our stockholders.***

Our investments in apartment communities compete with numerous housing alternatives in attracting residents, including other apartment communities, as well as single-family homes and condominiums available to rent or buy. The residential apartment community industry is highly competitive. This competition could reduce occupancy levels and revenues at our apartment communities, which would adversely affect our operations. We face competition from many sources, including from other apartment communities both in the immediate vicinity and the broader geographic market where our apartment communities are located. Overbuilding of apartment communities may occur. If so, this will increase the number of apartment units available and may decrease occupancy and apartment rental rates. In addition, increases in operating costs due to inflation may not be offset by increased apartment rental rates. We may be required to expend substantial sums to attract new residents.

***Our apartment investments may face increased competition from single-family homes and condominiums for rent or purchase, which could limit our ability to retain residents, lease apartment units or increase or maintain rents.***

Our apartment communities may compete with numerous housing alternatives in attracting residents, including single-family homes and condominiums available for rent or purchase. Such competitive housing alternatives may become more prevalent in a particular area because of the tightening of mortgage lending underwriting criteria, homeowner foreclosures, the decline in single-family home and condominium sales and the lack of available credit. The number of single-family homes and condominiums for rent in a particular area could limit our ability to retain residents, lease apartment units or increase or maintain rents.

In addition, reduced mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our residents, lease apartment units and increase or maintain rental rates.

***We are dependent on the third-party managers of our hotel properties.***

In order to qualify as a REIT, we will not be able to operate our hotel properties or participate in the decisions affecting the daily operations of our hotels. We lease our hotels to a taxable REIT subsidiary ("TRS") in which we may own up to a 100% interest. Our TRS will enter into management agreements with eligible independent contractors that are not our subsidiaries or otherwise controlled by us to manage the hotels. Thus, independent hotel operators, under management agreements with our TRS, will control the daily operations of our hotels.

We will depend on these independent management companies to adequately operate our hotels as provided in the management agreements. We will not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates). Thus, even if we believe our hotels are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, revenue per available room

and average daily rates, we may not be able to force the management company to change its method of operation of our hotels. We can only seek redress if a management company violates the terms of the applicable management agreement with the TRS, and then only to the extent of the remedies provided for under the terms of the management agreement. In the event that we need to replace any of our management companies, we may be required by the terms of the management agreement to pay substantial termination fees and may experience significant disruptions at the affected hotels.

***We may have to make significant capital expenditures to maintain our lodging properties.***

Hotels have an ongoing need for renovations and other capital improvements, including replacements of furniture, fixtures and equipment. Generally, we will be responsible for the costs of these capital improvements, which give rise to the following risks:

- cost overruns and delays;
- renovations can be disruptive to operations and can displace revenue at the hotels, including revenue lost while rooms under renovation are out of service;
- the cost of funding renovations and the possibility that financing for these renovations may not be available on attractive terms; and
- the risk that the return on our investment in these capital improvements will not be what we expect.

If we have insufficient cash flow from operations to fund needed capital expenditures, then we will need to borrow to fund future capital improvements.

***General economic conditions and discretionary consumer spending may affect certain properties we have acquired and lower the return on your investment.***

The operations of certain properties in which we invest, such as hotels and recreation and leisure properties, will depend upon a number of factors relating to discretionary consumer spending. Unfavorable local, regional or national economic developments or uncertainties regarding future economic prospects as a result of terrorist attacks, military activity or natural disasters could reduce consumer spending in the markets in which we own properties and adversely affect the operation of those properties. Consumer spending on luxury goods, travel and other leisure activities such as boating, skiing and health and spa activities may decline as a result of lower consumer confidence levels, even if prevailing economic conditions are favorable. In an economic downturn, consumer discretionary spending levels generally decline, at times resulting in disproportionately large reductions in expenditures on luxury goods, travel and other leisure activities. Certain of the classes of properties that we acquire may be unable to maintain their profitability during periods of adverse economic conditions or low consumer confidence, which could in turn affect the ability of operators to make scheduled rent payments to us.

***Seasonal revenue variations at our hotel properties require the operators of such assets to manage cash flow properly over time to meet their non-seasonal scheduled rent payments to us.***

Certain of our hotel properties are generally seasonal in nature. As a result, these businesses will experience seasonal variations in revenues that may require our operators to supplement revenue at their properties in order to be able to make scheduled rent payments to us. The failure of our operators to manage their cash flow properly may result in such operator having insufficient cash on hand to make its scheduled payments to us during seasonally slow periods, which may adversely affect our cash available.

***Adverse weather conditions may affect operations of certain of our properties or reduce our operators' ability to make scheduled rent payments to us, which could reduce our cash flow from such investments.***

Adverse weather conditions may influence revenues at our hospitality properties. These adverse weather conditions include heavy snowfall (or lack thereof), hurricanes, tropical storms, high winds, heat waves, frosts, drought (or merely reduced rainfall levels), excessive rain, and floods. For example, adverse weather could reduce the number of people that visit our properties. Certain properties may be susceptible to damage from weather conditions such as hurricanes, which damage (including but not limited to property damage and loss of revenue) is not generally insurable at commercially reasonable rates. Poor weather conditions could also disrupt operations at properties we own and may adversely affect both the value of our investment in a property and the ability of our tenants and operators to make their scheduled rent payments to us.

***Resorts, recreation and leisure, and other types of properties in which we have invested may not be readily adaptable to other uses, and if these properties become unprofitable, we may not be able to recoup the value of our investment.***

Resorts and related properties, and other types of recreation and leisure properties in which we have invested are specific-use properties that have limited alternative uses. Therefore, if the operations of any of our properties in these sectors become unprofitable due to industry competition, a general deterioration of the applicable industry or otherwise, we may have great

difficulty selling the property or we may have to sell the property for substantially less than the amount we paid for it. Should any of these events occur, our income and the return on your investment in us could be reduced.

***Security breaches through cyber-attacks, cyber-intrusions, or otherwise, could disrupt our IT networks and related systems.***

Risks associated with security breaches, whether through cyber-attacks or cyber-intrusions over the Internet, malware, computer viruses, attachments to e-mails, or otherwise, against persons inside our organization, persons with access to systems inside our organization, the U.S. government, financial markets or institutions, or major businesses, including tenants, could disrupt or disable networks and related systems, other critical infrastructures, and the normal operation of business. The risk of a security breach or disruption, particularly through cyber-attack or cyber-intrusion, including by computer hackers, foreign governments, and cyber-terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. Even though we may not be specifically targeted, cyber-attacks on the U.S. government, financial markets, financial institutions, or other major businesses, including tenants, could disrupt our normal business operations and networks, which may in turn have a material adverse impact on our financial condition and results of operations.

IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations. They also may be critical to the operations of certain of our tenants. Further, our Advisor provides our IT services, and although we believe they will be able to maintain the security and integrity of these types of networks and related systems, or implement various measures to manage the risk of a security breach or disruption, there can be no assurance that their security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems, and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. While, to date, we have not experienced a cyber-attack or cyber-intrusion, neither our Advisor nor we may be able to anticipate or implement adequate security barriers or other preventive measures. A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines and/or missed permitting deadlines;
- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation, or release of proprietary, confidential, sensitive, or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive, or otherwise harmful purposes and outcomes;
- result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims for breach of contract, damages, credits, penalties, or termination of leases or other agreements; or
- damage our reputation among our tenants and stockholders generally.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition, and cash flows.

***The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any distributions.***

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent such property or to use the property as collateral for future borrowing.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. For example, various federal, regional, and state laws and regulations have been implemented or are under consideration to mitigate the effects of climate change caused by greenhouse gas emissions. Among other things, “green” building codes may seek to reduce emissions through the impositions of standards for design, construction materials, water and energy usage and efficiency, and waste management. We are not aware of any such existing requirements

that we believe will have a material impact on our current operations. However, future requirements could increase the costs of maintaining or improving our existing properties or developing new properties.

***Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.***

Under various federal, state, and local environmental laws, ordinances and regulations (including those of foreign jurisdictions), 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 properties for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, the return on your investment in us.

**Risks Related to Our Operations**

***Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities and involve risks and costs which may result in us sustaining losses.***

The cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates. We may increase our hedging activity and thus increase our hedging costs during periods when interest rates are volatile or rising and hedging costs have increased. In addition, hedging instruments involve risk since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying derivative transactions may depend on compliance with applicable statutory, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in a default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our resale commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty, and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot be certain that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in losses to us.

***Complying with REIT requirements may limit our ability to hedge effectively.***

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, any income that we generate from transactions intended to hedge our interest rate, inflation and/or currency risks will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges (i) interest rate risk on liabilities incurred to carry or acquire real estate, (ii) risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the REIT 75% or 95% gross income tests, or (iii) to manage risk with respect to the termination of certain prior hedging transactions described in (i) and/or (ii) above, and, in each case, such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements will generally constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

***There can be no assurance that the direct or indirect effects of the Dodd-Frank Act and other applicable non-U.S. regulations will not have an adverse effect on our interest rate hedging activities.***

Title VII of the Dodd-Frank Act imposed additional regulations on derivatives markets and transactions. Such regulations and, to the extent we trade with counterparties organized in non-US jurisdictions, any applicable regulations in those jurisdictions, are still being implemented, and will affect our interest rate hedging activities. While the full impact of regulation on our interest rate hedging activities cannot be fully assessed until all final rules and regulations are implemented, such regulation may affect our ability to enter into hedging or other risk management transactions, may increase our costs in entering into such transactions, and/or may result in us entering into such transactions on less favorable terms than prior to implementation of such regulation. For example, subject to an exception under the Dodd-Frank Act for end-users of swaps

upon which we may seek to rely, we may be required to clear certain interest rate hedging transactions by submitting them to a derivatives clearing organization. In addition, to the extent we are required to clear any such transactions, we will be required to, among other things, post margin in connection with such transactions. The occurrence of any of the foregoing events may have an adverse effect on our business and our stockholders' return.

***Potential reforms to Fannie Mae and Freddie Mac could adversely affect us.***

There is significant uncertainty surrounding the futures of Fannie Mae and Freddie Mac. Through their lender originator networks, Fannie Mae and Freddie Mac are significant lenders to buyers of multifamily real estate. Fannie Mae and Freddie Mac have a mandate to support multifamily housing through their financing activities and any changes to their mandates, further reductions in their size or the scale of their activities, or loss of their key personnel could have a significant impact on us and may, among other things, adversely affect values for multifamily assets, interest rates, capital availability, and potential sales of multifamily communities which in turn could adversely affect our ability to dispose of our multifamily assets. Fannie Mae's and Freddie Mac's regulator has set overall volume limits on most of Fannie Mae's and Freddie Mac's lending activities. The regulator in the future could require Fannie Mae and Freddie Mac to focus more of their lending activities on small borrowers or properties the regulator deems affordable, which may or may not include our assets, which could also adversely impact us.

**Risks Related to Our Corporate Structure**

***A limit on the number of shares a person may own may discourage a takeover.***

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of our outstanding shares of common or preferred stock. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might otherwise provide stockholders with the opportunity to receive a control premium for their shares.

***Our charter permits our board of directors to issue stock with terms that may subordinate the rights of the holders of our current common stock or discourage a third-party from acquiring us.***

Our charter permits our board of directors to issue up to 400,001,000 shares of capital stock. Our board of directors, without any action by our stockholders, may (1) increase or decrease the aggregate number of shares, (2) increase or decrease the number of shares of any class or series we have authority to issue or (3) classify or reclassify any unissued 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. Thus, our board of directors could authorize the issuance of such stock with terms and conditions that could subordinate the rights of the holders of our current common stock or have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

***Maryland law prohibits certain business combinations, which may make it more difficult for us to be acquired.***

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between a Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. Maryland law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

***Maryland law also limits the ability of a third party to buy a large stake in us and exercise voting power in electing directors.***

Maryland law provides a second anti-takeover statute, its Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter. Shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are excluded from shares entitled to vote on the matter. "Control shares" are voting shares of stock that would entitle the acquirer to exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares. The control share acquisition statute does not apply to (a) shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. We can offer no assurance that this provision will not be amended or eliminated at any time in the future. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates.

***Our rights, and the rights of our stockholders, to recover claims against our officers, directors, and our Advisor are limited.***

Maryland law provides that a director has no liability in such capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter provides that, subject to the applicable limitations set forth therein or under Maryland law, no director or officer will be liable to us or our stockholders for monetary damages. Our charter also provides that we will generally indemnify our directors, our officers, our employees, our agents, our Advisor and its affiliates for losses they may incur by reason of their service in those capacities to the maximum extent permitted under Maryland law. As a result, we and our stockholders may have more limited rights against our directors, officers, employees and agents, and our Advisor and its affiliates, than might otherwise exist under common law, which could reduce your and our recovery from these persons. In addition, we may be obligated to fund the defense costs incurred by our directors, officers, employees and agents or our Advisor in some cases.

***Stockholders have limited control over changes in our policies and operations.***

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Our charter sets forth the stockholder voting rights. Under our charter and the Maryland General Corporation Law, our stockholders currently have a right to vote only on the following matters:

- the election or removal of directors;
- any amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
  - change our name;
  - increase or decrease the aggregate number of our shares;
  - increase or decrease the number of our shares of any class or series that we have the authority to issue;



- classify or reclassify any unissued shares by setting or changing the preferences, conversion or other rights, restrictions, limitations as to distributions, qualifications or terms and conditions of redemption of such shares;
- effect reverse stock splits;
- after the listing of our shares of common stock on a national securities exchange, opting into any of the provisions of Subtitle 8 of Title 3 of the Maryland General Corporation Law;
- our liquidation and dissolution; and
- our being a party to any merger, consolidation, sale or other disposition of substantially all of our assets (notwithstanding that Maryland law may not require stockholder approval).

All other matters are subject to the discretion of our board of directors.

***Our board of directors may change our investment policies and objectives generally and at the individual investment level without stockholder approval, which could alter the nature of your investment.***

Our charter requires that our independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of the stockholders. In addition to our investment policies and objectives, we may also change our stated strategy for any investment in an individual property. These policies may change over time. The methods of implementing our investment policies may also vary, as new investment techniques are developed. Our investment policies, the methods for their implementation, and our other objectives, policies and procedures may be altered by our board of directors without the approval of our stockholders. As a result, the nature of your investment could change without your consent.

## **Federal Income Tax Risks**

***Failure to maintain our qualification as a REIT would adversely affect our operations and our ability to make distributions.***

We elected, and qualified, to be taxed as a REIT, beginning with our taxable year ended December 31, 2006. In order for us to remain qualified as a REIT, we must satisfy certain requirements set forth in the Code and Treasury Regulations and various factual matters and circumstances that are not entirely within our control. We intend to structure our activities in a manner designed to satisfy all of these requirements. However, if certain of our operations were to be recharacterized by the Internal Revenue Service, such recharacterization could jeopardize our ability to satisfy all of the requirements for qualification as a REIT and may affect our ability to continue to qualify as a REIT. In addition, new legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualifying as a REIT or the federal income tax consequences of qualifying.

Our qualification as a REIT depends upon our ability to meet, through investments, actual operating results, distributions and satisfaction of specific stockholder rules, the various tests imposed by the Code. We cannot assure you that we will satisfy the REIT requirements in the future.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the distributions paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Qualification as a REIT is subject to the satisfaction of tax requirements and various factual matters and circumstances that are not entirely within our control. New legislation, regulations, administrative interpretations or court decisions could change the tax laws with respect to qualification as a REIT or the federal income tax consequences of being a REIT. Our failure to continue to qualify as a REIT would adversely affect your return on your investment.

***Our investment strategy may cause us to incur penalty taxes, lose our REIT status, or own and sell properties through taxable REIT subsidiaries, each of which would diminish the return to our stockholders.***

In light of our opportunistic and value-add investment strategy, it is possible that one or more sales of our properties may be “prohibited transactions” under provisions of the Code. Any subdivision of property, such as the sale of condominiums, would almost certainly be considered such a prohibited transaction. If we are deemed to have engaged in a “prohibited transaction” (*i.e.*, we sell a property held by us primarily for sale in the ordinary course of our trade or business), all income that we derive from such sale would be subject to a 100% tax. The Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% tax. A principal requirement of the safe harbor is that the REIT must hold the applicable property for not less than two years prior to its sale. Given our opportunistic and value-add investment strategy, it

is entirely possible, if not likely, that the sale of one or more of our properties will not fall within the prohibited transaction safe harbor.

If we desire to sell a property pursuant to a transaction that does not fall within the safe harbor, we may be able to avoid the 100% penalty tax if we acquired the property through a TRS or acquired the property and transferred it to a TRS for a non-tax business purpose prior to the sale (*i.e.*, for a reason other than the avoidance of taxes). However, there may be circumstances that prevent us from using a TRS in a transaction that does not qualify for the safe harbor. Additionally, even if it is possible to effect a property disposition through a TRS, we may decide to forego the use of a TRS in a transaction that does not meet the safe harbor based on our own internal analysis, the opinion of counsel or the opinion of other tax advisors that the disposition will not be subject to the 100% penalty tax. In cases where a property disposition is not effected through a TRS, the Internal Revenue Service could successfully assert that the disposition constitutes a prohibited transaction, in which event all of the net income from the sale of such property will be payable as a tax and none of the proceeds from such sale will be distributable by us to our stockholders.

If we acquire a property that we anticipate will not fall within the safe harbor from the 100% penalty tax upon disposition, then we may acquire such property through a TRS in order to avoid the possibility that the sale of such property will be a prohibited transaction and subject to the 100% penalty tax. If we already own such a property directly or indirectly through an entity other than a TRS, we may contribute the property to a TRS if there is another, non-tax related business purpose for the contribution of such property to the TRS. Following the transfer of the property to a TRS, the TRS will operate the property and may sell such property and distribute the net proceeds from such sale to us, and we may distribute the net proceeds distributed to us by the TRS to our stockholders. Though a sale of the property by a TRS likely would eliminate the danger of the application of the 100% penalty tax, the TRS itself would be subject to a tax at the federal level, and potentially at the state and local levels, on the gain realized by it from the sale of the property, as well as on the income earned while the property is operated by the TRS. This tax obligation would diminish the amount of the proceeds from the sale of such property that would be distributable to our stockholders. As a result, the amount available for distribution to our stockholders would be substantially less than if the REIT had not operated and sold such property through the TRS and such transaction was not successfully characterized as a prohibited transaction. The maximum federal corporate income tax rate currently is 35%. Federal, state and local corporate income tax rates may be increased in the future, and any such increase would reduce the amount of the net proceeds available for distribution by us to our stockholders from the sale of property through a TRS after the effective date of any increase in such tax rates.

If we own too many properties through one or more of our TRSs, then we may lose our status as a REIT. If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the distributions paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax. As a REIT, the value of the stock we hold in all of our TRSs may not exceed 25% (20% for taxable years after 2017) of the value of all of our assets at the end of any calendar quarter. If the Internal Revenue Service were to determine that the value of our interests in all of our TRSs exceeded 25% (or 20%, as applicable) of the value of total assets at the end of any calendar quarter, then we would fail to qualify as a REIT. If we determine it to be in our best interests to own a substantial number of our properties through one or more TRSs, then it is possible that the Internal Revenue Service may conclude that the value of our interests in our TRSs exceeds 25% (or 20%, as applicable) of the value of our total assets at the end of any calendar quarter and therefore cause us to fail to qualify as a REIT. Additionally, as a REIT, no more than 25% of our gross income with respect to any year may be from sources other than real estate. Distributions paid to us from a TRS are considered to be non-real estate income. Therefore, we may fail to qualify as a REIT if distributions from all of our TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of our gross income with respect to such year. We will use all reasonable efforts to structure our activities in a manner intended to satisfy the requirements for our continued qualification as a REIT. Our failure to continue to qualify as a REIT would adversely affect your return on your investment.

***Certain fees paid to us may affect our REIT status.***

Income received in the nature of rental subsidies or rent guarantees, in some cases, may not qualify as rental income and could be characterized by the Internal Revenue Service as non-qualifying income for purposes of satisfying the “income tests” required for REIT qualification. If this income were, in fact, treated as non-qualifying, and if the aggregate of such income and any other non-qualifying income in any taxable year ever exceeded 5% of our gross revenues for such year, we could lose our REIT status for that taxable year and the four ensuing taxable years. Our failure to continue to qualify as a REIT would adversely affect your return on your investment.

***If our operating partnership fails to maintain its status as a partnership, its income may be subject to taxation, which would reduce our cash available for distribution to our stockholders.***

We intend to maintain the status of the operating partnership as a partnership for federal income tax purposes. However, if the Internal Revenue Service were to successfully challenge the status of the operating partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that the operating partnership 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. This would substantially reduce our cash available to make distributions and the return on your investment. In addition, if any of the partnerships or limited liability companies through which the operating partnership 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 the operating partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain REIT status.

***In certain circumstances, we may be subject to federal and state taxes, which would reduce our cash available for distribution to our stockholders.***

Even if we qualify and maintain our status as a REIT, we may become subject to federal and state taxes. For example, if we have net income from a “prohibited transaction,” such income will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes, including potentially the “margin tax” in the State of Texas, on our income or property, either directly or at the level of the operating partnership or at the level of the other companies through which we indirectly own our assets. Any federal or state taxes paid by us will reduce our cash available.

***Non-U.S. income or other taxes, and a requirement to withhold any non-U.S. taxes, may apply, and, if so, the amount of net cash from operations payable to you will be reduced.***

We have made investments in real estate located outside of the United States. As a result, we may be subject to foreign (i.e., non-U.S.) income taxes, stamp taxes, real property conveyance taxes, withholding taxes, and other foreign taxes or similar impositions in connection with our ownership of foreign real property or foreign securities. The country in which the real property is located may impose such taxes regardless of whether we are profitable and in addition to any U.S. income tax or other U.S. taxes imposed on profits from our investments in such real property or securities. If a foreign country imposes income taxes on profits from our investment in foreign real property or foreign securities, you will not be eligible to claim a tax credit on your U.S. federal income tax returns to offset the income taxes paid to the foreign country, and the imposition of any foreign taxes in connection with our ownership and operation of foreign real property or our investment in securities of foreign entities will reduce the amounts distributable to you. Similarly, the imposition of withholding taxes by a foreign country will reduce the amounts distributable to you. We expect the organizational costs associated with non-U.S. investments, including costs to structure the investments so as to minimize the impact of foreign taxes, will be higher than those associated with U.S. investments. Moreover, we may be required to file income tax or other information returns in foreign jurisdictions as a result of our investments made outside of the U.S. Any organizational costs and reporting requirements will increase our administrative expenses and reduce the amount of cash available for distribution to you. You are urged to consult with your own tax advisors with respect to the impact of applicable non-U.S. taxes and tax withholding requirements on an investment in our common stock.

***Our foreign investments will be subject to changes in foreign tax or other laws, as well as to changes in U.S. tax laws, and such changes could negatively impact our returns from any particular investment.***

We have made investments in real estate located outside of the United States. Such investments are typically structured to minimize non-U.S. taxes, and generally include the use of holding companies. Our ownership, operation and disposition strategy with respect to non-U.S. investments will take into account foreign tax considerations. For example, it is typically advantageous from a tax perspective in non-U.S. jurisdictions to sell interests in a holding company that owns real estate rather than the real estate itself. Buyers of such entities, however, will often discount their purchase price by any inherent or expected tax in such entity. Additionally, the pool of buyers for interests in such holding companies is typically more limited than buyers of direct interests in real estate, and we may be forced to dispose of real estate directly, thus potentially incurring higher foreign taxes and negatively affecting the return on the investment.

We will also capitalize our holding companies with debt and equity to reduce foreign income and withholding taxes as appropriate and with consultation with local counsel in each jurisdiction. Such capitalization structures are complex and potentially subject to challenge by foreign and domestic taxing authorities.

We may use certain holding structures for our non-U.S. investments to accommodate the needs of one class of investors which reduce the after-tax returns to other classes of investors. For example, if we interpose an entity treated as a corporation

for United States tax purposes in our chain of ownership with respect to any particular investment, U.S. tax-exempt investors will generally benefit as such investment will no longer generate unrelated business taxable income. However, if a corporate entity is interposed in a non-U.S. investment holding structure, this would prevent individual investors from claiming a foreign tax credit for any non-U.S. income taxes incurred by the corporate entity or its subsidiaries.

Foreign investments are subject to changes in foreign tax or other laws. Any such law changes may require us to modify or abandon a particular holding structure. Such changes may also lead to higher tax rates on our foreign investments than we anticipated, regardless of structuring modifications. Additionally, U.S. tax laws with respect to foreign investments are subject to change, and such changes could negatively impact our returns from any particular investment.

***Legislative or regulatory action could adversely affect the returns to our investors.***

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of the federal income tax laws applicable to investments similar to an investment in shares of our common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your own tax advisor with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. You also should note that our counsel's tax opinion is based upon existing law and Treasury Regulations, applicable as of the date of its opinion, all of which are subject to change, either prospectively or retroactively.

For taxable years beginning January 1, 2014, the tax rate on certain "qualified dividend income" is 20% for certain individuals, trusts and estates. REIT distributions generally do not qualify for "qualified dividend income" tax rate, therefore individuals, trusts and estates may be subject to a maximum tax rate of 39.6% on ordinary REIT dividends. For corporate stockholders, the maximum corporate tax rate for such distributions is 35%. As a REIT, we generally would not be subject to federal or state corporate income taxes on that portion of our ordinary income or capital gain that we distribute to our stockholders, and we thus expect to avoid the "double taxation" to which other corporations are typically subject.

Although REITs continue to receive substantially better tax treatment than entities taxed as corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be taxed for federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interests of our stockholders.

***REIT distribution requirements could adversely affect our ability to execute our business plan.***

We generally must distribute annually at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed REIT taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

From time to time, we may generate taxable income greater than our taxable income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders (for example, where a borrower defers the payment of interest in cash pursuant to a contractual right or otherwise). If we do not have other funds available in these situations we could be required to borrow funds, sell investments at disadvantageous prices or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

**Item 1B. Unresolved Staff Comments.**

None.

## Item 2. Properties.

### General

As of December 31, 2015, we wholly owned four properties and consolidated three properties through investments in joint ventures on our consolidated balance sheet, including Las Colinas Commons which is classified as held for sale in our consolidated balance sheet. In addition, we have a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 18 properties that is accounted for using the equity method. Capital contributions, distributions, and profits and losses of these properties are allocated in accordance with the terms of the applicable partnership agreement.

The following table presents certain information about our consolidated properties as of December 31, 2015:

Property Name	Location	Approximate Rentable Square Footage	Description	Ownership Interest	Year Acquired	Occupancy at December 31, 2015	Occupancy at December 31, 2014	Effective Annual Rent per Square Foot/Unit as of December 31, 2015 <sup>(1)</sup>	Effective Annual Rent per Square Foot/Unit as of December 31, 2014 <sup>(1)</sup>
Chase Park Plaza	St. Louis, Missouri	—	hotel and condominium development property	100% <sup>(2)</sup>	2006	69% <sup>(3)</sup>	69% <sup>(3)</sup>	n/a	n/a
Frisco Square	Frisco, Texas	(4)	mixed-use development (multifamily, retail, office, restaurant and land)	(4)	2007	(5)	(5)	(6)	(6)
Northpoint Central	Houston, Texas	180,000	9-story office building	100%	2007	96%	97%	21.74	22.07
The Lodge & Spa at Cordillera	Edwards, Colorado	—	land, hotel and development property	94%	2007	55% <sup>(3)</sup>	56% <sup>(3)</sup>	n/a	n/a
Northborough Tower <sup>(7)</sup>	Houston, Texas	207,000	14-story office building	100%	2008	(7)	100%	(7)	26.68
Royal Island <sup>(8)</sup>	Commonwealth of Bahamas	—	land	87%	2012	n/a	n/a	n/a	n/a
<b>Real Estate Held for Sale</b>									
Las Colinas Commons <sup>(9)</sup>	Irving, Texas	239,000	3-building office complex	100%	2006	60%	74%	16.02	15.46

(1) Effective Annual Rent is calculated using leases in place as of December 31 and takes into account any rent concessions.

(2) On August 5, 2014, we received the 5% interests of Chase Park Plaza Hotel and Chase — The Private Residences held by Kingsdell, L.P. and now own 100% of the entities.

(3) Hospitality property occupancy is a 12-month average occupancy.

(4) Our Frisco Square mixed-use development consists of 101,000 square feet of office space, 71,000 square feet of retail, a 41,500 square foot movie theater, 114 multifamily units, approximately 27 acres of land which we own 100% and a 3.4 acre multifamily project in development in which we own a 90% interest.

(5) Occupancy for retail, office, and restaurant was 85% and 92% at December 31, 2015 and 2014, respectively. Occupancy for multifamily was 96% and 91% at December 31, 2015 and 2014, respectively.

(6) Effective annual rent per square foot for retail, office, and restaurant was \$21.83 and \$21.58 at December 31, 2015 and 2014, respectively. Effective annual rent per unit for multifamily was \$14,607 and \$14,132 at December 31, 2015 and 2014, respectively.

(7) During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. We did not pay the outstanding principal balance of the loan at maturity, January 11, 2016, which constituted an event of default. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account, consisting primarily of tenant rental payments, to be deposited into a lender-controlled and administered bank account to be applied to the outstanding principal balance. In December 2015, the lender exercised its right to control the operating funds of the property.

(8) Our initial investment in Royal Island was made in May 2007. We consolidated Royal Island as of June 6, 2012 when we obtained all of the outstanding shares of Royal Island (Australia) Pty Limited. A third party indirectly owns 12.71% of Royal Island.

(9) As of December 31, 2015, Las Colinas Commons was classified as real estate held for sale on our consolidated balance sheet. We sold the investment on February 2, 2016.

Three of our consolidated properties represented 10% or more of our 2015 total revenue: Chase Park Plaza at 57%; Frisco Square at 13%; and Northborough Tower at 10%.

The following information generally applies to all of our investments in real estate properties:

- we believe all of our investment properties are adequately covered by insurance and suitable for their intended purposes;
- we have plans to make repairs and/or improvements or upgrades at some of our investment properties for which we do not currently have bids from which to estimate the costs, and, at some other properties, we have plans for redevelopment or development in accordance with planned budgets;
- our investment properties are located in markets where we are subject to competition in attracting new tenants and retaining current tenants; and
- depreciation is provided on a straight-line basis over the estimated useful lives of the buildings.

## Portfolio Diversification

As an opportunistic and value-add fund, we utilize a business model driven by investment strategy and expected performance characteristics. Accordingly, we have investments in several types of real estate, including office, hotel, multifamily, condominium, and land held for development.

The following table shows the total revenue of our real estate portfolio for the properties we consolidate in our financial statements as of December 31, 2015, including revenues generated from tenant reimbursements:

Property	Description	2015 Revenue (in 000s)	Percentage of 2015 Revenue
Chase Park Plaza	Hotel and condominium development property	\$ 31,400	57%
Frisco Square	Mixed-use development (multifamily, retail, office, restaurant and land)	7,230	13%
Northpoint Central	9-story office building	4,099	7%
The Lodge & Spa at Cordillera	Land, hotel and development property	4,260	8%
Northborough Tower	14-story office building	5,652	10%
Total, excluding held for sale property and mineral rights		\$ 52,641	95%
Las Colinas Commons <sup>(1)</sup>	3-building office complex	2,721	5%
Mineral rights <sup>(2)</sup>		29	—%
Total revenues <sup>(3)</sup>		\$ 55,391	100%

(1) Las Colinas Commons office building was classified as held for sale at December 31, 2015. We sold the office building on February 2, 2016.

(2) We retained the mineral rights on 4950 S. Bowen Road, an investment in land, which we sold in 2013. Amount represents funds received for mineral rights in 2015.

(3) Royal Island is excluded from the table as the asset produced no revenue in 2015.



## Geographic Diversification

The following table shows the geographic diversification of our real estate portfolio for those properties we consolidate in our financial statements as of December 31, 2015. This table does not include revenues generated from tenant reimbursements. See footnote (1) below:

<u>Location</u>	<u>2015 Revenue<sup>(1)(2)</sup></u> <u>(in 000s)</u>	<u>Percentage of</u> <u>2015</u> <u>Revenue</u>
Missouri	\$ 31,381	61%
Texas	15,669	31%
Colorado	4,255	8%
	<u>\$ 51,305</u>	<u>100%</u>

- (1) 2015 revenue represents contractual base rental income of our office properties, as well as revenue from our multifamily and hotel properties, without consideration of tenant contraction or termination rights. Tenant reimbursements generally include payment of real estate taxes, operating expenses, and common area maintenance and utility charges.
- (2) Revenue of \$2.6 million for Las Colinas Commons, located in Texas, our held for sale property at December 31, 2015, is not included in the table.

## Future Lease Payments Table

The following table presents the future minimum base rental payments of our office properties due to us over the next ten years from our consolidated office properties as of December 31, 2015 (in thousands):

<u>Year</u>	<u>Future</u> <u>Minimum</u> <u>Base Rental</u> <u>Payments<sup>(1)</sup></u>
2016	\$ 13,165
2017	11,954
2018	5,312
2019	3,751
2020	2,994
2021	2,364
2022	1,913
2023	1,511
2024	976
2025	957
Thereafter	660
Total	<u>\$ 45,557</u>

- (1) Excludes leases at our Las Colinas Commons office building which was classified as held for sale at December 31, 2015. We sold the property on February 2, 2016.

## Portfolio Lease Expirations

The following table presents lease expirations at our consolidated office properties as of December 31, 2015:

Year of Expiration	Number of Leases Expiring	Annualized Base Rent <sup>(1)(2)</sup> (in 000s)	Percent of Portfolio Annualized Base Rent Expiring	Leased Rentable Sq. Ft.	Percent of Portfolio Rentable Sq. Ft. Expiring
2016	10	\$ 1,774	12%	69,010	12%
2017	7	1,697	11%	74,542	13%
2018	12	6,856	47%	245,710	44%
2019	9	1,016	7%	39,169	7%
2020	6	674	4%	24,214	4%
2021	3	724	5%	30,801	5%
2022	—	—	—%	—	—%
2023	5	901	6%	30,851	5%
2024	1	76	1%	2,819	1%
2025	1	684	5%	41,464	7%
Thereafter	1	273	2%	8,279	2%
Total	55	\$ 14,675	100%	566,859	100%

(1) Represents the cash rental rate of base rents, excluding tenant reimbursements, in the final month prior to the expiration multiplied by 12, without consideration of tenant contraction or termination rights. Tenant reimbursements generally include payment of real estate taxes, operating expenses and common area maintenance and utility charges.

(2) Excludes leases at our Las Colinas Commons office building which was classified as held for sale at December 31, 2015.

## Item 3. Legal Proceedings

We are not party to, and none of our properties are subject to, any material pending legal proceedings.

## Item 4. Mine Safety Disclosures

None.

## PART II

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

#### Market Information

There is no established public trading market for our common stock. Therefore, there is a risk that a stockholder may not be able to sell our stock at a time or price acceptable to the stockholder.

#### Determination of Estimated Per Share Value

On November 10, 2014, pursuant to the Amended and Restated Policy for Estimation of Common Stock Value, our board of directors met and established an estimated per share value of the Company's common stock as of October 31, 2014 of \$3.58. The value per share was based on the estimated value of our assets less the estimated value of our liabilities, divided by the number of shares outstanding, all as of September 30, 2014. This was our most recent estimated share valuation. That ESV did not take into account property selling costs, liquidation costs of the Company, or the challenging market conditions that have occurred since those assets were valued. Given these factors, we estimate that the final distribution will be less than \$3.58 per share. There is no assurance of the extent to which the estimated valuation should be relied upon for any purpose after its effective date regardless that it may be published on any statement issued by the Company or otherwise. We are in our disposition phase and our board of directors is considering the orderly disposition of our assets or other appropriate exit strategy in the best interest of our stockholders. We can make no assurances as to the timing in which we will complete this process; economic or market conditions may cause us to hold our investments for longer periods of time or sell an investment at a lower than anticipated price.

#### Process and Methodology

Our board of directors' objective in determining an estimated value per share was to arrive at an estimated value that it believes is reasonable after consultation with our Advisor and with an independent, third-party valuation and advisory firm engaged by the Company, using what the board of directors deems to be appropriate valuation methodologies and assumptions under current circumstances.

In arriving at an estimated value per share for the board's consideration, the Advisor utilized valuation methodologies that it believes are standard and acceptable in the real estate industry for the types of assets held by the Company. As a part of the Company's valuation process, the Company obtained the opinion of Capright Property Advisors, LLC ("Capright"), an independent third party, to estimate the "as is" market value of the Company's real estate investments and to render an opinion as to the reasonableness of the valuation methodology and valuation conclusions of the Advisor for the Company's other assets and liabilities.

Our board of directors met on November 10, 2014 to review and consider the valuation analyses prepared by the Advisor and Capright. The Advisor presented a report to the board of directors with an estimated per share value, and the board of directors conferred with the Advisor and a representative from Capright regarding the methodologies and assumptions used. The board of directors, which is responsible for determining the estimated per share valuation, considered all information provided in light of its own familiarity with our assets and unanimously approved an estimated value of \$3.58 per share.

In forming their conclusion of the value of the real estate investments held by the Company as of September 30, 2014, Capright's conclusion was subject to various limitations, and the scope of their work included:

- Review of the Company's real estate investments' historical performance and business plans related to operations of the investments;
- Review of the applicable markets by means of publications and other resources to measure current market conditions, supply and demand factors, and growth patterns;
- Review of key market assumptions for mortgage liabilities, including but not limited to, interest rates and collateral;
- Review of the data models prepared by the Advisor supporting the valuation for each investment;
- Review of key assumptions utilized by the Advisor in the valuation models, including but not limited to, terminal capitalization rates, discount rates, and growth rates;
- Review of the Advisor's calculations related to value allocations to non-controlling interests and joint venture interests, based on contractual terms and market assessments; and
- Review of valuation methodology used by the Advisor for other assets and liabilities.

In forming their opinion of the value of the nine investments held by the Company as of October 31, 2014, Capright performed appraisals on six of our investment properties for which we did not have a recent appraisal. For the remaining three investments not appraised by Capright, they reviewed the reasonableness of and relied upon third-party appraisals for one of

our investments. The Company's remaining investments were valued based on sales contracts, purchase offers, and valuation information provided by the Advisor.

Capright provided an opinion that the resulting "as is" market value for the Company's properties as calculated by the Advisor, and the other assets and liabilities as valued by the Advisor, along with the corresponding net asset value (NAV) valuation methodologies and assumptions used by the Advisor to arrive at a recommended value of \$3.58 per share as of October 31, 2014, were appropriate and reasonable.

Capright has acted as a valuation advisor to the Company in connection with this assignment. The compensation paid to Capright in connection with this assignment was not contingent upon the successful completion of any transaction or conclusion reached by Capright. Capright has rendered valuation advisory services to another Behringer-advised investment programs during this year for which it received usual and customary compensation. Capright may be engaged to provide financial advisory services to the Company, its Advisor or other Behringer-advised investment programs or their affiliates in the future.

The estimated valuation of \$3.58 per share as of October 31, 2014, reflects an increase from the estimated valuation of \$3.08 per share as of November 11, 2013. The investment that was most significant to the increase in our real estate asset value related to Chase Park Plaza Hotel. As a result of improved hotel operations and improving market conditions the valuation of the asset increased. A redevelopment plan for the asset is under consideration. Additionally, on August 5, 2014, we received the 5% interests of Chase Park Plaza Hotel and Chase - The Private Residences held by Kingsdell, L.P. and now own 100% of the entities. The real estate valuation for The Lodge & Spa at Cordillera also increased based upon a then current sale contract. Our office and mixed-use properties were all increases to the estimated share valuation. These increases were offset by a decrease related to our unconsolidated joint venture investment in Central Europe. A decline in real estate values as well as a weakened currency led to the decrease.

The following is a summary of the valuation methodologies used for each type of asset:

*Investments in Real Estate.* The Company has focused on acquiring commercial real estate properties in different asset classes. Due to the opportunistic or value-added nature of the Company's real estate investments, both Capright and our Advisor utilized a variety of valuation methodologies, each as appropriate for the asset type under consideration to assign an estimated value to each real estate asset.

Our Advisor estimated the value of our investments in real estate utilizing multiple valuation methods, including an income approach using discounted cash flow analysis and a sales comparable analysis. The key assumptions used in the discounted cash flow approach were specific to each property type, market location, and quality of each property, and were based on similar investors' return expectations and market assessments and are reflected in the table included under "Allocation of Estimated Value" below. In calculating values for our assets, our Advisor used balance sheet and cash flow estimates as of September 30, 2014. In addition, for one of our assets our Advisor used a sales comparable analysis based on a sales contract.

Capright prepared appraisals on seven of our properties in connection with the valuation. The appraisals estimated values by using discounted cash flow, sale comparable, or a weighting of these approaches in determining each property's value. The appraisals employed a range of terminal capitalization rates, discount rates, growth rates, and other variables that fell within ranges that Capright and the Advisor believed would be used by similar investors to value the properties we own. The assumptions used in developing these estimates were specific to each property (including holding periods) and were determined based upon a number of factors including the market in which the property is located, the specific location of the property within the market, property and market vacancy, tenant demand for space and investor demand and return requirements.

The value of our unconsolidated joint venture investment in a portfolio of retail and industrial properties located in Central Europe was calculated using bank valuations prepared for the European lenders using the September 30, 2014 exchange rate. Capright reviewed each of these independent valuations to confirm the reasonableness of their assumptions and methodologies.

We calculated the value of the one remaining residential condominium unit from the Chase Park Plaza asset using recent comparable sales data, listing price information, and offers to date.

While our Advisor believes that the approaches used by appraisers in valuing our real estate assets, including an income approach using discounted cash flow analysis and sales comparable analysis, is standard in the real estate industry, the estimated values for our investments in real estate may or may not represent current market values or fair values determined in accordance with GAAP. Real estate is currently carried at its amortized cost basis in our financial statements, subject to any adjustments applicable under GAAP.

*Investment in Mezzanine Loan.* To calculate the value of our mezzanine loan, we estimated the underlying collateral value of the multifamily project and compared that estimated value to the amount of the senior indebtedness, which has priority of payment to our mezzanine loan.

*Construction in Progress.* The Company has one multifamily development currently under construction. As the construction on this project commenced on September 2, 2014, we estimated the value of the project as the land value of the parcel per the Capright appraisal plus construction costs as of September 30, 2014.

*Mortgage Loans.* Values for mortgage loans were estimated by the Advisor using a discounted cash flow analysis, which used inputs based on the remaining loan terms and estimated current market interest rates for mortgage loans with similar characteristics, including remaining loan term and loan-to-value ratios. The current market interest rate was generally determined based on market rates for available comparable debt. The estimated current market interest rates for mortgage loans ranged from 1.93% to 11.10%.

*Other Assets and Liabilities.* For a majority of our other assets and liabilities, consisting of cash and cash equivalents, short-term investments, accounts payable and other liabilities, the carrying values as of September 30, 2014 were considered equal to fair value by the Advisor due to their cost-based characteristics or short maturities. In connection with our estimated valuation of operating properties and mortgage loans payable, certain GAAP balances related to accumulated depreciation and amortization, straight-lining of rents, deferred revenues and expenses, and debt and notes receivable premiums and discounts have been eliminated as the accounts were already considered in the estimated values.

*Noncontrolling Interests.* In those situations where our consolidated assets and liabilities are held in joint venture structures in which other equity holders have an interest, the Advisor has valued those noncontrolling interests based on the terms of the joint venture agreement applied in the liquidation of the joint venture. The resulting noncontrolling interests are a deduction to the estimated value.

*Common Stock Outstanding.* In deriving an estimated per share value, the total estimated value was divided by 56.5 million, the total number of common shares outstanding as of October 31, 2014, on a fully diluted basis, which includes financial instruments that can be converted into a known or determinable number of common shares. As of the valuation date, none of the financial instruments that could be converted into common shares are currently convertible into a known or determinable number of common shares. The determination of the number of common shares outstanding used in the estimated value per share is the same as used in GAAP computations for per share amounts.

Our estimated value per share was calculated by aggregating the value of our assets, subtracting the value of our liabilities, and dividing the net total by the fully-diluted common stock outstanding. Our estimated value per share was effective as of October 31, 2014.

The estimated per share value does not reflect a liquidity discount for the fact that the shares are not traded on a national securities exchange, a discount for the non-assumability or prepayment obligations associated with certain of the Company's debt, or a discount for our corporate level overhead and other costs that may be incurred, including any costs related to the sale of the Company's assets. Different parties using different assumptions and estimates could derive a different estimated value per share, and these differences could be significant. The markets for real estate can fluctuate and values are expected to change in the future.

This value does not reflect "enterprise value," which could include premiums or discounts for:

- The size of our portfolio: although some buyers may pay more for a portfolio compared to prices for individual properties;
- Characteristics of our working capital, leverage, credit facility and other financial structures where some buyers may ascribe different values based on synergies, cost savings or other attributes;
- Disposition and other expenses that would be necessary to realize the value;
- The provisions under our advisory agreement and our potential ability to secure the services of a management team on a long-term basis; or
- The potential difference in our share value if we were to list our shares on a national securities exchange.

### *Allocation of Estimated Value*

As of October 31, 2014, we were invested in nine assets. As of November 11, 2013, we were invested in ten assets. We excluded Royal Island from the allocations in 2014 and 2013 as it was valued at less than the amount of its nonrecourse debt and liabilities. Therefore, we did not attribute any value to this property in the Company's estimate of value. The following was our estimated per share value allocated among our asset types:

<b>Description</b>	<b>October 31, 2014</b>	<b>November 11, 2013</b>
	<b>Estimated Value per Share</b>	<b>Estimated Value per Share</b>
Consolidated real estate properties <sup>(1)</sup>	\$ 5.14	\$ 4.60
Unconsolidated joint venture <sup>(2)</sup>	0.21	0.28
Construction in Progress	0.12	—
Mezzanine loan investment	—	—
Mortgage debt <sup>(3)</sup>	(2.49)	(2.25)
Other assets and liabilities	0.61	0.49
Noncontrolling interests	(0.01)	(0.04)
Estimated net asset value per share	3.58	3.08
Estimated enterprise value premium	—	—
Total estimated value per share <sup>(4)</sup>	\$ 3.58	\$ 3.08

- (1) The following are the key assumptions (shown on a weighted average basis) which are used in the discounted cash flow models to estimate the value of the real estate assets.

	<b>Office Buildings</b>	<b>Hotels</b>	<b>Mixed-Use</b>
Exit capitalization rate	8.29%	8.00%	7.31%
Discount rate	9.05%	10.00%	8.14%
Annual market rent growth rate	3.00%	4.12%	3.00%
Average holding period	10.28 years	10.00 years	10.27 years

- (2) The following is the key assumption (shown on a weighted average basis) which is used in the direct capitalization method in order to estimate the value of our unconsolidated joint venture investment:

Direct capitalization rate	8.56 %
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- (3) Notes payable net of \$(906,000) mark-to-market adjustment.
- (4) As of October 31, 2014 we had 56,500,472 shares outstanding. The potential dilutive effect of our common stock equivalents does not impact our estimated per share value as there were no potentially dilutive securities outstanding at September 30, 2014.

The consolidated real estate assets (excluding Royal Island) we owned as of September 30, 2014 reflect an overall decrease of 13% from the original purchase price (excluding acquisition costs and operating deficits) plus post-acquisition capital investments.

While we believe that our assumptions utilized are reasonable, a change in these assumptions would affect the calculation of value of our real estate assets. The table below presents the estimated increase or decrease to our estimated value per share for a 25 basis point increase and decrease in the discount rates and capitalization rates. The table is only hypothetical to illustrate possible results if only one change in assumptions was made, with all other factors held constant. Further, each of these assumptions could change by more than 25 basis points or not change at all. We have also invested in non-U.S. dollar denominated real property and real estate-related securities exposing us to fluctuating currency rates. A change in the foreign exchange currency rates may have an adverse impact on our value.

	<b>Change in Estimated Value per Share</b>	
	<b>Increase of 25 basis points</b>	<b>Decrease of 25 basis points</b>
Capitalization rate	\$ (0.18)	\$ 0.20
Discount rate*	\$ (0.07)	\$ 0.08

\* Discount rate calculation does not include Central Europe properties

### ***Historical Estimated Values per Share***

The historical reported estimated values per share of the Company's common stock approved by the board of directors are set forth below:

<b>Estimated Value per Share</b>	<b>Effective Date of Valuation</b>	<b>Filing with the Securities and Exchange Commission</b>
\$3.58	October 31, 2014	Quarterly Report on Form 10-Q, filed November 12, 2014
\$3.08	November 11, 2013	Quarterly Report on Form 10-Q, filed November 14, 2013
\$3.58	December 14, 2012	Current Report on Form 8-K, filed December 20, 2012
\$4.12	December 20, 2011	Current Report on Form 8-K, filed December 28, 2011
\$7.66	January 10, 2011	Current Report on Form 8-K, filed January 14, 2011
\$8.03	January 8, 2010	Current Report on Form 8-K, filed January 15, 2010
\$8.17	June 22, 2009	Current Report on Form 8-K, filed June 22, 2009

### ***Limitations of Estimated Value Per Share***

As with any valuation methodology, our methodology is based upon a number of estimates and assumptions that may prove later to be inaccurate or incomplete. Further, different parties using different assumptions and estimates could derive a different estimated value per share, which could be significantly different from our board's estimated value per share. The estimated per share value determined by our board of directors neither represents the fair value according to GAAP of our assets less liabilities, nor does it represent the amount our shares would trade at on a national securities exchange or the amount a stockholder would obtain if he tried to sell his shares or if we liquidated our assets. Accordingly, with respect to the estimated value per share, the Company can give no assurance that:

- a stockholder would be able to resell his or her shares at this estimated value;
- a stockholder would ultimately realize distributions per share equal to the Company's estimated value per share upon liquidation of the Company's assets and settlement of its liabilities or a sale of the Company;
- the Company's shares would trade at the estimated value per share on a national securities exchange; or
- the methodologies used to estimate the Company's value per share would be acceptable to FINRA or under ERISA for compliance with their respective reporting requirements.

For further information regarding the limitations of the estimated value per share, see the Estimated Valuation Policy filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2009.

## Holdings

As of February 29, 2016, we had 56,500,472 shares of common stock outstanding held by a total of approximately 20,829 stockholders.

## Distributions

Distributions are authorized at the discretion of our board of directors based on its analysis of our forthcoming cash needs, earnings, cash flow, anticipated cash flow, capital expenditure requirements, cash on hand, general financial condition and other factors that our board deems relevant. The board's decision will be influenced, in substantial part, by its obligation to ensure that we maintain our status as a REIT. In connection with entering our disposition phase, on March 28, 2011, our board of directors discontinued regular quarterly distributions. Any future distributions will be based on available cash after weighing operational needs.

Historically, distributions paid to stockholders have been funded through various sources, including cash flow from operating activities, proceeds raised as part of our initial public offering, reinvestment through our distribution reinvestment plan and/or additional borrowings. We had no distributions during the years ended December 31, 2015 and 2014.

## Recent Sales of Unregistered Securities

None.

## Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information regarding our equity compensation plans as of December 31, 2015:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	75,000	\$ 7.50	10,925,000 *
Equity compensation plans not approved by security holders	—	—	—
Total	75,000	\$ 7.50	10,925,000 *

\* All shares authorized for issuance pursuant to awards not yet granted under the Incentive Plan.

## Share Redemption Program

In February 2006, our board of directors authorized a share redemption program for stockholders who held their shares for more than one year. Under the program, our board reserved the right in its sole discretion at any time, and from time to time, to (1) waive the one-year holding period in the event of the death, disability or bankruptcy of a stockholder or other exigent circumstances, (2) reject any request for redemption, (3) change the purchase price for redemptions, or (4) terminate, suspend or amend the share redemption program.

Our board of directors has not considered requests for redemptions ("Ordinary Redemptions") for reasons other than in the event of death, disability or need for long-term care since March 2009 when the board determined not to accept, and to suspend until further notice, Ordinary Redemptions.

In January 2011, the board completely suspended the redemption program and has not considered any redemption requests since 2010. Therefore, we did not redeem any shares of our common stock during the year ended December 31, 2015.

We have not presented information regarding submitted and unfulfilled redemptions as our share redemption program has been completely suspended since the first quarter of 2011 and we believe many stockholders who may otherwise desire to have their shares redeemed have not submitted a request due to the program's suspension.

Any redemption requests submitted while the program is suspended will be returned to investors and must be resubmitted upon resumption of the share redemption program. As we have entered our disposition phase, we do not expect to resume our share redemption program; however, if the share redemption program is resumed, we will give all stockholders notice that we are resuming redemptions, so that all stockholders will have an equal opportunity to submit shares for redemption. Upon resumption of the program, any redemption requests will be honored pro rata among all requests received based on funds available and will not be honored on a first come, first served basis.



## Item 6. Selected Financial Data.

We were formed on November 23, 2004, and commenced operations on November 9, 2005 when we accepted the minimum amount of subscriptions pursuant to the Offering.

As of December 31, 2011, we were invested in 17 assets, eight of which were consolidated in our continuing operations. We were the mezzanine lender for one multifamily property which, prior to January 1, 2010, we consolidated as the primary beneficiary of the variable interest entity (“VIE”). In addition, we had noncontrolling, unconsolidated ownership interests in two properties and one investment in a joint venture consisting of 22 properties that were accounted for using the equity method. During the year ended December 31, 2011, we sold four of our wholly owned properties. The property in one of our unconsolidated joint ventures was sold in December 2011.

As of December 31, 2012, we were invested in 12 assets, nine of which were consolidated in our continuing operations. We were the mezzanine lender for one multifamily property. In addition, we had a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 22 properties that were accounted for using the equity method. During the year ended December 31, 2012, we sold four of our consolidated properties and our noncontrolling, unconsolidated ownership interest in one joint venture.

As of December 31, 2013, we were invested in nine assets, seven of which were consolidated in our continuing operations. We were the mezzanine lender for one multifamily property. In addition, we had a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 22 properties that were accounted for using the equity method. During the year ended December 31, 2013, we sold two of our wholly owned properties and our interest in one joint venture.

As of December 31, 2014, we were invested in nine assets, seven of which were consolidated in our continuing operations. We were the mezzanine lender for one multifamily property. In addition, we had a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 21 properties that is accounted for using the equity method. During the year ended December 31, 2014, we did not have any dispositions of our real estate investments. In August 2014, we sold one property in our unconsolidated joint venture.

As of December 31, 2015, we were invested in eight assets, seven of which were consolidated, including Las Colinas Commons, which is classified as real estate held for sale in our consolidated balance sheet. We had an unconsolidated ownership interest in a joint venture consisting of 18 properties that is accounted for using the equity method. During the year ended December 31, 2015, we did not have any dispositions of our real estate investments. We sold three properties in our unconsolidated joint venture during 2015, one in February, one in July, and one in October.

Accordingly, the following selected financial data may not be comparable. The following data should be read in conjunction with our consolidated financial statements and the notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing in Item 7 in this Annual Report on Form 10-K.

The selected data below has been derived from our audited consolidated financial statements (in thousands, except per share amounts):

	As of December 31,				
	2015	2014	2013	2012	2011
Total assets	\$ 307,802	\$ 314,492	\$ 322,120	\$ 366,452	\$ 531,179
Long-term debt obligations	\$ 155,547	\$ 153,556	\$ 138,085	\$ 138,863	\$ 265,857
Other liabilities	45,510	26,898	24,665	53,997	35,379
Noncontrolling interest <sup>(1)</sup>	996	617	2,372	1,364	7,593
Total Behringer Harvard Opportunity REIT I, Inc. equity	105,749	133,421	156,998	172,228	222,350
Total liabilities and equity	\$ 307,802	\$ 314,492	\$ 322,120	\$ 366,452	\$ 531,179

(1) Other liabilities as of December 31, 2015 of \$45.5 million includes obligations associated with real estate held for sale of \$15 million related to the sale of Las Colinas Commons. Las Colinas Commons and Northpoint Central are both borrowers under a loan that matures in May 2017. The Las Colinas Commons loan balance at December 31, 2015 is \$11.3 million. Under the terms of the loan, the lender requires a release price payment of \$14.9 million to release the Las Colinas Commons property from the loan. The \$3.6 million excess principal payment amount is used to reduce Northpoint Central’s loan balance. We have reclassified the full release price as a liability associated with our real estate held for sale as of December 31, 2015.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Revenues	\$ 55,391	\$ 55,487	\$ 55,068	\$ 42,004	\$ 37,311
Loss from continuing operations <sup>(1)</sup>	(25,574)	(24,420)	(23,445)	(62,286)	(85,540)
Income (loss) from discontinued operations <sup>(2)</sup>	—	—	3,985	5,728	(9,920)
Gain on sale of real estate	—	476	86	—	1,334
Net loss	(25,574)	(23,944)	(19,374)	(56,558)	(94,126)
Add: Net loss (income) attributable to the noncontrolling interest <sup>(3)</sup>	386	414	(882)	3,782	5,518
Net loss attributable to common stockholders	(25,188)	(23,530)	(20,256)	(52,776)	(88,608)
Basic and diluted loss per share	\$ (0.45)	\$ (0.42)	\$ (0.36)	\$ (0.93)	\$ (1.57)
Distributions declared per share	\$ —	\$ —	\$ —	\$ —	\$ (0.17)

- (1) Loss from continuing operations includes impairments of \$11.6 million, \$9.4 million, \$0.4 million, \$7.3 million, and \$12.7 million in the years ended December 31, 2015, 2014, 2013, 2012, and 2011, respectively. In addition, we recorded impairments on our condominium inventory of \$0.7 million, \$0.3 million, \$12.2 million and \$5.9 million in 2015, 2013, 2012, and 2011, respectively.
- (2) Income (loss) from discontinued operations includes impairments of \$0.3 million, \$1.3 million, and \$5.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. Income (loss) from discontinued operations includes gain on sales of \$12 million and \$0.8 million in the years ended December 31, 2012 and 2011, respectively.
- (3) As of December 31, 2015, noncontrolling interest consists of the noncontrolling ownership interests in real estate properties that we consolidate; The Lodge & Spa at Cordillera, Royal Island and The Ablon at Frisco Square. Effective August 5, 2014, we have a 100% ownership interest in Chase Park Plaza Hotel. Prior to August 5, 2014, we owned a 95% interest in the property.

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

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements of the Company and the notes thereto.

### Executive Overview

We are a Maryland corporation that was formed in November 2004 to invest in and operate commercial real estate or real-estate related assets located in or outside the United States on an opportunistic and value-add basis. We conduct substantially all of our business through our operating partnership and its subsidiaries. We are organized and qualify as a REIT for federal income tax purposes.

We are externally managed and advised by the Advisor, a Texas limited liability company. The Advisor is responsible for managing our day-to-day affairs and for identifying and making dispositions on our behalf.

As of December 31, 2015, we wholly owned four properties and consolidated three properties through investments in joint ventures, all of which were consolidated in our financial statements, including our Las Colinas Commons office building, which is classified as held for sale in our consolidated balance sheet. In addition, we have a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 18 properties that is accounted for using the equity method. Our investment properties are located in Colorado, Missouri, Texas, the Commonwealth of The Bahamas, the Czech Republic, and Poland. On August 18, 2015, we executed a consent and release agreement for the owner of Alexan Black Mountain to sell the multifamily property that was security for our mezzanine loan investment. The sale of the asset closed on August 19, 2015. We received less than \$0.1 million for executing the consent. Our mezzanine loan, which was fully reserved, was retired and the proceeds were recorded as other income.

### Liquidity and Capital Resources

#### *Liquidity Demands*

Our primary objectives are to focus on the disposition of the properties remaining in our portfolio, while continuing to preserve capital and sustain and enhance property values. Our ability to continue to execute this plan is contingent on our ability to dispose of our properties in an orderly fashion, thus providing needed liquidity to fund our remaining development activities, capital needs at certain properties and the Company's operations. Our cash balance at December 31, 2015 was \$20.7 million.

Our financial statements are presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business as we proceed through our disposition phase. As is usual for opportunity-style real estate investment programs, we are structured as a finite-life entity, and have entered the final phase of

operations. This phase includes the selling of our assets, retiring our liabilities, and distributing net proceeds to stockholders. It is possible that we will invest additional capital in some of our assets in order to position these assets for sale in the normal course of business. We have experienced significant losses and may generate negative cash flows as mortgage note obligations and expenses exceed revenues. If we are unable to sell a property when we determine to do so as contemplated in our business plan, it could have a significant adverse effect on our cash flows that are necessary to meet our mortgage obligations and to satisfy our other liabilities in the normal course of business.

Our ability to continue as a going concern is, therefore, dependent upon our ability to sell real estate investments, to pay or retire debt as it matures if extensions or new financings are unavailable, and to fund certain ongoing costs of our Company, including our development and operating properties. Our principal demands for funds for the next twelve months and beyond will be for the payment of costs associated with the lease-up of available space at our operating properties (including leasing commissions, tenant improvements, and capital improvements), certain ongoing costs at our development properties, Company operating expenses, and interest and principal on our outstanding indebtedness. We expect to fund a portion of these demands by using cash flow from operations of our current investments and borrowings. Additionally, we will use proceeds from our strategic asset sales.

We continually evaluate our liquidity and ability to fund future operations and debt obligations. During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account, consisting primarily of tenant rental payments, to be deposited into a lender-controlled and administered bank account. In December 2015, the lender exercised its right to control the operating funds of the property.

We have been actively marketing the Northborough Tower property for sale; however, we have not received any offers above the loan balance. The carrying value of the asset at December 31, 2015 was \$15.2 million. The outstanding principal balance of the loan was approximately \$18.5 million at December 31, 2015. We did not pay the outstanding principal balance of the loan at maturity, January 11, 2016, which constituted an event of default. The lender has been funding the operations of the property from the tenant rental funds and has indicated they expect to continue to do so. The loan is non-recourse to the Company and we have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016.

In addition to our debt obligations, we consider lease expirations at our consolidated office properties and other factors in evaluating our liquidity. Operating leases for our office buildings (excluding Las Colinas Commons which is classified as held for sale at December 31, 2015) representing less than 12% of annualized base rent and 12% of rentable square footage (effective annual rent per square foot of \$25.71) will expire by the end of 2016. In the normal course of business, we are pursuing renewals, extensions and new leases. If we are unable to renew or extend the expiring leases under similar terms or are unable to negotiate new leases, it would negatively impact our liquidity and consequently adversely affect our ability to fund our ongoing operations. Further, it would adversely affect the value of the investment and reduce the proceeds we would receive upon the sale of the asset. In addition, our portfolio is concentrated in certain geographic regions and industries, and downturns relating generally to those regions or industries may result in defaults by a number of tenants within a short time period. Any defaults would negatively affect our liquidity and adversely affect our ability to fund our ongoing operations. Further, it would adversely affect the value of the investment and reduce the proceeds we would receive upon the sale of the asset. In particular, the Northborough Tower and Northpoint Central office buildings are located in the Greenspoint submarket in Houston, Texas. Demand for commercial properties in this submarket is weak due to several large blocks of space that became available as large scale users have vacated the submarket. With the uncertainty created from these relocations as well as the current volatility within the energy sector, and the limited number of office building transactions, it is difficult to underwrite commercial assets in this submarket. During the third quarter of 2015, we recorded non-cash impairment charges on our two office buildings located in Houston. See Note 4, Assets and Liabilities Measured at Fair Value, for information on impairment charges recorded in the third quarter of 2015. For the year ended December 31, 2015, excluding Las Colinas Commons (which is classified as assets held for sale at December 31, 2015) 27% of our total revenues, without consideration of tenant contraction or termination rights, were derived from our office buildings, all of which are located in Texas. For the year ended December 31, 2015, excluding Las Colinas Commons, 11% and 61% of our total revenues, without consideration of tenant contraction or termination rights, were derived from our Northborough Tower office building and Chase Park Plaza Hotel, respectively. As discussed above, we have been notified by the lender that Northborough Tower has been posted for foreclosure on April 5, 2016.

## Strategic Asset Sales

As previously discussed, we are in our disposition phase. Our board of directors is considering the orderly disposition of our assets or other appropriate exit strategy in the best interest of our stockholders. The economic environment and limited availability of credit to buyers for opportunistic asset classes such as ours could delay or inhibit our ability to dispose of our properties in an orderly manner, or cause us to have to dispose of our properties for lower than anticipated sales prices.

There can be no assurance that future dispositions will occur as planned, or if they occur, that they will help us to meet our liquidity demands. Once we anticipate selling all or substantially all of our assets, we will seek stockholder approval prior to liquidating our entire portfolio.

Our Las Colinas Commons office building is classified as real estate held for sale at December 31, 2015. We sold the investment on February 2, 2016 for a contract price of \$14.3 million. On February 22, 2016 we sold the remaining condominium unit at Chase Park Plaza - The Private Residences for \$2.5 million. We currently have Northpoint Central and Royal Island under contract for sale, however there are no assurances that we will complete these transactions.

## Debt Financings

One of our principal short-term and long-term liquidity requirements is the repayment of maturing debt. The following table provides information with respect to the contractual maturities and scheduled principal repayments of our indebtedness as of December 31, 2015. Interest payments on variable rate debt are based on rates in effect as of December 31, 2015. The table does not represent any extension options (in thousands):

	Payments Due by Period <sup>(1)(2)(3)</sup>						Total
	2016 <sup>(4)</sup>	2017	2018	2019	2020	After 2020	
Principal payments—fixed rate debt	\$ 35,010	\$ 71,264	\$ —	\$ —	\$ —	\$ —	\$ 106,274
Interest payments—fixed rate debt	5,523	2,220	—	—	—	—	7,743
Principal payments—variable rate debt	547	575	29,456	18,680	—	—	49,258
Interest payments—variable rate debt	1,601	1,590	729	276	—	—	4,196
Total <sup>(2)(3)</sup>	\$ 42,681	\$ 75,649	\$ 30,185	\$ 18,956	\$ —	\$ —	\$ 167,471

(1) Does not include less than \$0.1 million of unamortized premium related to debt we assumed on our acquisition of Northborough.

(2) Our debt secured by Las Colinas Commons is not included in the table as the investment is classified as held for sale at December 31, 2015. We sold the property on February 2, 2016. Las Colinas Commons and Northpoint Central were both borrowers under a loan that is scheduled to mature in May 2017. The Las Colinas Commons loan balance at December 31, 2015 was \$11.3 million. Under the terms of the loan, the lender requires a release price payment of \$14.9 million to release the Las Colinas Commons property from the loan. The \$3.6 million excess principal payment amount is used to reduce Northpoint Central's loan balance. We have reclassified the full release price as a liability associated with our real estate held for sale as of December 31, 2015.

(3) Does not include assumptions for any available extension options.

(4) The 2016 principal payments on fixed rate debt include the nonrecourse debt secured by Northborough Tower with a principal balance of \$18.5 million at December 31, 2015.

Our nonrecourse debt secured by Northborough Tower, with an outstanding principal balance of \$18.5 million at December 31, 2015, matured on January 11, 2016. See additional information regarding this loan above under *Liquidity Demands*.

Our loan agreements stipulate that we comply with certain reporting and financial covenants. These covenants include, among other things, maintaining minimum debt service coverage ratios, loan to value ratios, and liquidity. As of December 31, 2015, we believe we were in compliance with the debt covenants under our loan agreements.

We currently expect to use funds generated by our operating properties, additional borrowings, and proceeds from the disposition of properties to continue making our scheduled debt service payments until the maturity dates of the loans are extended, or the loans are refinanced or completely paid off. However, there is no guarantee that we will be able to refinance our borrowings with more or less favorable terms or extend the maturity dates of such loans. To the extent we are unable to reach agreeable terms with respect to extensions or refinancings, we may not have the cash necessary to repay our debt as it matures, which could result in an event of default that could allow lenders to foreclose on the property in satisfaction of the debt, seek repayment of the full amount of the debt outstanding from us or pursue other remedies.

Each of our loans is secured by one or more of our properties. At December 31, 2015, interest rates on our notes payable, excluding interest rates on the debt secured by our Las Colinas Commons investment which was classified as held for sale, ranged from 2.9% to 15%, with a weighted average interest rate of approximately 5.4%. Generally, our notes payable mature at approximately two to nine years from origination and require payments of interest-only for approximately two to five years, with all principal and interest due at maturity. Notes payable associated with our Northborough Tower, Frisco Square, Las Colinas Commons, and Northpoint Central investments require monthly payments of principal and interest. At December 31, 2015, our notes payable had maturity dates that ranged from January 2016 to February 2018.

Our ability to fund our liquidity requirements is expected to come from cash and cash equivalents (which total \$20.7 million on our consolidated balance sheet as of December 31, 2015), operating cash flow from properties, new borrowings and proceeds from the disposition of our properties. As necessary, we may seek alternative sources of financing, including using the proceeds from the sale of our properties to achieve our investment objectives.

As of December 31, 2015, restricted cash on the consolidated balance sheet of \$8.9 million included amounts set aside related to certain operating properties for tenant improvements and commission reserves, tax reserves, maintenance and capital expenditures reserves, and other amounts as may be required by our lenders.

As the overall cost of borrowing increases, either by increases in the index rates or by increases in lender spreads, we will need to factor such increases into the economics of our property developments. This may result in our investment operations generating lower overall economic returns and a reduced level of cash flow.

#### *Joint Venture Indebtedness*

We have a noncontrolling, unconsolidated ownership investment in a joint venture consisting of 18 properties as of December 31, 2015. We exercise significant influence over, but do not control these entities, and therefore, the joint venture is accounted for using the equity method of accounting. As of December 31, 2015, the total amount of aggregate debt held by unrelated parties that was incurred by this joint venture was approximately \$40.9 million (based upon the December 31, 2015 currency exchange).

The table below summarizes the outstanding debt of these properties as of December 31, 2015 (\$ in thousands):

<b>Property</b>	<b>Joint Venture Ownership %</b>	<b>Weighted Average Interest Rate (as of December 31, 2015)</b>	<b>Carrying Amount</b>	<b>Maturity Date</b>
Central Europe Joint Venture	47.01%	2.89% (1)	\$ 40,894	(2)

(1) Represents the weighted average interest rate of the various notes payable secured by the 18 properties in the Central Europe Joint Venture.

(2) One loan totaling approximately \$6.1 million of the notes payable has matured and the joint venture partner is in negotiations for an extension until the loan can be refinanced. Approximately \$26.4 million of the loans mature in 2016, \$6.4 million of the loans mature in 2017, and \$2 million of the loans mature in 2018.

#### *Market Outlook*

Our financial and operating performance is dependent upon the demand for office, residential, retail, hotel and other commercial space in our markets. While domestically, the commercial real estate fundamentals such as vacancy, rent and absorption levels have improved in certain submarkets, the uncertainty regarding the economic environment has made businesses reluctant to make long-term commitments or changes in their business plans. Possible future declines in rental rates, slower or potentially negative net absorption of leased space and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to attract new tenants, may result in lower commercial real estate valuations. Demand has yet to increase enough to drive significant development activity, except for multifamily in certain markets. Frisco Square, our mixed-use development project, is located in the greater Dallas-Fort Worth market, and in an area where we have seen positive economic growth. In September 2014, we entered into a joint venture to construct a new 275-unit multifamily project in Frisco Square to be completed in early 2016.

We own two office buildings, Northborough Tower and Northpoint Central, in the Greenspoint submarket located outside of Houston, Texas. Valuations for these two assets have been adversely impacted by vacancy concerns resulting from the relocations of several major energy companies, which are major tenants in the submarket, to their new office complexes in a different Houston submarket. The Houston market, which was generally regarded as being among the nation's strongest, has been negatively impacted by the fall in oil prices. Northborough Tower is leased by a single tenant that has vacated the building, but continues to make monthly rental payments. The lease expires in April 2018. Northpoint Central is currently well-leased, but as leases expire, it may be difficult to obtain new leases at our current rates. With the continued deterioration in the Greenspoint submarket, as well as the current volatility within the energy sector, it is difficult to underwrite commercial

assets in this submarket. As previously discussed, the sole tenant of Northborough Tower vacated the office building in the third quarter of 2015, and our non-recourse debt secured by Northborough Tower matured on January 11, 2016. We did not pay the outstanding principal balance of the loan at maturity, which constituted an event of default. The lender has been funding the operations of the property from the tenant rental funds and has indicated they expect to continue to do so. We have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016.

Our Chase Park Plaza Hotel continued to improve revenues in 2015. St. Louis remains a steady growth market and we expect improvement in occupancy, revenues, and net operating income in 2016.

Capital remains tight for construction activity and non-prime assets. Tightened underwriting standards and risk adverse capital markets have resulted in few buyers for incomplete development assets. This may affect our strategy to dispose of The Lodge & Spa at Cordillera and Royal Island assets in the near term.

We own a joint venture interest in a portfolio of Central European properties located in Czech Republic and Poland. The portfolio originally consisted of 22 assets. Four assets from this portfolio have been sold, three in 2015 and one in 2014. The Central European economy continues to struggle to gain momentum from the recession. New or renewed leases may be executed at reduced effective rents and vacancy rates may increase as the current economic climate continues to negatively impact tenants. There are very few real estate transactions within the markets where our assets are located.

## Results of Operations

As of December 31, 2015, we were invested in eight assets, seven of which were consolidated, including Las Colinas Commons, which is classified as held for sale in our consolidated balance sheet. Four of our consolidated properties are wholly owned and three properties are consolidated through investments in joint ventures. We have an unconsolidated ownership interest in a joint venture consisting of 18 properties at December 31, 2015 that is accounted for using the equity method. Our investment properties are located in Colorado, Missouri, Texas, the Commonwealth of The Bahamas, the Czech Republic, and Poland. On August 18, 2015, we executed a consent and release agreement for the owner of Alexan Black Mountain to sell the multifamily property that was security for our mezzanine loan investment. The sale of the asset closed on August 19, 2015. We received less than \$0.1 million for executing the consent. Our mezzanine loan, which was fully reserved, was retired and the proceeds were recorded as other income.

As of December 31, 2014, we were invested in nine assets, seven of which were consolidated (four of those were wholly owned and three properties consolidated through investments in joint ventures). In addition, we were the mezzanine lender for one multifamily property. We also had an unconsolidated ownership interest in a joint venture which held 21 properties as of December 31, 2014 that was accounted for using the equity method.

### *Fiscal year ended December 31, 2015 as compared to the fiscal year ended December 31, 2014*

The following table provides summary information about our results of operations for the years ended December 31, 2015 and 2014 (\$ in thousands):

	<b>2015</b>	<b>2014</b>	<b>\$ Amount Change Incr (Decr)</b>	<b>Percentage Change Incr/(Decr)</b>
<b>Revenues</b>				
Rental revenue	\$ 19,809	\$ 20,246	\$ (437)	(2.2)%
Hotel revenue	35,582	35,241	341	1.0 %
Total revenues	55,391	55,487	(96)	(0.2)%
<b>Expenses</b>				
Property operating expenses	7,827	8,202	(375)	(4.6)%
Hotel operating expenses	27,671	26,253	1,418	5.4 %
Bad debt expense (recovery)	58	(137)	195	142.3 %
Condominium inventory impairment	761	—	761	100.0 %
Interest expense	8,431	10,005	(1,574)	(15.7)%
Real estate taxes	3,286	4,075	(789)	(19.4)%
Impairment charge	11,540	9,371	2,169	23.1 %
Property management fees	1,924	1,842	82	4.5 %
Asset management fees	2,312	2,263	49	2.2 %
General and administrative	4,842	5,964	(1,122)	(18.8)%
Depreciation and amortization	13,294	12,701		4.7 %
Total expenses	\$ 81,946	\$ 80,539	\$ 1,407	1.7 %
Other income, net	\$ 74	\$ 759	\$ (685)	(90.3)%
Loss on early extinguishment of debt	\$ —	\$ (246)	\$ 246	100.0 %
Equity in earnings of unconsolidated joint venture	\$ 1,008	\$ 170	\$ 838	492.9 %
Gain on sale of real estate	\$ —	\$ 476	\$ (476)	(100.0)%

## *Continuing Operations*

*Revenues.* Overall, our total revenues decreased by approximately \$0.1 million to \$55.4 million for the year ended December 31, 2015. The change in revenues was primarily due to:

- Rental revenue decreased \$0.4 million to \$19.8 million for the year ended December 31, 2015 as compared to \$20.2 million for 2014. During the year ended December 31, 2015, we received \$0.4 million for the successful appeal of 2013 and 2014 real estate taxes for our Northborough Tower office building. We reimbursed the funds to the tenant, which resulted in a decrease in rental revenue of \$0.4 million. (The receipt of the \$0.4 million resulted in a credit to real estate tax expense. See “Real Estate Taxes” below.) We had an additional decrease of \$0.2 million in rental revenue at Northborough Tower due to a decrease in recovery income. We also had decreases in rental revenue at Las Colinas Commons and Northpoint Central of \$0.2 million and \$0.1 million, respectively. These decreases in rental revenue were partially offset by a \$0.6 million increase in rental revenue at Frisco Square during the year ended December 31, 2015 compared to the year ended December 31, 2014.
- Hotel revenue increased approximately \$0.3 million to \$35.6 million for the year ended December 31, 2015. Hotel revenue for Chase Park Plaza Hotel increased approximately \$0.6 million. Room revenue at Chase Park Plaza Hotel increased \$0.4 million, or 3%, due to 3% increases in both revenue per available room and average daily rates, while occupancy remained constant year-over-year. Food and beverage revenue at Chase Park Plaza Hotel increased \$0.7 million while miscellaneous income and other income decreased \$0.3 million and \$0.1 million, respectively. Hotel revenue at The Lodge & Spa at Cordillera decreased \$0.2 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 due primarily to a 2% decrease in occupancy.

*Property operating expenses.* Property operating expenses were approximately \$7.8 million for the year ended December 31, 2015 as compared to \$8.2 million for the year ended December 31, 2014, and were composed of operating expenses from our consolidated properties. The decrease of approximately \$0.4 million was primarily due to a \$0.5 million reduction in Royal Island operating expenses as a result of lower operating expenditures as we explore the disposition of this property.

*Hotel operating expenses.* Hotel operating expenses were approximately \$27.7 million for the year ended December 31, 2015 compared to \$26.3 million for the year ended December 31, 2014, for an increase of \$1.4 million. Hotel operating expenses at Chase Park Plaza Hotel increased \$1.2 million period-over-period primarily due to increases of \$0.6 million in sales and marketing and \$0.4 million in food and beverage service expense.

*Bad debt expense (recovery).* Bad debt expense (recovery) for the year ended December 31, 2015 was an expense of less than \$0.1 million compared to a recovery of approximately \$0.1 million for the year ended December 31, 2014.

*Condominium inventory impairment.* During the year ended December 31, 2015, we recorded non-cash impairments totaling approximately \$0.7 million associated with our one remaining condominium unit at Chase — The Private Residences. This impairment was based on current market information and our decision to dispose of the condominium in the nearer term. We did not record any impairments on our condominium unit at Chase — The Private Residences during the year ended December 31, 2014.

*Interest expense.* Interest expense was approximately \$8.4 million and \$10 million for the years ended December 31, 2015 and 2014, respectively. The \$1.6 million decrease in interest expense was primarily due to amortization of \$0.6 million of deferred borrowing costs during the year ended December 31, 2014 that did not recur in 2015. In addition, during the year ended December 31, 2015, we capitalized interest of \$0.7 million related to construction of a 275-unit multifamily project at The Ablon at Frisco Square and construction of a public garage at Frisco Square. Construction on the development and the public garage began in September 2014.

*Real Estate Taxes.* Real estate taxes were approximately \$3.3 million and \$4.1 million for the years ended December 31, 2015 and 2014, respectively, for a decrease of approximately \$0.8 million. During the year ended December 31, 2015, real estate tax expense decreased \$0.6 million at Northborough Tower, of which \$0.4 million is related to the receipt of funds from taxing authorities for a successful appeal of the 2013 and 2014 real estate taxes. (We also recorded a charge of \$0.4 million in rental revenue for the corresponding reimbursement of real estate taxes paid to the tenant.)

*Impairment charge.* During the year ended December 31, 2015, we recorded non-cash impairment charges of approximately \$11.6 million. We recorded non-cash impairment charges of \$2.1 million and \$2.7 million to reduce the carrying values of our Northborough Tower and Northpoint Central office buildings, respectively, to their estimated fair values. With the continued deterioration in the Greenspoint submarket in Houston, Texas where Northborough Tower and Northpoint Central are located, as well as the current volatility within the energy sector, it is difficult to underwrite commercial assets in this submarket. In addition, the sole tenant of Northborough Tower vacated the office building in the third quarter of 2015. During the year ended December 31, 2015, we also recorded a non-cash impairment charge of \$6.8 million to reduce the carrying value of our Frisco Square land to its estimated fair value based on an indication of a change in market conditions for



land development. In addition, we recorded approximately \$0.7 million in non-cash impairment charges on our one remaining condominium unit at Chase — The Private Residences during the year ended December 31, 2015. See above “Condominium Inventory Impairment.” During the year ended December 31, 2014, we recorded a non-cash impairment charge of \$9.4 million related to our Northborough Tower office building based upon a shortened hold period and as a result of market conditions in the Greenspoint submarket of Houston, Texas, a significant energy hub, where Northborough Tower is located.

*Property management fees.* Property management fees for the years ended December 31, 2015 and 2014 were approximately \$1.9 million and \$1.8 million, respectively.

*Asset management fees.* Asset management fees remained constant at \$2.3 million for the years ended December 31, 2015 and 2014.

*General and administrative.* General and administrative expense decreased \$1.1 million to \$4.8 million for the year ended December 31, 2015. The decrease was primarily due to decreases in legal expense of \$0.5 million and \$0.3 million related to our Chase Park Plaza Hotel litigation and fund level strategic matters, respectively. In February 2013, Chase Park Plaza Hotel, as plaintiff, filed suit against James L. Smith, Francine V. Smith, Marcia Smith Niedringhaus, Kingsdell L.P., IFC, Inc. and CWE Hospitality Services, LLC (“CWE”) (collectively, the “Smith Defendants”) to take over control of the Hotel and filed suit against the former manager for damages associated with his theft and mismanagement. The litigation was settled in August 2014, resulting in Chase Park Plaza Hotel obtaining Smith Defendants’ 5% ownership interest in the Hotel.

*Depreciation and amortization.* Depreciation and amortization were approximately \$13.3 million and \$12.7 million for the years ended December 31, 2015 and 2014, respectively. The \$0.6 million increase was primarily due to accelerated depreciation and amortization of Northborough Tower tenant improvements and lease intangibles recorded during the year ended December 31, 2015. The sole tenant of Northborough Tower vacated the office building in the third quarter of 2015.

*Other income, net.* We had other income of less than \$0.1 million during the year ended December 31, 2015. Other income was \$0.8 million for the year ended December 31, 2014. In May 2014, a lot option agreement at Royal Island expired. We recognized \$0.8 million in other income related to the expiration of the lot option.

*Loss on early extinguishment of debt.* On August 11, 2014, we refinanced our debt secured by Chase Park Plaza Hotel and Chase — The Private Residences (the “Chase Park Plaza Hotel” debt) with a new lender for \$62.5 million in proceeds. A portion of the proceeds from the new loan were used to repay the old debt, which had a balance of approximately \$46.5 million, and closing costs. We recognized approximately \$0.2 million loss on early extinguishment of debt in our consolidated statements of operations and comprehensive loss for the year ended December 31, 2014 related to unamortized deferred borrowing costs on the old debt. We had no losses on early extinguishment of debt during the year ended December 31, 2015.

*Equity in earnings of unconsolidated joint venture.* Equity in earnings of unconsolidated joint venture was earnings of \$1 million and earnings of \$0.2 million for the years ended December 31, 2015 and 2014, respectively. During 2015, three of the Central Europe Joint Venture properties were sold and we recorded our portion of the gains on sale which totaled \$3 million. This increase was partially offset by impairment charges of \$2.6 million recorded during 2015 to bring certain assets to their fair value. The Company’s portion of the impairment was \$1.2 million, which was recorded in the statement of operations through the equity in earnings (losses) of unconsolidated joint venture line item. In addition, operating income decreased \$2.1 million year-over-year. Our portion of the decrease in operating income was \$1 million. During 2014, one of the Central Europe Joint Venture properties was sold, and we recorded our portion of the gain on sale which totaled \$0.2 million. There were no impairment charges recorded for the year ended December 31, 2014.

*Gain on sale of real estate.* We had no sales of real estate during the year ended December 31, 2015. On June 13, 2014, we sold 1.62 acres of land at our Frisco Square development to an unrelated third party for approximately \$1.8 million. We recorded a \$0.5 million gain on sale of real estate.

***Fiscal year ended December 31, 2014 as compared to the fiscal year ended December 31, 2013***

As of December 31, 2014 and 2013, we were invested in nine assets, seven of which were consolidated in our continuing operations.

The following table provides summary information about our results of operations for the years ended December 31, 2014 and 2013 (\$ in thousands):

	<b>2014</b>	<b>2013</b>	<b>\$ Amount Change Incr (Decr)</b>	<b>Percentage Change Incr/(Decr)</b>
<b>Revenues</b>				
Rental revenue	\$ 20,246	\$ 21,009	\$ (763)	(3.6)%
Hotel revenue	35,241	30,655	4,586	15.0 %
Condominium sales	—	3,404	(3,404)	(100.0)%
Total revenues	55,487	55,068	419	0.8 %
<b>Expenses</b>				
Property operating expenses	8,202	11,127	(2,925)	(26.3)%
Hotel operating expenses	26,253	23,091	3,162	13.7 %
Bad debt expense (recovery)	(137)	1,754	(1,891)	(107.8)%
Cost of condominium sales	—	3,412	(3,412)	(100.0)%
Condominium inventory impairment	—	264	(264)	(100.0)%
Interest expense	10,005	9,780	225	2.3 %
Real estate taxes	4,075	4,100	(25)	(0.6)%
Impairment charge	9,371	363	9,008	2,481.5 %
Property management fees	1,842	1,745	97	5.6 %
Asset management fees	2,263	2,290	(27)	(1.2)%
General and administrative	5,964	5,657	307	5.4 %
Depreciation and amortization	12,701	13,037	(336)	(2.6)%
Total expenses	\$ 80,539	\$ 76,620	\$ 3,919	5.1 %
Other income (loss), net	\$ 759	\$ (24)	\$ 783	3,262.5 %
Loss on early extinguishment of debt	\$ (246)	\$ —	\$ (246)	(100.0)%
Equity in earnings (losses) of unconsolidated joint ventures	\$ 170	\$ (1,694)	\$ 1,864	110.0 %
Reorganization items, net	\$ —	\$ (171)	\$ 171	100.0 %
Gain on sale of real estate	\$ 476	\$ 86	\$ 390	453.5 %

***Continuing Operations***

**Revenues.** Our total revenues increased by \$0.4 million to \$55.5 million for the year ended December 31, 2014 as compared to \$55.1 million for the year ended December 31, 2013. The change in revenues included the following:

- Rental revenue decreased \$0.8 million to \$20.2 million for the year ended December 31, 2014 as compared to \$21 million for 2013. In the first quarter of 2013, Chase Park Plaza Hotel was accounted for as a lease and recorded \$1 million in rental revenue. As of February 19, 2013, we began consolidating the hotel operations. As a result, the lease payment was eliminated and we began reporting Chase Park Plaza Hotel's operations in hotel revenues and hotel operating expenses (see below). In addition, rental revenue decreased \$0.3 million at Las Colinas Commons due to a decrease in tenant reimbursable income. These decreases in rental revenue were partially offset by an increase of \$0.4 million at Frisco Square due to higher recovery income and \$0.1 million of income we recorded in 2014 for mineral rights we retained on the Bowen Road land which we sold in 2013.

- Hotel revenue increased \$4.6 million to \$35.2 million for the year ended December 31, 2014. The consolidation of the operations of Chase Park Plaza Hotel effective February 19, 2013 and an increase of 10% in occupancy at the Chase Park Plaza Hotel year-over-year, resulted in an approximate \$5.1 million increase in hotel revenue. This increase was partially offset by a decrease in hotel revenue for Royal Island of \$0.4 million due to the suspension of the rental program as we explore the disposition of this property and a decrease of \$0.1 million in hotel revenue at The Lodge & Spa at Cordillera.
- Income from condominium sales was zero for the year ended December 31, 2014 compared to \$3.4 million for 2013. No condominium units were sold at Chase — The Private Residences during the year ended December 31, 2014 as compared to three units sold during the year ended December 31, 2013.

*Property Operating Expenses.* Property operating expenses were approximately \$8.2 million for the year ended December 31, 2014 as compared to \$11.1 million for the year ended December 31, 2013, a decrease of approximately \$2.9 million, and were comprised of operating expenses from our consolidated properties. Property operating expenses at Frisco Square decreased \$1.6 million during the year ended December 31, 2014 as compared to the year ended December 31, 2013. During the year ended December 31, 2013, we incurred a one-time expense of \$0.9 million in accordance with the development agreement. Additionally, the Frisco Square Property Owner's Association (the "POA") dues at Frisco Square decreased \$0.2 million for the year ended December 31, 2014 compared to the same period in 2013. Royal Island operating expenses decreased \$1 million as a result of lower operating expenditures as we explore the disposition of this property. Operating expenses at Las Colinas Commons, Northpoint and Northborough Tower combined accounted for a decrease in property operating expenses of approximately \$0.4 million.

*Hotel Operating Expenses.* Hotel operating expenses were approximately \$26.3 million for the year ended December 31, 2014 compared to \$23.1 million for the year ended December 31, 2013, for an increase of \$3.2 million. The consolidation of the operations of Chase Park Plaza Hotel effective February 19, 2013 and a 10% increase in occupancy year-over-year contributed a \$3.5 million increase in hotel operating expenses. This increase was partially offset by a \$0.3 million decrease in expense at Royal Island due to the suspension of the rental program as we explore the disposition of this investment.

*Bad debt expense (recovery).* Bad debt expense (recovery) for the year ended December 31, 2014 was a recovery of \$0.1 million compared to a charge of \$1.8 million for the year ended December 31, 2013 for a decrease of approximately \$1.9 million. Chase Park Plaza Hotel's bad debt expense decreased \$1.6 primarily due to a provision recorded in 2013 related to the termination of the hotel operating lease between Kingsdell, L.P. and Chase Park Plaza Hotel. Bad debt expense for Frisco Square decreased \$0.3 million due to a recovery of funds in 2014 that were recognized as bad debt expense in 2013.

*Cost of Condominium Sales.* Cost of condominium sales relating to the sale of condominium units at Chase — The Private Residences was zero for the year ended December 31, 2014 compared to \$3.4 million for the year ended December 31, 2013. During the year ended December 31, 2013, we sold three condominium units. We did not sell any units during the year ended December 31, 2014.

*Condominium inventory impairment.* During the year ended December 31, 2013, we recognized non-cash charges of \$0.3 million to reduce the carrying value of condominiums at Chase—The Private Residences to current market prices and an additional \$0.2 million of impairment was recorded on a related intangible asset. We did not record any condominium inventory impairment charges during the year ended December 31, 2014. We currently have one condominium unit in inventory at Chase—The Private Residences.

*Interest expense.* Interest expense was approximately \$10 million and \$9.8 million for the years ended December 31, 2014 and 2013, respectively. The increase in interest expense was primarily due to amortization of \$0.6 million of deferred borrowing costs during the year ended December 31, 2014, partially offset by a \$0.2 million decrease in interest expense on our Chase Park Plaza Hotel debt due to a decrease in the interest rate on our new debt when we refinanced the loan in August 2014.

*Real estate taxes.* Real estate taxes were approximately \$4.1 million for the years ended December 31, 2014 and 2013. During the year ended December 31, 2014, real estate tax expense at The Lodge & Spa at Cordillera decreased \$0.2 million compared to the same period of 2013 due to a successful tax appeal in 2014. This is offset by an increase of \$0.1 million in real estate tax expense at Frisco Square due to building improvements and an increase of less than \$0.1 million at Northborough Tower due to a higher valuation by the taxing authorities. Real estate tax expense for the remaining of our properties were comparable year-over-year.

*Impairment charge.* During the year ended December 31, 2014, we recorded a non-cash impairment charge of \$9.4 million related to our Northborough office building based upon a shortened hold period and as a result of market conditions in the Greenspoint submarket of Houston, Texas, a significant energy hub, where Northborough Tower is located. The energy sector has experienced a significant decline in oil prices which could have an adverse impact on the results at this office building. During the year ended December 31, 2013, we recorded a non-cash impairment charge of \$0.1 million in continuing operations related to 4950 S. Bowen Road land based upon the sale price. The sale was completed on October 22, 2013. During 2013, we also recognized non-cash charges of \$0.3 million to reduce the carrying value of condominiums at Chase—

The Private Residences to current market prices (see Condominium Inventory Impairment above) and an additional \$0.2 million of impairment was recorded on a related intangible asset.

*Property management fees.* Property management fees for the year ended December 31, 2014 were approximately \$1.8 million compared to approximately \$1.7 million for the year ended December 31, 2013. Property management fees, which are based upon revenue collections, increased \$0.1 million at Chase Park Plaza Hotel due to increased revenues at the hotel. Property management fees for our other properties were comparable year-over-year.

*Asset management fees.* Asset management fees were \$2.3 million for the years ended December 31, 2014 and 2013.

*General and administrative.* General and administrative expense increased \$0.3 million to \$6 million for the year ended December 31, 2014. Corporate overhead allocation increased \$0.4 million during the year ended December 31, 2014 compared to the year ended December 31, 2013. In addition, we had a year-over-year increase of \$0.2 million in board and board committee fees due to an increase in the number of board and board committee meetings and a substantial change in retainers. These increases were partially offset by a year-over-year decrease of \$0.4 million in legal expense related to our Chase Park Plaza Hotel litigation and Frisco Square restructuring.

*Depreciation and amortization.* Depreciation and amortization were \$12.7 million and \$13 million for the years ended December 31, 2014 and 2013, respectively.

*Other income (loss), net.* Other income (loss) was \$0.8 million for the year ended December 31, 2014 compared to a charge of less than \$0.1 million for the year ended December 31, 2013. In May 2014, a lot option agreement at Royal Island expired. We recognized \$0.8 million in other income related to the expiration of the lot option.

*Loss on early extinguishment of debt.* On August 11, 2014, we refinanced the Chase Park Plaza Hotel debt with a new lender for \$62.5 million in proceeds. A portion of the proceeds from the new loan were used to repay the old debt, which had a balance of approximately \$46.5 million, and closing costs. We recognized approximately \$0.2 million loss on early extinguishment of debt in our consolidated statements of operations and comprehensive loss for the year ended December 31, 2014 related to unamortized deferred borrowing costs on the old debt. We had no losses on early extinguishment of debt during the year ended December 31, 2013.

*Equity in earnings (losses) of unconsolidated joint ventures.* Equity in earnings (losses) of unconsolidated joint ventures was earnings of \$0.2 million for the year ended December 31, 2014 compared to a loss of \$1.7 million for the year ended December 31, 2013. On August 7, 2014 one of our Central Europe Joint Venture properties was sold and we recorded our portion of the gain on sale which totaled \$0.2 million. During the year ended December 31, 2013, our Central Europe Joint Venture recorded a \$5.9 million non-cash impairment to reduce the value of three properties to their estimated fair value. The Company's portion of the impairment was approximately \$2.8 million, which was recorded in the statement of operations through the equity in earnings (losses) of unconsolidated joint ventures line item.

*Reorganization items, net.* During the year ended December 31, 2013, we recorded reorganization expense of \$0.2 million related to the Frisco Square loan restructuring. We did not incur any reorganization expense during the year ended December 31, 2014.

*Gain on sale of real estate.* On June 13, 2014, we sold 1.62 acres of land at our Frisco Square development to an unrelated third party for approximately \$1.8 million. We recorded a \$0.5 million gain on sale of real estate. On May 28, 2013, we sold Rio Salado to an unrelated third party for \$9.3 million and recorded a \$0.1 million gain on sale of real estate. The gain on sale of real estate for both of these sales was included in continuing operations.

## **Cash Flow Analysis**

### ***Fiscal year ended December 31, 2015 as compared to the fiscal year ended December 31, 2014***

During the year ended December 31, 2015, net cash provided by operating activities was \$2.5 million as compared to net cash used in operating activities of \$1.8 million for the year ended December 31, 2014. The primary reason for the increase in cash flow from operating activities was the change in working capital, including the timing of receipts on accounts receivable and payments of accrued liabilities.

Net cash used in investing activities for the year ended December 31, 2015 was \$34.6 million as compared to net cash used of \$14.4 million for the year ended December 31, 2014. The difference is primarily a result of an increase in capital expenditures. We had capital expenditures totaling \$34.4 million during the year ended December 31, 2015 compared to \$13.3 million in 2014. The increase was primarily due to our 275-unit multifamily development located in Frisco Square on which we commenced construction in September 2014.

Net cash provided by financing activities for the years ended December 31, 2015 and 2014 was \$17.8 million and \$14.4 million, respectively. During the year ended December 31, 2015, the joint venture drew approximately \$18.7 million under the

Ablon Frisco Square Venture construction loan. During the year ended December 31, 2014, we received proceeds of \$62.5 million on the refinance of the Chase Park Plaza Hotel debt with a new lender on August 11, 2014, partially offset by the repayment of the old Chase Park Plaza Hotel debt, which had a balance of approximately \$46.5 million.

***Fiscal year ended December 31, 2014 as compared to the fiscal year ended December 31, 2013***

During the year ended December 31, 2014, net cash used in operating activities was \$1.8 million as compared to net cash used in operating activities of \$3.8 million for the year ended December 31, 2013. The primary reason for the increase in cash flow from operating activities was the improved operations at our Chase Park Plaza Hotel.

Net cash used in investing activities for the year ended December 31, 2014 was \$14.4 million as compared to net cash provided by investing activities of \$27.7 million for the year ended December 31, 2013. The difference of \$42.1 million is primarily a result of sales proceeds of \$30.6 million from the sale of Becket House, Rio Salado and 4950 S. Bowen Road land in 2013. We received sales proceeds of \$1.7 million on June 13, 2014 for the sale of 1.62 acres at our Frisco Square property. In addition, we purchased property and equipment totaling \$13.3 million during the year ended December 31, 2014 compared to \$3.9 million in 2013. The \$9.4 million increase in fixed asset additions was primarily due to tenant improvements and building renovations at our Northborough Tower, Frisco Square, Chase Park Plaza Hotel and Las Colinas Commons properties during 2014. In addition, we commenced construction on a 275-unit multifamily development located in Frisco Square on September 2, 2014.

Net cash provided by financing activities for the year ended December 31, 2014 was \$14.4 million compared to net cash used in financing activities of \$21.9 million for the comparable period of 2013. The \$36.3 million difference is primarily the result of proceeds of \$62.5 million received on the refinance of the Chase Park Plaza Hotel debt with a new lender on August 11, 2014, partially offset by the repayment of the old Chase Park Plaza Hotel debt, which had a balance of approximately \$46.5 million. In addition, we paid off the debt totaling \$19.8 million for the Becket House property which we sold in the second quarter of 2013.

**Funds from Operations**

Funds from operations (“FFO”) is a non-GAAP financial measure that is widely recognized as a measure of REIT operating performance. We use FFO as defined by the National Association of Real Estate Investment Trusts (“NAREIT”) in the April 2002 “White Paper of Funds From Operations” which is net income (loss), computed in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property and impairments of depreciable real estate (including impairments of investments in unconsolidated joint ventures and partnerships which resulted from measurable decreases in the fair value of the depreciable real estate held by the joint venture or partnership), plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships, joint ventures, subsidiaries, and noncontrolling interests as one measure to evaluate our operating performance.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance.

We believe that FFO is helpful to investors and our management as a measure of operating performance because it excludes depreciation and amortization, gains and losses from property dispositions, impairments of depreciable assets, and extraordinary items, and as a result, when compared year to year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which is not immediately apparent from net income.

FFO should not be considered as an alternative to net loss, as an indication of our liquidity, nor as an indication of funds available to fund our cash needs, including our ability to make distributions and should be reviewed in connection with other GAAP measurements. Additionally, the exclusion of impairments limits the usefulness of FFO as a historical operating performance measure since an impairment charge indicates that operating performance has been permanently affected. FFO is not a useful measure in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining FFO. Our FFO, as presented, may not be comparable to amounts calculated by other REITs that do not define these terms in accordance with the current NAREIT definition or that interpret the definition differently.

Our calculation of FFO for the years ended December 31, 2015, 2014 and 2013 is presented below (\$ and shares in thousands, except per share amounts):

	2015		2014		2013	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net loss attributable to common stockholders	\$ (25,188)	\$ (0.45)	\$ (23,530)	\$ (0.42)	\$ (20,256)	\$ (0.36)
Adjustments for <sup>(1)</sup> :						
Impairment charge <sup>(2)</sup>	13,539	0.24	9,371	0.17	3,625	0.06
Real estate depreciation and amortization <sup>(3)</sup>	14,855	0.26	14,617	0.26	15,049	0.27
Gain on sale of real estate <sup>(4)</sup>	(1,548)	(0.02)	(684)	(0.01)	(86)	—
NAREIT Defined Funds from Operations (FFO) attributable to common stockholders	\$ 1,658	\$ 0.03	\$ (226)	\$ —	\$ (1,668)	\$ (0.03)
GAAP weighted average shares:						
Basic and diluted	56,500		56,500		56,500	

(1) Reflects the adjustments for continuing operations, as well as discontinued operations for the year ended December 31, 2013.

(2) Includes impairment of our investments which resulted from a measurable decrease in the fair value of the depreciable real estate held by the joint venture or partnership. In the third quarter of 2015, we recorded non-cash impairment charges of \$6.8 million for our Frisco Square land, \$2.1 million for Northborough Tower, and \$2.7 million for Northpoint Central. In addition, impairment charge for the year ended December 31, 2015 includes a \$1.2 million impairment charge for our unconsolidated Central Europe Joint Venture which was recorded in the statement of operations through the equity in earnings (losses) of unconsolidated joint venture line item. We recorded approximately \$0.7 million non-cash impairment charges for our one remaining condominium unit at Chase — The Private Residences during the year ended December 31, 2015.

(3) Includes our consolidated depreciation and amortization expense, as well as our pro rata share of those unconsolidated investments which we account for under the equity method of accounting and the noncontrolling interest adjustment for the third-party partners' share.

(4) During the year ended December 31, 2015, we recorded \$3 million, our pro rata share, of the gain from the sale of three of our unconsolidated joint venture properties, one in February, one in July, and one in October. On June 13, 2014, we sold 1.62 acres of land at our Frisco Square development to an unrelated third party for approximately \$1.8 million. We recorded a \$0.5 million gain on sale of real estate. In addition, we recorded our pro rata share, \$0.2 million, of the gain from the sale of one of our unconsolidated joint venture properties in August 2014.

Cash flows generated from FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capital expenditures and payments of principal on debt, each of which may impact the amount of cash available for future distributions to our stockholders.

### Share Redemption Program

In February 2006, our board of directors authorized a share redemption program for stockholders who held their shares for more than one year. Under the program, our board reserved the right in its sole discretion at any time, and from time to time, to (1) waive the one-year holding period in the event of the death, disability or bankruptcy of a stockholder or other exigent circumstances, (2) reject any request for redemption, (3) change the purchase price for redemptions, or (4) terminate, suspend or amend the share redemption program.

Our board of directors has not considered requests for Ordinary Redemptions for reasons other than in the event of death, disability or need for long-term care since March 2009 when the board determined not to accept, and to suspend until further notice, Ordinary Redemptions.

In January 2011, the board completely suspended the redemption program and has not considered any redemption requests since 2010. Therefore, we did not redeem any shares of our common stock during the year ended December 31, 2015.

### Distributions

Distributions are authorized at the discretion of our board of directors based on its analysis of our forthcoming cash needs, earnings, cash flow, anticipated cash flow, capital expenditure requirements, cash on hand, general financial condition and other factors that our board deems relevant. The board's decision will be influenced, in substantial part, by its obligation to ensure that we maintain our status as a REIT. In connection with entering our disposition phase, on March 28, 2011, our board of directors discontinued regular quarterly distributions. Any future distributions will be based on available cash after weighing operational needs.

Historically, distributions paid to stockholders have been funded through various sources, including cash flow from operating activities, proceeds raised as part of our initial public offering, reinvestment through our distribution reinvestment plan and/or additional borrowings. We had no distributions in 2015 or 2014.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates, including investment impairment, on a regular basis. These estimates are based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Below is a discussion of the accounting policies that we consider to be critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

#### ***Principles of Consolidation and Basis of Presentation***

Our consolidated financial statements include our accounts and the accounts of other subsidiaries over which we have control. All inter-company transactions, balances, and profits have been eliminated in consolidation. Interests in entities acquired will be evaluated based on applicable GAAP, which includes the requirement to consolidate entities deemed to be VIEs in which we are the primary beneficiary. If the interest in the entity is determined not to be a VIE, then the entity will be evaluated for consolidation based on legal form, economic substance, and the extent to which we have control and/or substantive participating rights under the respective ownership agreement.

There are judgments and estimates involved in determining if an entity in which we have made an investment is a VIE and, if so, whether we are the primary beneficiary. The entity is evaluated to determine if it is a VIE by, among other things, calculating the percentage of equity being risked compared to the total equity of the entity. Determining expected future losses involves assumptions of various possibilities of the results of future operations of the entity, assigning a probability to each possibility and using a discount rate to determine the net present value of those future losses. A change in the judgments, assumptions, and estimates outlined above could result in consolidating an entity that should not be consolidated or accounting for an investment using the equity method that should in fact be consolidated, the effects of which could be material to our financial statements.

#### ***Real Estate***

The value of hotels and all other buildings is depreciated over the estimated useful lives of 39 years and 25 years, respectively, using the straight-line method.

We amortize the value of in-place leases, in-place tenant improvements and in-place leasing commissions to expense over the initial term of the respective leases. In no event does the amortization period for intangible assets or liabilities exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the acquired lease intangibles related to that tenant would be charged to expense. The estimated remaining average useful lives for acquired lease intangibles range from less than one year to approximately seven years.

#### ***Real Estate Held for Sale and Discontinued Operations***

We classify properties as held for sale when certain criteria are met, in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. During the fourth quarter of 2015, we entered into a purchase and sale agreement ("PSA") for Las Colinas Commons, an office building located in Texas, and classified Las Colinas Commons as real estate held for sale in our consolidated balance sheet at December 31, 2015. The sales transaction closed on February 2, 2016. We did not have any properties classified as held for sale at December 31, 2014.

Effective as of January 1, 2015, we adopted the revised guidance regarding discontinued operations as further discussed in Note 3, New Accounting Pronouncements. For sales of real estate or assets classified as held for sale after January 1, 2015, we will evaluate whether a disposal transaction meets the criteria of a strategic shift and will have a major effect on our operations and financial results to determine if the results of operations and gains on sale of real estate will be presented as part of our

continuing operations or as discontinued operations in our consolidated statements of operations. If the disposal represents a strategic shift, it will be classified as discontinued operations for all periods presented; if not, it will be presented in continuing operations.

### ***Investment Impairment***

For all of our real estate and real estate-related investments, we monitor events and changes in circumstances indicating that the carrying amounts of the real estate assets may not be recoverable. Examples of the types of events and circumstances that would cause management to assess our assets for potential impairment include, but are not limited to: a significant decrease in the market price of an asset; a significant change in the manner in which the asset is being used; an accumulation of costs in excess of the acquisition basis plus construction of the property; major vacancies and the resulting loss of revenues; natural disasters; a change in the projected holding period; legitimate purchase offers and changes in the global and local markets or economic conditions. Our assets may at times be concentrated in limited geographic locations and, to the extent that our portfolio is concentrated in limited geographic locations, downturns specifically related to such regions may result in tenants defaulting on their lease obligations at a portion of our properties within a short time period, which may result in asset impairments.

When such events or changes in circumstances are present, we assess potential impairment by comparing estimated future undiscounted operating cash flows expected to be generated over the life of the asset and from its eventual disposition to the carrying amount of the asset. These projected cash flows are prepared internally by the Advisor and reflect in-place and projected leasing activity, market revenue and expense growth rates, market capitalization rates, discount rates, and changes in economic and other relevant conditions. The Company's principal executive officer and principal financial officer review these projected cash flows to assure that the valuation is prepared using reasonable inputs and assumptions that are consistent with market data and with assumptions that would be used by a third-party market participant and assume the highest and best use of the investment. We consider trends, strategic decisions regarding future development plans, and other factors in our assessment of whether impairment conditions exist. In the event that the carrying amount exceeds the estimated future undiscounted operating cash flows, we recognize an impairment loss to adjust the carrying amount of the asset to estimated fair value. While we believe our estimates of future cash flows are reasonable, different assumptions regarding factors such as market rents, economic conditions, and occupancy rates could significantly affect these estimates.

In evaluating our investments for impairment, management may use appraisals and make estimates and assumptions, including, but not limited to, the projected date of disposition of the properties, the estimated future cash flows of the properties during our ownership, planned development and the projected sales price of each of the properties. A future change in these estimates and assumptions could result in understating or overstating the book value of our investments, which could be material to our financial statements. In addition, we may incur impairment charges on real estate assets classified as held for sale in the future if the carrying amount of the asset upon classification as held for sale exceeds the estimated fair value, less costs to sell.

We also evaluate our investment in an unconsolidated joint venture at each reporting date. If we believe there is an other than temporary decline in market value, we will record an impairment charge based on these evaluations. We assess potential impairment by comparing our portion of estimated future undiscounted operating cash flows expected to be generated by the joint venture over the life of the joint venture's assets to the carrying amount of the joint venture. In the event that the carrying amount exceeds our portion of estimated future undiscounted operating cash flows, we recognize an impairment loss to adjust the carrying amount of the joint venture to its estimated fair value.

The value of our properties held for development depends on market conditions, including estimates of the project start date, as well as estimates of future demand for the property type under development. We have analyzed trends and other information related to each potential development and incorporated this information, as well as our current outlook, into the assumptions we use in our impairment analyses. Due to the judgment and assumptions applied in the estimation process with respect to impairments, including the fact that limited market information regarding the value of comparable land exists at this time, it is possible actual results could differ substantially from those estimated.

During the year ended December 31, 2015, we recorded approximately \$12.3 million of non-cash impairment charges as a result of measurable decreases in the fair value of four of our investments. During 2015, we recorded approximately \$0.7 million non-cash impairment for our one remaining condominium unit at Chase - The Private Residences. In 2015, we recorded a non-cash impairment charge of \$6.8 million for our Frisco Square land based on an indication of a change in market conditions for land development. In estimating the fair value of the Frisco Square land, we considered market comparables as well as the time and costs to hold the land until developed. We also recorded non-cash impairment charges of \$2.1 million for Northborough Tower and \$2.7 million for our Northpoint Central office building during 2015. In estimating the fair value of both Northborough Tower and Northpoint Central, we considered offers received during the marketing process of the assets in the third quarter of 2015, market comparables and management's internal discounted cash flow analysis prepared with the consideration of the market conditions in Houston where both buildings are located.



We believe the carrying value of our operating real estate assets, our properties under development, and our investment in an unconsolidated joint venture is currently recoverable. However, if market conditions worsen beyond our current expectations, or if our assumptions regarding expected future cash flows from the use and eventual disposition of our assets decrease or our expected hold periods decrease, or if changes in our development strategy significantly affect any key assumptions used in our fair value calculations, we may need to take additional charges in future periods for impairments related to existing assets. Any such non-cash charges would have an adverse effect on our consolidated financial position and results of operations.

### **New Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-08 (“ASU 2014-08”), Presentation of Financial Statements and Property, Plant, and Equipment (Topics 205 and 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The updated guidance revised the definition of a discontinued operation by limiting discontinued operations reporting to disposals of components of an entity that represent a strategic shift, or change in the entity’s strategy, that has, or will have, a major effect on an entity’s operations and financial results. This guidance applies to a component of an entity or a group of components of an entity classified as held for sale or disposed of by sale or by means other than a sale, such as abandonment. The Company adopted ASU 2014-08 effective January 1, 2015. As a result of this adoption, the results of operations and gains on sales of real estate for disposals from January 1, 2015 forward which do not meet the criteria of a strategic shift that has or will have a major effect on our operations and financial results will be presented as continuing operations in our consolidated statements of operations. We believe future sales of our individual operating properties will no longer qualify as discontinued operations.

In May 2014, the FASB issued an update (“ASU 2014-09”) to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, as adjusted by a one-year deferral of the new revenue standard, confirmed by FASB in the July 2015 meeting. In addition, early adoption will be permitted as of the original effective date in ASU 2014-09 which was annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. Either full retrospective adoption or modified retrospective adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In August 2014, the FASB issued an update (“ASU 2014-15”), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 requires management’s assessment of a company’s ability to continue as a going concern and provide related footnote disclosures when conditions give rise to substantial doubt about a company’s ability to continue as a going concern within one year from the financial statement issuance date. ASU 2014-15 applies to all companies and is effective for annual reporting periods ending after December 15, 2016, and all annual and interim periods thereafter. We do not believe the adoption of this guidance will have a material impact on our disclosures.

In January 2015, the FASB issued an update (“ASU 2015-01”) to ASC Topic 225, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates the concept of an extraordinary item from U.S. GAAP. An entity is no longer required to (i) segregate an extraordinary item from the results of ordinary operations; (ii) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; and (iii) disclose income taxes and earnings per share data applicable to an extraordinary item. ASU 2015-01 does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in occurrence. ASU 2015-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Adoption of ASU 2015-01, effective January 1, 2016, will not have a material impact on our consolidated financial position, results of operations, or cash flows.

In February 2015, the FASB issued an update (“ASU No. 2015-02”) to ASC Topic 810, Amendments to the Consolidation Analysis. ASU 2015-02 makes several modifications to the consolidation guidance for VIEs and general partners’ investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. The amendments in ASU 2015-02 are effective for public companies in interim and annual reporting periods in fiscal years beginning after December 15, 2015. Adoption of ASU 2015-02, effective January 1, 2016, may result in additional disclosures, however, it will not impact the status of our seven consolidated investments and one unconsolidated joint venture as of December 31, 2015.

In April 2015, the FASB issued an update (“ASU 2015-03”) to ASC Topic 835, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts, instead of being presented as a deferred charge. The recognition and measurement

guidance for debt issuance costs are not affected by the amendments in this updated guidance. ASU 2015-03 is effective for public companies in interim and annual reporting periods beginning after December 15, 2015. The new guidance requires retrospective application. As of December 31, 2015, we have \$1.2 million of net deferred financing costs that would be reclassified from a long-term asset to a reduction in the carrying amount of our debt. The adoption of this guidance, effective January 1, 2016, will change the classification of deferred financing fees on our balance sheet, but it will not otherwise have an impact on our financial statements.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

##### ***Interest Rate Risk***

We may be exposed to interest rate changes, primarily as a result of long-term variable rate debt used to acquire properties and make loans and other permitted investments. Our management's objectives, with regard to interest rate risks, are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we will borrow primarily at fixed rates or variable rates with the lowest margins available and in some cases, with the ability to convert variable rates to fixed rates. With regard to variable rate financing, we will assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We may enter into derivative financial instruments such as options, forwards, interest rate swaps, caps, or floors to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate portion of our variable rate debt. Of our \$155.5 million in notes payable at December 31, 2015, excluding Las Colinas Commons which was classified as real estate held for sale, \$49.3 million represented debt subject to variable interest rates. If our variable interest rates increased 100 basis points, we estimate that total annual interest cost, including interest expensed and interest capitalized, would increase by \$0.5 million.

##### ***Foreign Currency Exchange Risk***

At December 31, 2015, we own an approximate 47% interest in a joint venture consisting of 18 properties in the Czech Republic and Poland that holds \$6.8 million in local currency-denominated accounts at European financial institutions. As the cash is held in the same currency as the real estate assets and related loans, we believe that we are not materially exposed to any significant foreign currency fluctuations related to these accounts as it relates to ongoing property operations. Additionally, we hold \$0.9 million in a Euro-denominated account in a United States financial institution. Material movements in the exchange rate of Euros could materially impact distributions from our foreign investments.

##### ***Inflation***

The real estate market has not been affected significantly by inflation in the past several years due to the relatively low inflation rate. However, we include provisions in the majority of our tenant leases that would protect us from the impact of inflation. These provisions include reimbursement billings for common area maintenance charges, real estate tax and insurance reimbursements on a per square foot basis, or in some cases, annual reimbursement of operating expenses above a certain per square foot allowance.

#### **Item 8. Financial Statements and Supplementary Data.**

The information required by this Item 8 is included in our Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

#### **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 required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act, our management, including our Principal Executive Officer and Principal Financial Officer, evaluated, as of December 31, 2015, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015, to provide reasonable assurance that information required to be disclosed by us in this report is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

*Management's Annual Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Our management, including our Principal Executive Officer and Principal Financial Officer, evaluated, as of December 31, 2015, the effectiveness of our internal control over financial reporting using the criteria established in *Internal Control—New Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our internal controls, as of December 31, 2015, were effective.

*Changes in Internal Control over Financial Reporting*

There has been no change in internal control over financial reporting that occurred during the quarter ended December 31, 2015 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.

#### Directors

Because our directors take a critical role in guiding our strategic direction and overseeing our management, they must demonstrate broad-based business, professional skills and experiences, concern for the long-term interests of our stockholders, and personal integrity and judgment. In addition, our directors must have time available to devote to board activities and to enhance their knowledge of our industry. As described further below, we believe our directors have the appropriate mix of experiences, qualifications, attributes, and skills required of our board members in the context of the current needs of our company.

**Steven J. Kaplan**, 65, has served as one of our directors since February 2006 and as Non-Executive Chairman of the Board since October 2014. He has over 40 years of experience in the commercial real estate industry. From 1994 through August 1999, Mr. Kaplan served as the President and Chief Executive Officer of Landauer Associates, Inc., a national valuation and consulting firm. In this capacity, Mr. Kaplan expanded the services of Landauer to include a national capital markets group as well as an international hospitality division. Landauer was sold to Grubb & Ellis in August 1999, and Mr. Kaplan served as Chief Operating Officer of this international brokerage and property management firm. Since leaving Grubb & Ellis in March 2000, Mr. Kaplan has provided advisory services for various real estate service providers, owners and investors and has engaged in the practice of law with a focus on commercial real estate transactions. Mr. Kaplan served as a director of TIER REIT, Inc. from May 2003 until April 2004. Mr. Kaplan is an attorney and is admitted to practice law in Texas.

Our board of directors has concluded that Mr. Kaplan is qualified to serve as one of our directors for reasons including his significant experience relating to real estate investments and his prior experience serving as a director of TIER REIT, Inc. Mr. Kaplan is a 40-year commercial real estate industry veteran, and has substantial experience as an attorney and general counsel which brings a unique perspective to our board. In addition, as a former director of TIER REIT, Inc., Mr. Kaplan has an understanding of the requirements of serving on a public company board. Mr. Kaplan continues to represent commercial real estate investors and developers and, as such, remains in tune with industry trends and issues.

**Barbara C. Bufkin**, 60, has served as one of our directors since March 2005. Ms. Bufkin has more than 30 years' experience in the insurance industry. Ms. Bufkin has served as Executive Vice President of Hamilton USA, a member of the Hamilton Insurance Group, since September 2014. Ms. Bufkin served as Chief Operating Officer of Global Strategic Advisory at Guy Carpenter & Company, LLC from August 2013 to September 2014. She served as Executive Vice President, Business Development of Argo Group International Holdings, Ltd. ("Argo Group") from March 2011 through June 2013. Prior to that, Ms. Bufkin served as Senior Vice President, Business Development of Argo Group from August 2007 to March 2011. Prior to that, from August 2004 until August 2007, Ms. Bufkin was Senior Vice President, Corporate Business Development of Argonaut Group, Inc. ("Argonaut"). From September 2002 until August 2004, Ms. Bufkin was Vice President of Corporate Business Development of Argonaut. Ms. Bufkin graduated cum laude from the State University of New York at Buffalo, with a Bachelors of Arts degree in Philosophy. She is an alumna of the Leadership Texas, Stanford Executive Education, and Wharton Executive Education programs. She was a Director of the Southwestern Insurance Information Service for eight years. In 2000, she was nominated to the Texas Women's Hall of Fame and was selected to the 2004 Class of Leadership America. Ms. Bufkin was chosen as APIW (Association of Professional Insurance Woman) 2012 Insurance Woman of the Year.

Our board of directors has concluded that Ms. Bufkin is qualified to serve as one of our directors for reasons including her significant corporate business development experience as an insurance industry executive. Ms. Bufkin's background compliments that of our other board members and brings a unique perspective to our board. She provides valuable knowledge and insight into business development and management issues.

**Michael D. Cohen**, 41, has served as one of our directors since October 2014 and as our interim President from February 2015 through March 2015. Mr. Cohen serves as a Manager and President of Behringer. Since February 2013, Mr. Cohen has served as a director of Behringer Harvard Opportunity REIT II, Inc. Mr. Cohen also serves as a director of Monogram Residential Trust, Inc., a New York Stock Exchange-listed REIT (MORE-NYSE), and as President of Vertical Capital Income Fund, (VCAPX) a closed-end interval mutual fund. Mr. Cohen also works closely with Behringer Securities to develop institutional investments and manage relationships with the Company's institutional investors. Mr. Cohen joined Behringer in 2005 from Crow Holdings, the investment office of the Trammell Crow family, where he concentrated on the acquisition and management of the firm's office, retail, and hospitality assets. Mr. Cohen began his career in 1997 at Harvard Property Trust and Behringer Partners, predecessor companies to Behringer. He received a Bachelor of Business Administration degree from the University of the Pacific in Stockton, California, and a Master of Business Administration degree from Texas Christian University in Fort Worth, Texas. He is a member of the Association of Foreign Investors in Real Estate.

Our board of directors has concluded that Mr. Cohen is qualified to serve as one of our directors for reasons including his significant experience in commercial real estate, which allows him to provide valuable investment advice.

**Terry L. Gage**, 58, has served as one of our directors since September 2007. Mr. Gage has more than 20 years of senior management experience in corporate financial management, accounting and administration within the software, engineering, government contracting and professional services industries. Since August 2014, Mr. Gage has served as Senior Vice President-Finance of Glazer's, Inc., a diversified beverage alcohol distributor. Prior to that, from January 2013, Mr. Gage served as Vice President - Finance of Glazer's, Inc. From May 2010 to December 2012, Mr. Gage was a business and financial consultant. From June 2008 to May 2010, Mr. Gage served as Chief Financial Officer and Vice President-Finance of Wilson & Associates, LLC, an interior architectural design firm. From September 2007 to June 2008, Mr. Gage served as Chief Administrative Officer of Wilson & Associates, LLC. From 2003 to September 2007, Mr. Gage was a business and financial consultant. From 1995 to 2003, Mr. Gage served as Executive Vice President and Chief Financial Officer, as well as Treasurer and Assistant Secretary, of Carreker Corporation, formerly a publicly traded consulting and software solutions company for the banking industry. He holds a Bachelor of Business Administration degree from Eastern Michigan University and was a Certified Public Accountant from 1982 to 1989.

Our board of directors has concluded that Mr. Gage is qualified to serve as one of our directors and chairman of our audit committee for reasons including his having served as Chief Financial Officer for both public and private companies, including a publicly traded consulting and software solutions company. Mr. Gage has significant management experience relating to preparing and reviewing financial statements and coordinating with external auditors.

### **Executive Officers**

In addition, the following individuals serve as our executive officers:

**Thomas P. Kennedy**, 59, has served as the Company's President since April 2015. Mr. Kennedy also serves as President of Behringer Harvard Opportunity REIT II, Inc. Mr. Kennedy also serves as President of our Advisor and in similar positions for other Behringer-advised programs. Prior to joining the Company, Mr. Kennedy served as Chief Financial Officer and Chief Operating Officer of UrbanAmerica Advisors, LLC, a registered investment advisor that focuses on renewing and redeveloping neglected metropolitan districts across the United States ("UAA"), since March 2008. From March 2006 through March 2008, Mr. Kennedy served as a Manager of an investment fund managed by TriLyn Investment Management, LLC, a privately held investment management firm. From January 2004 through February 2006, Mr. Kennedy served as a Managing Director of The Greenwich Group International, LLC, a real estate investment banking company. Mr. Kennedy began his career in 1982 at Equitable Real Estate Management, Inc. (a predecessor of Lend Lease Real Estate Advisors—US) as an accountant and rose to become Principal Managing Director and a member the management committee of Lend Lease Real Estate Advisors—US, a position he held through February 2003. Mr. Kennedy holds a Bachelor of Science degree in Accounting from Manhattan College.

**Lisa Ross**, 53, was elected our Chief Financial Officer in October 2014. Ms. Ross continues to serve as Senior Vice President and Treasurer of the Company, positions that she has held since October 2013 and January 2012, respectively. Ms. Ross has been the Company's principal accounting officer since January 2012. As Chief Financial Officer, Ms. Ross is the Company's principal financial officer. From January 2011 through January 2012, Ms. Ross served as the Senior Controller and Director of Financial Reporting for the Company. She also serves in similar positions for other Behringer-advised programs. Prior to joining Behringer, from 2006 to 2010, Ms. Ross served as the Controller for a private real estate development project and managed the accounting and reporting for a private family wealth office with investments in real estate, oil and gas and other financial investments. From 1996 to 2005, Ms. Ross was Partnership Controller for The Hampstead Group, a privately held real estate investment company, where she oversaw the financial reporting and investor valuation for four funds with investments of approximately \$1 billion. From 1989 to 1995, Ms. Ross served in multiple capacities for McNeil Real Estate Management, including Partnership Controller where she oversaw the financial and tax reporting for three non-traded public real estate investment funds and one privately held real estate investment fund with investments of approximately \$250 million. Ms. Ross holds a Master of Management and Administrative Sciences degree from the University of Texas at Dallas and a Bachelor of Business Administration degree from Baylor University.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires each director, officer, and individual beneficially owning more than 10% of a registered security of the Company to file with the SEC, within specified time frames, initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) of common stock of the Company. These specified time frames require the reporting of changes in ownership within two business days of the transaction giving rise to the reporting obligation. Reporting persons are required to furnish us with copies of all Section 16(a) forms filed with the SEC. Based solely on a review of the copies of such forms furnished to the Company during and with respect to the fiscal year ended December 31, 2015 or written representations that no additional forms were required, to the best of our knowledge, all required Section 16(a) filings were timely and correctly made by reporting persons during 2015.

**Code of Ethics**

Our board of directors has adopted a Code of Business Conduct Policy that is applicable to all members of our board of directors, our executive officers and employees of our Advisor and its affiliates. We have posted the policy on the website maintained for us at [www.behringerinvestments.com](http://www.behringerinvestments.com). If, in the future, we amend, modify or waive a provision in the Code of Business Conduct Policy, we may, rather than filing a Current Report on Form 8-K, satisfy the disclosure requirement by promptly posting such information on the website maintained for us as necessary.

**Audit Committee Financial Expert**

The Audit Committee consists of independent directors Terry L. Gage, the chairman, Barbara C. Bufkin and Steven J. Kaplan. Our board of directors has determined that Mr. Gage is an “audit committee financial expert,” as defined by the rules of the SEC. The biography of Mr. Gage, including his relevant qualifications, is previously described in this Item 10. Our shares are not listed for trading on any national securities exchange and therefore our audit committee members are not subject to the independence requirements of the New York Stock Exchange (“NYSE”) or any other national securities exchange. However, each member of our audit committee is “independent” as defined by the NYSE.

## Item 11. Executive Compensation.

### Compensation Discussion and Analysis

We do not directly compensate our named executive officers, nor do we reimburse our Advisor for compensation paid to our named executive officers for services rendered to us. Our executive officers also are officers of us, our Advisor, and its affiliates, and are compensated by an affiliate of Behringer for their services to us, as well as for their services to other Behringer entities. Pursuant to the Third Amended and Restated Advisory Management Agreement, as amended, we pay certain management fees to our Advisor and its affiliates to compensate the Advisor for the services it provides in our day-to-day management. In addition, we reimburse certain expenses of the Advisor and its affiliates, including reimbursement for the costs of salaries and benefits of certain of their employees. Reimbursement for the costs of salaries and benefits of our Advisor's employees relate to compensation paid to our Advisor's employees that provide services to us such as accounting, administrative or legal, for which our Advisor or its affiliates are not entitled to compensation in the form of a separate fee. A description of the fees that we pay to our Advisor and other affiliates is found in Item 13 below. We, therefore, do not have, nor has our board of directors or compensation committee considered a compensation policy or program for our executive officers, and thus we have not included a Compensation Discussion and Analysis in this Annual Report on Form 10-K.

If we determine to compensate our named executive officers in the future, the Compensation Committee will review all forms of compensation and approve all stock option grants, warrants, stock appreciation rights and other current or deferred compensation payable with respect to the current or future value of our shares.

### Directors' Compensation

We pay each of our directors who are not an employee of the Company, the Advisor, or their affiliates an annual retainer of \$40,000. We pay our non-executive Chairman of the Board an annual retainer of \$40,000. We pay the chairman of our Special Committee an annual retainer \$30,000 and the other members of the Special Committee an annual retainer of \$10,000. In addition, we pay the chairman of the Audit Committee an annual retainer of \$15,000 and the chairwoman of our Nominating Committee an annual retainer of \$10,000. These retainers are payable quarterly in arrears. In addition, we pay each non-employee director (a) \$1,500 for each board of directors or committee meeting attended in person or by telephone and (b) \$750 for each written consent considered by the director. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors.

### Director Compensation Table

The following table sets forth certain information with respect to our director compensation during the fiscal year ended December 31, 2015:

Name	Fees Earned	Option Awards (\$) <sup>(1)</sup>	Total (\$)
Barbara C. Bufkin	\$ 97,500 (2)	\$ —	\$ 97,500
Michael D. Cohen	—	—	—
Terry L. Gage	102,500 (3)	—	102,500
Steven J. Kaplan	147,500 (4)	—	147,500
Michael J. O'Hanlon <sup>(5)</sup>	—	—	—

(1) The value of stock option awards represents the amount of compensation cost under Accounting Standards Codification ("ASC") Topic 718. We did not grant any options in 2015.

(2) Includes payment of \$24,750 in 2016 for services rendered in 2015.

(3) Includes payment of \$26,000 in 2016 for services rendered in 2015.

(4) Includes payment of \$37,250 in 2016 for services rendered in 2015.

(5) Mr. O'Hanlon resigned from the board of directors on January 5, 2015.

### Incentive Award Plan

The Incentive Award Plan was originally approved by our board of directors on November 23, 2004. An amendment and restatement of the Incentive Award Plan was approved by our board of directors on July 19, 2005 and by our stockholders on July 25, 2005. The Incentive Award Plan, as amended, is administered by our board of directors and provides for equity awards to our employees, directors and consultants and those of our affiliates. A total of 11,000,000 shares were authorized and reserved for issuance under our Incentive Award Plan; however, no incentive awards may be granted after November 22, 2014. Therefore, we did not grant any options during the year ended December 31, 2015.

## Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee served as an officer or employee of the Company or any of our subsidiaries during the fiscal year ended December 31, 2015 or formerly served as an officer of the Company or any of our subsidiaries. In addition, during the fiscal year ended December 31, 2015, none of our executive officers served as a director or member of a compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of any entity that has one or more executive officers or directors serving as a member of our board of directors or Compensation Committee.

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

### Equity Compensation Plan Information

The following table gives information regarding our equity compensation plans as of December 31, 2015:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	75,000	\$ 7.50	10,925,000 *
Equity compensation plans not approved by security holders	—	—	—
Total	75,000	\$ 7.50	10,925,000 *

\* Effective November 23, 2004, no awards may be granted under the Incentive Award Plan.

### Security Ownership of Certain Beneficial Owners

The following table sets forth information as of February 29, 2016 regarding the beneficial ownership of our common stock by each person known by us to own 5% or more of the outstanding shares of common stock, each of our directors, each of our executive officers, and our directors and executive officers as a group:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percentage of Class
Barbara C. Bufkin <sup>(2)(3)</sup>	25,000	*
Michael D. Cohen <sup>(2)</sup>	—	—
Terry L. Gage <sup>(2)(3)</sup>	25,000	*
Steven J. Kaplan <sup>(2)(3)</sup>	25,000	*
Thomas P. Kennedy <sup>(2)</sup>	—	—
Lisa Ross <sup>(2)</sup>	—	—
All directors and executive officers as a group (five persons)	75,000	*

\* Represents less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities and shares issuable pursuant to options, warrants and similar rights held by the respective person or group that may be exercised within 60 days following February 29, 2016. Except as otherwise indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.
- (2) The address of Messrs. Cohen, Gage, Kaplan, and Kennedy and Mmes. Bufkin and Ross is c/o Behringer Harvard Opportunity REIT I, Inc., 15601 Dallas Parkway, Suite 600, Addison, Texas 75001.
- (3) Includes up to 25,000 shares issuable pursuant to vested stock options.



## **Item 13. Certain Relationships and Related Transactions and Director Independence.**

### **Policies and Procedures for Transactions with Related Persons**

We do not currently have written formal policies and procedures for the review, approval or ratification of transactions with related persons, as defined by Item 404 of Regulation S-K of the Exchange Act. Under that definition, transactions with related persons are transactions in which we were or are a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest. Related parties include any executive officers, directors, director nominees, beneficial owners of more than 5% of our voting securities, immediate family members of any of the foregoing persons, and any firm, corporation or other entity in which any of the foregoing persons is employed and in which such person has 10% or greater beneficial ownership interest.

However, in order to reduce or eliminate certain potential conflicts of interest, our charter contains a number of restrictions relating to (i) transactions we enter into with our Advisor and its affiliates, (ii) certain future offerings, and (iii) allocation of investment opportunities among affiliated entities. As a general rule, any related party transactions must be approved by a majority of the directors (including a majority of independent directors) not otherwise interested in the transaction. In determining whether to approve or authorize a particular related party transaction, these persons will consider whether the transaction between us and the related party is fair and reasonable to us and has terms and conditions no less favorable to us than those available from unaffiliated third parties.

### **Transactions with Related Persons**

The Advisor and certain of its affiliates receive fees and compensation in connection with the financing, management, and sale of our assets.

Since our inception, the Advisor or its predecessors have been responsible for managing our day-to-day affairs and for, among other things, identifying and making acquisitions and other investments on our behalf. Our relationship with the Advisor, including the fees paid by us to the Advisor or the reimbursement of expenses by us for amounts paid, or incurred by the Advisor, on our behalf is governed by an advisory management agreement that has been in place since September 20, 2005 and amended at various times thereafter. We entered into the Third Amended and Restated Advisory Management Agreement (the “Advisory Agreement”) effective May 15, 2013 for a term of one-year. When the Advisory Agreement expired on May 15, 2014, we renewed it on the same terms for an additional one-year term with an expiration date of May 15, 2015. We then renewed the Advisory Agreement for additional one-month terms on both May 8, 2015 and June 15, 2015, which extended the Advisory Agreement to July 15, 2015. On July 8, 2015, we entered into the First Amendment to Third Amended and Restated Advisory Management Agreement (the “Amendment”) with the Advisor that renewed the Advisory Agreement for a ten-month term with an expiration date of May 15, 2016. The Amendment amended the Advisory Agreement to (i) limit certain cost reimbursements to the Advisor for administrative services, to be effective January 1, 2015, and (ii) document a waiver of \$200,000 of acquisition fees related to the construction of The Ablon at Frisco Square multifamily development. In all other material respects, the terms of the Advisory Agreement remain unchanged.

The Advisor receives an asset management fee of 0.575% of the aggregate asset value of acquired real estate and real estate-related assets other than Alexan Black Mountain and Royal Island. The fee is payable monthly in arrears in an amount equal to one-twelfth of 0.575% of the aggregate asset value as of the last day of the month. We incurred \$2.3 million in asset management fees for each of the years ended December 31, 2015 and 2014.

The Advisor, or its affiliates, receive acquisition and advisory fees of 2.5% of the contract purchase price of each asset for the acquisition, development or construction of real property or 2.5% of the funds advanced in respect of a loan investment. For the years ended December 31, 2015 and 2014, we incurred acquisition and advisory fees of \$0.3 million and \$0.2 million, respectively, related to The Ablon at Frisco Square development. As noted above, during the year ended December 31, 2015, the Advisor waived \$200,000 of acquisition fees related to the construction of The Ablon at Frisco Square.

Under the Advisory Agreement, the debt financing fee paid to the Advisor for a Loan (as defined in the Advisory Agreement) will be 1% of the loan commitment amount. Amounts due to the Advisor for a Revised Loan (as defined in the agreement) will be 40 basis points of the loan commitment amount for the first year of any extension (provided the extension is for at least 120 days), an additional 30 basis points for the second year of an extension, and another 30 basis points for the third year of an extension in each case, prorated for any extension period less than a full year. The maximum debt financing fee for any extension of three or more years is 1% of the loan commitment amount. We did not incur any debt financing fees for the year ended December 31, 2015. We incurred \$0.6 million in debt financing fees for the year ended December 31, 2014 related to the Chase Park Plaza Hotel debt that we refinanced on August 11, 2014.

Subject to certain restrictions as described in the Amendment, we reimburse the Advisor or its affiliates for all expenses paid or incurred by them in connection with the services they provide to us, including direct expenses and the costs of salaries and benefits of persons employed by those entities and performing services for us, subject to the limitation that we will not reimburse for any amount by which our Advisor's operating expenses (including the asset management fee) at the end of the four fiscal quarters immediately preceding the date reimbursement is sought exceeds the greater of: (i) 2% of our average invested assets or (ii) 25% of our net income for that four quarter period other than any additions to reserves for depreciation, bad debts or other similar non-cash reserves and any gain from the sale of our assets for that period. Notwithstanding the preceding sentence, we may reimburse the Advisor for expenses in excess of this limitation if a majority of our independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. In addition, pursuant to the Amendment, our obligation to reimburse the Advisor for certain costs incurred in connection with administrative services is limited to \$1.7 million. We do not reimburse our Advisor for the salaries and benefits that our Advisor or its affiliates pay to our named executive officers. For the years ended December 31, 2015 and 2014, we incurred costs for administrative services of \$1.4 million and \$1.7 million, respectively.

We pay our property manager and affiliate of the Advisor, Behringer Harvard Opportunity Management Services, LLC or its affiliates (collectively, "BH Property Management"), fees for management, leasing, and maintenance supervision of our properties. Such fees are equal to 4.5% of gross revenues plus leasing commissions based upon the customary leasing commission applicable to the same geographic location of the respective property. We will pay BH Property Management an oversight fee equal to 0.5% of gross revenues of the property managed if we contract directly with a non-affiliated third-party property manager in respect of the property. In no event will we pay both a property management fee and an oversight fee to BH Property Management with respect to any particular property. If we own a property through a joint venture that does not pay BH Property Management directly for its services, we will pay BH Property Management a management fee or oversight fee, as applicable, based only on our economic interest in the property. We incurred property management fees or oversight fees of approximately \$0.7 million and \$0.9 million during the years ended December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, we had a payable to our Advisor and its affiliates of \$0.8 million and \$1.1 million, respectively. These balances consist of accrued fees, including asset management fees, administrative service expenses, property management fees and other miscellaneous costs payable to the Advisor and BH Property Management.

We are dependent on the Advisor and BH Property Management for certain services that are essential to us, including asset disposition decisions, property management and leasing services, and other general administrative responsibilities. If these companies are unable to provide us with the respective services, we would be required to obtain such services from other sources.

## **Independence**

Although our shares are not listed for trading on any national securities exchange and therefore our board of directors is not subject to the independence requirements of the NYSE or any other national securities exchange, our board has evaluated whether our directors are "independent" as defined by the NYSE. The NYSE standards provide that to qualify as an independent director, in addition to satisfying certain bright-line criteria, the board of directors must affirmatively determine that a director has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us).

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his family members, and Behringer Harvard Opportunity REIT I, our senior management and our independent registered public accounting firm, the board has determined that the majority of the members of our board, and each member of our audit committee, compensation committee and nominating committee, is "independent" as defined by the NYSE.

## Item 14. Principal Accounting Fees and Services.

### Independent Registered Public Accounting Firm

Deloitte & Touche LLP has served as our independent registered public accounting firm since September 2, 2005. Our management believes that it is knowledgeable about our operations and accounting practices and well qualified to act as our independent registered public accounting firm.

### Audit and Non-Audit Fees

The following table presents fees for professional services rendered by our independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, “Deloitte & Touche”) for the years ended December 31, 2015 and 2014 (in thousands):

Service	2015	2014
Audit Fees <sup>(1)</sup>	\$ 661	\$ 586
Audit-Related Fees	—	—
Tax Fees <sup>(2)</sup>	6	10
All Other Fees	—	—
Total Fees	\$ 667	\$ 596

(1) Audit fees consist principally of fees for the audit of our annual consolidated financial statements and review of our consolidated financial statements included in our quarterly reports on Form 10-Q.

(2) Tax fees consist principally of assistance with matters related to tax compliance, tax planning and tax advice.

Our Audit Committee considers the provision of these services to be compatible with maintaining the independence of Deloitte & Touche LLP.

### Audit Committee’s Pre-Approval Policies and Procedures

Our Audit Committee must approve any fee for services to be performed by our independent registered public accounting firm in advance of the service being performed. For proposed projects that are expected to cost under \$100,000, using the services of Deloitte & Touche, our independent registered public accounting firm, our Audit Committee will be provided information to review and must approve each project prior to commencement of any work. For proposed projects using the services of the Company’s independent registered public accounting firm that are expected to cost \$100,000 and over, our Audit Committee will be provided with a detailed explanation of what is being included, and asked to approve a maximum amount for specifically identified services in each of the following categories: (a) audit fees; (b) audit-related fees; (c) tax fees; and (d) all other fees for any services allowed to be performed by the independent registered public accounting firm. If additional amounts are needed, our Audit Committee must approve the increased amounts prior to the previously approved maximum being reached and before the work may continue. Approval by our Audit Committee may be made at its regularly scheduled meetings or as permitted by our Bylaws, including by telephonic or other electronic communications. We will report the status of the various types of approved services and fees, and cumulative amounts paid and owed, to our Audit Committee on a regular basis.

Our Audit Committee approved all of the services provided by, and fees paid to, Deloitte & Touche during the years ended December 31, 2015 and 2014.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a) *List of Documents Filed.*

1. *Financial Statements*

The list of the financial statements filed as part of this Annual Report on Form 10-K is set forth on page F-1 herein.

2. *Financial Statement Schedules*

Schedule II—Valuation and Qualifying Accounts and Reserves

Schedule III—Real Estate and Accumulated Depreciation

3. *Exhibits*

The list of exhibits filed as part of this Annual Report on Form 10-K is submitted in the Exhibit Index following the financial statements in response to Item 601 of Regulation S-K.

(b) *Exhibits.*

The exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index attached hereto.

(c) *Financial Statement Schedules.*

All financial statement schedules, except for Schedules II and III (see (a) 2. above), have been omitted because the required information of such schedules is not present in amounts sufficient to require a schedule or is included in the financial statements.

## 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.

### **Behringer Harvard Opportunity REIT I, Inc.**

March 18, 2016

By: /s/ THOMAS P. KENNEDY

Thomas P. Kennedy  
*President*  
*Principal Executive Officer*

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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.

March 18, 2016

/s/ THOMAS P. KENNEDY

Thomas P. Kennedy  
*President*  
*Principal Executive Officer*

March 18, 2016

/s/ STEVEN J. KAPLAN

Steven J. Kaplan  
*Non-Executive Chairman of the Board of Directors*

March 18, 2016

/s/ MICHAEL D. COHEN

Michael D. Cohen  
*Director*

March 18, 2016

/s/ LISA ROSS

Lisa Ross  
*Chief Financial Officer*  
*Principal Financial Officer*  
*and Principal Accounting Officer*

March 18, 2016

/s/ BARBARA C. BUFKIN

Barbara C. Bufkin  
*Director*

March 18, 2016

/s/ TERRY L. GAGE

Terry L. Gage  
*Director*



## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Behringer Harvard Opportunity REIT I, Inc.  
Addison, Texas

We have audited the accompanying consolidated balance sheets of Behringer Harvard Opportunity REIT I, Inc. and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of Behringer Harvard Opportunity REIT I, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, during 2015, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update No. 2014-08 (“ASU 2014-08”), Presentation of Financial Statements and Property, Plant, and Equipment (Topics 205 and 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

As discussed in Note 1 to the consolidated financial statements, the Company has entered into its disposition phase and is currently considering liquidity options for its stockholders.

/s/ Deloitte & Touche LLP

Dallas, Texas  
March 18, 2016



**Behringer Harvard Opportunity REIT I, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except share and per share amounts)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>Assets</b>		
Real estate		
Land and improvements, net	\$ 58,936	\$ 67,204
Buildings and improvements, net	132,670	147,801
Real estate under development	39,121	14,295
Total real estate	<u>230,727</u>	<u>229,300</u>
Assets associated with real estate held for sale	12,679	—
Condominium inventory	2,201	2,967
Cash and cash equivalents	20,746	35,015
Restricted cash	8,880	8,120
Accounts receivable, net	6,273	7,971
Prepaid expenses and other assets	2,015	1,659
Investment in unconsolidated joint venture	13,953	15,948
Furniture, fixtures and equipment, net	2,719	2,474
Deferred financing fees, net	1,156	1,909
Lease intangibles, net	2,248	4,328
Other intangibles, net	4,205	4,801
<b>Total assets</b>	<u>\$ 307,802</u>	<u>\$ 314,492</u>
<b>Liabilities and Equity</b>		
Notes payable	\$ 155,547	\$ 153,556
Accounts payable	3,433	1,927
Payables to related parties	747	1,122
Acquired below-market leases, net	758	1,084
Accrued and other liabilities	25,606	22,765
Obligations associated with real estate held for sale	14,966	—
Total liabilities	<u>201,057</u>	<u>180,454</u>
<b>Commitments and contingencies</b>	—	—
<b>Equity</b>		
Behringer Harvard Opportunity REIT I, Inc. Equity:		
Preferred stock, \$.0001 par value per share; 50,000,000 shares authorized, none outstanding	—	—
Convertible stock, \$.0001 par value per share; 1,000 shares authorized, 1,000 shares issued and outstanding	—	—
Common stock, \$.0001 par value per share; 350,000,000 shares authorized, and 56,500,472 shares issued and outstanding at December 31, 2015 and 2014	6	6
Additional paid-in capital	507,303	507,303
Accumulated distributions and net loss	(397,259)	(372,071)
Accumulated other comprehensive loss	(4,301)	(1,817)
Total Behringer Harvard Opportunity REIT I, Inc. equity	<u>105,749</u>	<u>133,421</u>
Noncontrolling interest	996	617
Total equity	<u>106,745</u>	<u>134,038</u>
<b>Total liabilities and equity</b>	<u>\$ 307,802</u>	<u>\$ 314,492</u>

*See Notes to Consolidated Financial Statements.*

**Behringer Harvard Opportunity REIT I, Inc.**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**For the Years Ended December 31, 2015, 2014, and 2013**  
**(in thousands, except per share amounts)**

	2015	2014	2013
<b>Revenues</b>			
Rental revenue	\$ 19,809	\$ 20,246	\$ 21,009
Hotel revenue	35,582	35,241	30,655
Condominium sales	—	—	3,404
Total revenues	<u>55,391</u>	<u>55,487</u>	<u>55,068</u>
<b>Expenses</b>			
Property operating expenses	7,827	8,202	11,127
Hotel operating expenses	27,671	26,253	23,091
Bad debt expense (recovery)	58	(137)	1,754
Cost of condominium sales	—	—	3,412
Condominium inventory impairment	761	—	264
Interest expense	8,431	10,005	9,780
Real estate taxes	3,286	4,075	4,100
Impairment charge	11,540	9,371	363
Property management fees	1,924	1,842	1,745
Asset management fees	2,312	2,263	2,290
General and administrative	4,842	5,964	5,657
Depreciation and amortization	13,294	12,701	13,037
Total expenses	<u>81,946</u>	<u>80,539</u>	<u>76,620</u>
Interest income	16	47	54
Other income (loss), net	74	759	(24)
Loss on debt extinguishment	—	(246)	—
Loss from continuing operations before reorganization items, income taxes and equity in earnings (losses) of unconsolidated joint ventures	<u>(26,465)</u>	<u>(24,492)</u>	<u>(21,522)</u>
Reorganization items, net	—	—	(171)
Provision for income taxes	(117)	(98)	(58)
Equity in earnings (losses) of unconsolidated joint venture	1,008	170	(1,694)
Loss from continuing operations	<u>(25,574)</u>	<u>(24,420)</u>	<u>(23,445)</u>
Income from discontinued operations, net of gain on sale	—	—	3,985
Gain on sale of real estate	—	476	86
Net loss	<u>(25,574)</u>	<u>(23,944)</u>	<u>(19,374)</u>
Add: Net (income) loss attributable to the noncontrolling interest			
Continuing operations	386	414	578
Discontinued operations	—	—	(1,460)
Net loss attributable to common stockholders	<u>\$ (25,188)</u>	<u>\$ (23,530)</u>	<u>\$ (20,256)</u>
Weighted average shares outstanding:			
Basic and diluted	56,500	56,500	56,500
Income (loss) per share attributable to common stockholders:			
Basic and diluted:			
Continuing operations	\$ (0.45)	\$ (0.42)	\$ (0.40)
Discontinued operations	—	—	0.04
Basic and diluted loss per share	<u>\$ (0.45)</u>	<u>\$ (0.42)</u>	<u>\$ (0.36)</u>
Amounts attributable to common stockholders:			
Continuing operations	\$ (25,188)	\$ (23,530)	\$ (22,781)
Discontinued operations	—	—	2,525
Net loss attributable to common stockholders	<u>\$ (25,188)</u>	<u>\$ (23,530)</u>	<u>\$ (20,256)</u>

*See Notes to Consolidated Financial Statements.*

**Behringer Harvard Opportunity REIT I, Inc.**  
**Consolidated Statements of Operations and Comprehensive Loss (continued)**  
**For the Years Ended December 31, 2015, 2014, and 2013**  
**(in thousands, except per share amounts)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Comprehensive loss:</b>			
Net loss	\$ (25,574)	\$ (23,944)	\$ (19,374)
Other comprehensive loss:			
Foreign currency translation gain (loss)	(2,484)	(2,265)	1,413
Reclassifications to net income:			
Unrealized foreign currency translation loss	—	—	3,624
Unrealized loss on interest rate derivatives	—	86	90
Total other comprehensive income (loss)	<u>(2,484)</u>	<u>(2,179)</u>	<u>5,127</u>
Comprehensive loss	<u>(28,058)</u>	<u>(26,123)</u>	<u>(14,247)</u>
Comprehensive (income) loss attributable to noncontrolling interest	386	414	(979)
Comprehensive loss attributable to common stockholders	<u><u>\$ (27,672)</u></u>	<u><u>\$ (25,709)</u></u>	<u><u>\$ (15,226)</u></u>

*See Notes to Consolidated Financial Statements.*

**Behringer Harvard Opportunity REIT I, Inc.**  
**Consolidated Statements of Equity**  
(in thousands, except share amounts)

	Convertible Stock		Common Stock		Additional Paid-In Capital	Accumulated Distributions and Net Loss	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	Number of Shares	Par Value	Number of Shares	Par Value					
Balance at January 1, 2013	1,000	\$ —	56,500,472	\$ 6	\$ 505,167	\$ (328,285)	\$ (4,660)	\$ 1,364	\$ 173,592
Net loss	—	—	—	—	—	(20,256)	—	882	(19,374)
Contributions from non-controlling interest	—	—	—	—	—	—	—	25	25
Other comprehensive income:									
Foreign currency translation gain (loss)	—	—	—	—	—	—	1,316	97	1,413
Reclassification of unrealized foreign currency translation loss to net income	—	—	—	—	—	—	3,624	—	3,624
Reclassification of unrealized loss on interest rate derivatives to net income	—	—	—	—	—	—	86	4	90
Balance at December 31, 2013	1,000	—	56,500,472	6	505,167	(348,541)	366	2,372	159,370
Net loss	—	—	—	—	—	(23,530)	—	(414)	(23,944)
Contributions from noncontrolling interest	—	—	—	—	—	—	—	791	791
Transfer of noncontrolling interest	—	—	—	—	2,136	—	—	(2,136)	—
Other comprehensive income:									
Foreign currency translation loss	—	—	—	—	—	—	(2,265)	—	(2,265)
Reclassification of unrealized loss on interest rate derivatives to net income	—	—	—	—	—	—	82	4	86
Balance at December 31, 2014	1,000	—	56,500,472	6	507,303	(372,071)	(1,817)	617	134,038
Net loss	—	—	—	—	—	(25,188)	—	(386)	(25,574)
Contributions from noncontrolling interest	—	—	—	—	—	—	—	765	765
Other comprehensive income:									
Foreign currency translation loss	—	—	—	—	—	—	(2,484)	—	(2,484)
Balance at December 31, 2015	1,000	\$ —	56,500,472	\$ 6	\$ 507,303	\$ (397,259)	\$ (4,301)	\$ 996	\$ 106,745

*See Notes to Consolidated Financial Statements.*

**Behringer Harvard Opportunity REIT I, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2015, 2014 and 2013**  
**(in thousands)**

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (25,574)	\$ (23,944)	\$ (19,374)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	13,059	12,379	12,858
Amortization of deferred financing fees	665	1,261	785
Gain on troubled debt restructuring	—	—	(8,132)
Loss on early extinguishment of debt	—	246	—
Loss on retirement of asset	108	—	—
Gain on sale of real estate	—	(476)	(86)
Foreign currency translation loss	—	—	3,624
Impairment charge	12,301	9,371	932
Bad debt expense (recovery)	58	(137)	1,643
Equity in (earnings) losses of unconsolidated joint ventures	(1,008)	(170)	1,694
Loss on derivatives	—	86	90
Change in operating assets and liabilities:			
Accounts receivable	776	(597)	(107)
Condominium inventory	5	—	3,232
Prepaid expenses and other assets	(344)	(27)	1,489
Accounts payable	(247)	205	(1,514)
Accrued and other liabilities	3,438	170	722
Payables to related parties	(376)	351	(626)
Lease intangibles	(358)	(493)	(1,024)
Cash provided by (used in) operating activities	<u>2,503</u>	<u>(1,775)</u>	<u>(3,794)</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of real estate	—	1,743	30,563
Additions of property and equipment	(34,360)	(13,337)	(3,870)
Change in restricted cash	(760)	(3,230)	866
Net assets consolidated from hotel operations	—	—	143
Distributions received from unconsolidated joint venture	520	452	—
Cash provided by (used in) investing activities	<u>(34,600)</u>	<u>(14,372)</u>	<u>27,702</u>

*See Notes to Consolidated Financial Statements.*

**Behringer Harvard Opportunity REIT I, Inc.**  
**Consolidated Statements of Cash Flows (continued)**  
**For the years ended December 31, 2015, 2014 and 2013**  
**(in thousands)**

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from financing activities:</b>			
Financing costs	—	(1,475)	—
Borrowing costs paid on extinguishment of debt	—	(590)	—
Proceeds from notes payable	18,679	63,465	3,346
Payments on related parties note payable	—	—	(1,500)
Payments on notes payable	(1,616)	(47,825)	(23,800)
Contributions received from noncontrolling interest holders	765	791	25
Cash provided by (used in) financing activities	17,828	14,366	(21,929)
Effect of exchange rate changes on cash and cash equivalents	—	—	(8)
Net change in cash and cash equivalents	(14,269)	(1,781)	1,971
Cash and cash equivalents at beginning of the year	35,015	36,796	34,825
Cash and cash equivalents at end of the year	\$ 20,746	\$ 35,015	\$ 36,796

*See Notes to Consolidated Financial Statements.*

**Behringer Harvard Opportunity REIT I, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Business**

Behringer Harvard Opportunity REIT I, Inc. (which may be referred to as the “Company,” “we,” “us,” or “our”) was incorporated in November 2004 as a Maryland corporation and has elected to be taxed, and currently qualifies, as a real estate investment trust (“REIT”) for federal income tax purposes.

We operate commercial real estate and real estate-related assets located in and outside the United States. With our opportunistic and value-add investment strategy, we have focused generally on acquiring properties with significant possibilities for capital appreciation, such as those requiring development, redevelopment, or repositioning, or those located in markets and submarkets with higher volatility, lower barriers to entry, and high growth potential. We have acquired a wide variety of properties, including office, retail, hospitality, recreation and leisure, multifamily, industrial, and other properties. We have purchased existing and newly constructed properties and properties under development or construction. As of December 31, 2015, we wholly owned four properties and consolidated three properties through investments in joint ventures, including our Las Colinas Commons office building, located in Irving, Texas, which is classified as real estate held for sale on our consolidated balance sheet at December 31, 2015. We sold Las Colinas Commons on February 2, 2016. In addition, we have a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 18 properties that is accounted for using the equity method.

In September 2007, we made mezzanine loans to the owner and developer of Alexan Black Mountain Apartments, a multifamily community located in Henderson, Nevada, and obtained an option to purchase the property after completion of construction. On August 18, 2015, we entered into a letter agreement with the owner pursuant to which we consented to the sale of Alexan Black Mountain Apartments to a third party for an amount less than the senior mortgage loan on the property and released our option rights in exchange for a payment of less than \$0.1 million. The sale of the property closed on August 19, 2015. Our mezzanine loan, which was fully reserved, was retired and the proceeds were recorded as other income.

Substantially all of our business is conducted through Behringer Harvard Opportunity OP I, LP, a Texas limited partnership organized in November 2004 (the “Operating Partnership”), or its subsidiaries. Our wholly owned subsidiary, BHO, Inc., a Delaware corporation, owns less than a 0.1% interest in the Operating Partnership as its sole general partner. The remaining interest of the Operating Partnership is held as a limited partnership interest by our wholly owned subsidiary, BHO Business Trust, a Maryland business trust.

We are externally managed and advised by Behringer Harvard Opportunity Advisors I, LLC, (the “Advisor”), a Texas limited liability company. The Advisor is responsible for managing our day-to-day affairs and providing services that are essential to us, including asset disposition decisions and property management and leasing services. Our investment properties are located in Colorado, Missouri, Texas, The Commonwealth of The Bahamas, the Czech Republic, and Poland.

We have entered our disposition phase and are currently considering liquidity options for our stockholders. Therefore, we are not actively seeking to purchase additional properties. We will seek stockholder approval prior to liquidating our entire portfolio.

***Presentation of Financial Statements and Going Concern***

Our financial statements are presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business as we proceed through our disposition phase. As is usual for opportunity-style real estate investment programs, we are structured as a finite life entity, and have entered the final phase of operations. This phase includes selling our assets, retiring our liabilities, and distributing net proceeds to stockholders. We have experienced significant losses and may generate negative cash flows as mortgage note obligations and expenses exceed revenues. If we are unable to sell a property when we determine to do so, it could have a significant adverse effect on our cash flows that are necessary to meet our mortgage obligations and our ability to satisfy our other liabilities in the normal course of business.

Our ability to continue as a going concern is dependent upon our ability to sell real estate investments, to pay down debt as it matures if extensions or new financings are unavailable, and our ability to fund ongoing costs of our Company, including our development and operating properties.

**Behringer Harvard Opportunity REIT I, Inc.**  
**Notes to Consolidated Financial Statements**

## **2. Summary of Significant Accounting Policies**

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate these estimates, including investment impairment, on a regular basis. These estimates will be based on management's historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances and include such items as impairment of long-lived assets, depreciation and amortization and allowance for doubtful accounts. Actual results could differ from those estimates.

### ***Principles of Consolidation and Basis of Presentation***

Our consolidated financial statements include our accounts and the accounts of other subsidiaries over which we have control. All inter-company transactions, balances, and profits have been eliminated in consolidation. Interests in entities acquired will be evaluated based on applicable GAAP, which includes the requirement to consolidate entities deemed to be variable interest entities ("VIE") in which we are the primary beneficiary. If the interest in the entity is determined not to be a VIE, then the entity will be evaluated for consolidation based on legal form, economic substance, and the extent to which we have control and/or substantive participating rights under the respective ownership agreement.

There are judgments and estimates involved in determining if an entity in which we have made an investment is a VIE and, if so, whether we are the primary beneficiary. The entity is evaluated to determine if it is a VIE by, among other things, calculating the percentage of equity being risked compared to the total equity of the entity. Determining expected future losses involves assumptions of various possibilities of the results of future operations of the entity, assigning a probability to each possibility and using a discount rate to determine the net present value of those future losses. A change in the judgments, assumptions, and estimates outlined above could result in consolidating an entity that should not be consolidated or accounting for an investment using the equity method that should in fact be consolidated, the effects of which could be material to our financial statements.

In the Notes to Consolidated Financial Statements, all dollar and share amounts in tabulation are in thousands of dollars and shares, respectively, unless otherwise noted.

### ***Real Estate***

We amortize the value of in-place leases, in-place tenant improvements and in-place leasing commissions to expense over the initial term of the respective leases. In no event does the amortization period for intangible assets or liabilities exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the acquired lease intangibles related to that tenant would be charged to expense. As of December 31, 2015, the estimated remaining average useful lives for acquired lease intangibles range from less than one year to approximately seven years.

Anticipated amortization expense associated with the acquired lease intangibles for each of the following five years ended December 31 is as follows (in thousands):

<b>Year</b>	<b>Lease Intangibles<sup>(1)</sup></b>
2016	\$ 56
2017	56
2018	19
2019	—
2020	—

(1) Excludes Las Colinas Commons which was classified as held for sale as of December 31, 2015.

We recorded accelerated amortization of \$0.5 million for lease intangibles of our Northborough Tower office building during the third quarter of 2015. The sole tenant of Northborough Tower vacated the office building in the third quarter of 2015.



**Behringer Harvard Opportunity REIT I, Inc.**  
**Notes to Consolidated Financial Statements**

The value of hotels and all other buildings is depreciated over the estimated useful lives of 39 years and 25 years, respectively, using the straight-line method. Accumulated depreciation and amortization related to our consolidated investments in real estate assets and intangibles were as follows (in thousands):

<b>December 31, 2015</b>	<b>Buildings and Improvements<sup>(1)</sup></b>	<b>Land and Improvements<sup>(1)</sup></b>	<b>Lease Intangibles<sup>(1)</sup></b>	<b>Acquired Below-Market Leases</b>	<b>Other Intangibles</b>
Cost	\$ 174,732	\$ 60,962	\$ 7,580	\$ (3,311)	\$ 9,626
Less: depreciation and amortization	(42,062)	(2,026)	(5,332)	2,553	(5,421)
Net	\$ 132,670	\$ 58,936	\$ 2,248	\$ (758)	\$ 4,205

(1) Excludes Las Colinas Commons, which was classified as held for sale as of December 31, 2015. Net book values included in assets associated with real estate held for sale in the consolidated balance sheet were buildings and improvements of \$8.3 million, land and improvements of \$2.8 million and lease intangibles of \$0.7 million. See Note 7, Real Estate Held for Sale.

<b>December 31, 2014</b>	<b>Buildings and Improvements</b>	<b>Land and Improvements</b>	<b>Lease Intangibles</b>	<b>Acquired Below-Market Leases</b>	<b>Other Intangibles</b>
Cost	\$ 195,348	\$ 68,915	\$ 11,329	\$ (3,312)	\$ 9,626
Less: depreciation and amortization	(47,547)	(1,711)	(7,001)	2,228	(4,825)
Net	\$ 147,801	\$ 67,204	\$ 4,328	\$ (1,084)	\$ 4,801

***Real Estate Held for Sale and Discontinued Operations***

We classify properties as held for sale when certain criteria are met, in accordance with GAAP. At that time, we present the assets and obligations of the property held for sale separately in our consolidated balance sheet and we cease recording depreciation and amortization expense related to that property. Properties held for sale are reported at the lower of their carrying amount or their estimated fair value, less estimated costs to sell. During the fourth quarter of 2015, we entered into a purchase and sale agreement for Las Colinas Commons, an office building located in Texas, and classified the investment as real estate held for sale in our consolidated balance sheet at December 31, 2015. The sales transaction closed on February 2, 2016. We did not have any properties classified as held for sale at December 31, 2014.

Effective as of January 1, 2015, we adopted the revised guidance regarding discontinued operations as further discussed in Note 3, New Accounting Pronouncements. For sales of real estate or assets classified as held for sale after January 1, 2015, we will evaluate whether a disposal transaction meets the criteria of a strategic shift and will have a major effect on our operations and financial results to determine if the results of operations and gains on sale of real estate will be presented as part of our continuing operations or as discontinued operations in our consolidated statements of operations. If the disposal represents a strategic shift, it will be classified as discontinued operations for all periods presented; if not, it will be presented in continuing operations. Prior to this adoption, when we had no involvement after the sale of a real estate investment it was treated as a discontinued operation.

***Condominium Inventory***

Condominium inventory is stated at the lower of cost or fair market value. In addition to land acquisition costs, land development costs, and construction costs, costs include interest and real estate taxes, which are capitalized during the period beginning with the commencement of development and ending with the completion of construction.

For condominium inventory, at each reporting date, management compares the estimated fair value less costs to sell to the carrying value. An adjustment is recorded to the extent that the fair value less selling costs is less than the carrying value. We determine the estimated fair value of condominiums based on comparable sales in the normal course of business under existing and anticipated market conditions. This evaluation takes into consideration estimated future selling prices, costs incurred to date, estimated additional future costs, and management's plans for the property. At December 31, 2015, we had one remaining condominium unit in inventory at Chase—The Private Residences which was sold for a price of \$2.5 million on February 22, 2016.

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***Cash and Cash Equivalents***

We consider investments in highly-liquid money market funds or investments with original maturities of three months or less to be cash equivalents.

***Restricted Cash***

As required by our lenders, restricted cash is held in escrow accounts for real estate taxes and other reserves for our consolidated properties. Capital reserves are typically utilized for non-operating expenses such as tenant improvements, leasing commissions and major capital expenditures. Alternatively, a lender may require its own formula for an escrow of capital reserves.

***Accounts Receivable***

Accounts receivable primarily consist of straight-line rental revenue receivables of \$4.2 million and \$5.9 million as of December 31, 2015 and 2014, respectively, and receivables from our hotel operators and tenants related to our other consolidated properties of \$2.4 million and \$2.3 million as of the years ended December 31, 2015 and 2014, respectively. The allowance for doubtful accounts was \$0.3 million and \$0.2 million as of December 31, 2015 and 2014, respectively.

***Prepaid Expenses and Other Assets***

Prepaid expenses and other assets include prepaid directors' and officers' insurance, prepaid advertising, the fair value of certain derivative instruments, as well as inventory, prepaid insurance, and real estate taxes of our consolidated properties. Inventory consists of food, beverages, linens, glassware, china, and silverware and is carried at the lower of cost or market value.

***Furniture, Fixtures, and Equipment***

Furniture, fixtures, and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives of five to seven years. Properties classified as held for sale are not depreciated. Maintenance and repairs are charged to operations as incurred while renewals or improvements to such assets are capitalized. Accumulated depreciation associated with our furniture, fixtures, and equipment was \$16.3 million and \$15.5 million as of December 31, 2015 and 2014, respectively.

***Reorganization Items, Net***

We incurred reorganization expense of approximately \$0.2 million during the year ended December 31, 2013 as a result of the 2012 restructuring of the debt related to our Frisco Square investment. This expense is presented separately in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2013.

***Investment Impairment***

For all of our real estate and real estate-related investments, we monitor events and changes in circumstances indicating that the carrying amounts of the real estate assets may not be recoverable. Examples of the types of events and circumstances that would cause management to assess our assets for potential impairment include, but are not limited to: a significant decrease in the market price of an asset; a significant change in the manner in which the asset is being used; an accumulation of costs in excess of the acquisition basis plus construction of the property; major vacancies and the resulting loss of revenues; natural disasters; a change in the projected holding period; legitimate purchase offers and changes in the global and local markets or economic conditions. Our assets may at times be concentrated in limited geographic locations and, to the extent that our portfolio is concentrated in limited geographic locations, downturns specifically related to such regions may result in tenants defaulting on their lease obligations at a portion of our properties within a short time period, which may result in asset impairments.

When such events or changes in circumstances are present, we assess potential impairment by comparing estimated future undiscounted operating cash flows expected to be generated over the life of the asset and from its eventual disposition to the carrying amount of the asset. These projected cash flows are prepared internally by the Advisor and reflect in-place and projected leasing activity, market revenue and expense growth rates, market capitalization rates, discount rates, and changes in economic and other relevant conditions. The Company's principal executive officer and principal financial officer review these projected cash flows to assure that the valuation is prepared using reasonable inputs and assumptions that are consistent with market data and with assumptions that would be used by a third-party market participant and assume the highest and best use of the investment. We consider trends, strategic decisions regarding future development plans, and other factors in our assessment of whether impairment conditions exist. In the event that the carrying amount exceeds the estimated future undiscounted operating cash flows, we recognize an impairment loss to adjust the carrying amount of the asset to estimated fair value. While

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we believe our estimates of future cash flows are reasonable, different assumptions regarding factors such as market rents, economic conditions, and occupancy rates could significantly affect these estimates.

In evaluating our investments for impairment, management may use appraisals and make estimates and assumptions, including, but not limited to, the projected date of disposition of the properties, the estimated future cash flows of the properties during our ownership, planned development and the projected sales price of each of the properties. A future change in these estimates and assumptions could result in understating or overstating the book value of our investments, which could be material to our financial statements. In addition, we may incur impairment charges on real estate assets classified as held for sale in the future if the carrying amount of the asset upon classification as held for sale exceeds the estimated fair value, less costs to sell.

We also evaluate our investment in an unconsolidated joint venture at each reporting date. If we believe there is an other than temporary decline in market value, we will record an impairment charge based on these evaluations. We assess potential impairment by comparing our portion of estimated future undiscounted operating cash flows expected to be generated by the joint venture over the life of the joint venture's assets to the carrying amount of the joint venture. In the event that the carrying amount exceeds our portion of estimated future undiscounted operating cash flows, we recognize an impairment loss to adjust the carrying amount of the joint venture to its estimated fair value.

The value of our properties held for development depends on market conditions, including estimates of the project start date, as well as estimates of future demand for the property type under development. We have analyzed trends and other information related to each potential development and incorporated this information, as well as our current outlook, into the assumptions we use in our impairment analyses. Due to the judgment and assumptions applied in the estimation process with respect to impairments, including the fact that limited market information regarding the value of comparable land exists at this time, it is possible actual results could differ substantially from those estimated.

During the year ended December 31, 2015, we recorded approximately \$12.3 million of non-cash impairment charges as a result of measurable decreases in the fair value of four of our investments. We recorded a \$0.7 million impairment for our one remaining condominium unit at Chase—The Private Residences during the year ended December 31, 2015. In the third quarter of 2015, we recorded a non-cash impairment charge of \$6.8 million for our Frisco Square land based on an indication of a change in market conditions for land development. In estimating the fair value of the Frisco Square land, we considered market comparables as well as the time and costs to hold the land until developed. We also recorded non-cash impairment charges of approximately \$2.1 million for Northborough Tower and approximately \$2.7 million for our Northpoint Central office building during the third quarter of 2015. In estimating the fair value of both Northborough Tower and Northpoint Central, we considered offers received during the marketing process of the assets in the third quarter of 2015, market comparables and management's internal discounted cash flow analysis prepared with the consideration of the market conditions in Houston where both buildings are located.

We believe the carrying value of our operating real estate assets, our properties under development and our investment in an unconsolidated joint venture is currently recoverable. However, if market conditions worsen beyond our current expectations, or if our assumptions regarding expected future cash flows from the use and eventual disposition of our assets decrease or our expected hold periods decrease, or if changes in our development strategy significantly affect any key assumptions used in our fair value calculations, we may need to take additional charges in future periods for impairments related to existing assets. Any such non-cash charges would have an adverse effect on our consolidated financial position and results of operations.

#### ***Deferred Financing Fees***

Deferred financing fees are recorded at cost and are amortized to interest expense for notes payable using a straight-line method that approximates the effective interest method over the life of the related debt. Accumulated amortization of deferred financing fees was \$1.8 million and \$1 million as of December 31, 2015 and 2014, respectively.

#### ***Derivative Financial Instruments***

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements or other identified risks and to minimize the variability caused by foreign currency translation risk related to our net investment in foreign real estate. To accomplish these objectives, we use various types of derivative instruments to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rate of London Interbank Offer Rate ("LIBOR"). These instruments include LIBOR-based interest rate swaps and caps. For our net investments in foreign real estate, we may use foreign exchange put/call options to eliminate the impact of foreign currency exchange movements on our financial position.

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We measure our derivative instruments and hedging activities at fair value and record them as an asset or liability, depending on our rights or obligations under the applicable derivative contract. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged items are recorded in earnings. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivatives are reported in other comprehensive income (loss) and are subsequently reclassified into earnings when the hedged item affects earnings. For derivatives designated as net investment hedges, changes in fair value are reported in other comprehensive income (loss) as part of the foreign currency translation gain or loss. Changes in fair value of derivative instruments not designated as hedges and ineffective portions of hedges are recognized in earnings in the affected period. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction.

As of December 31, 2015, we do not have any derivatives designated as fair value hedges, nor are derivatives being used for trading or speculative purposes.

***Foreign Currency Translation***

The functional currency for our international equity investment in Central Europe Joint Venture is the Euro. We use period-end exchange rates to translate balances of assets and liabilities while the statement of operations amounts are translated using the average exchange rate for the respective period. Gains and losses resulting from the change in exchange rates from period to period are reported separately as a component of other comprehensive income (loss) ("OCI") as a separate component. Gains and losses resulting from foreign currency transactions are included in the condensed consolidated statements of operations and comprehensive income (loss). The foreign currency translation adjustments were losses of \$2.5 million and \$2.3 million for the years ended December 31, 2015 and 2014, respectively, and a gain of \$1.4 million for the year ended December 31, 2013.

When the Company ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity, the cumulative translation adjustment ("CTA") balance is required to be released into earnings. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. On July 28, 2008, we invested in Central Europe Joint Venture that owned 22 properties, which is our only foreign investment as of December 31, 2015. The joint venture sold one property in 2014 and three properties in 2015, and had 18 properties remaining as of December 31, 2015. We will recognize CTA upon the sale of all or substantially all of our investment in the Central Europe Joint Venture.

On April 5, 2013, we sold Becket House and the lender accepted the net sales proceeds of \$19.8 million as full satisfaction of the outstanding debt of \$27.7 million. As a result, \$8.1 million was recorded as a gain on troubled debt restructuring and is included in discontinued operations. Additionally, due to the sale of Becket House, \$3.6 million was reclassified from unrealized foreign currency translation loss to net loss and is included in discontinued operations.

***Other Comprehensive Income (Loss)***

Accumulated other comprehensive income (loss) ("OCI"), which is reported in the accompanying consolidated statement of equity, consists of gains and losses affecting equity that are excluded from net income (loss) under GAAP. The components of OCI consist of foreign currency translation gains and losses and unrealized gains and losses on derivatives designated as hedges.

***Revenue Recognition***

We recognize rental income generated from leases on real estate assets on a straight-line basis over the terms of the respective leases, including the effect of rent holidays, if any. Straight-line rental revenue was a decrease of \$0.9 million in rental revenues for the year ended December 31, 2015. Straight-line rental revenue was income of \$0.4 million and \$0.7 million recognized in rental revenues for the years ended December 31, 2014 and 2013, respectively. Hotel revenue is derived from the operations of The Lodge & Spa at Cordillera and Chase Park Plaza Hotel and consists of guest room, food and beverage, and other revenue, and is recognized as the services are rendered.

Revenues from the sales of condominiums are recognized when sales are closed and title passes to the new owner, the new owner's initial and continuing investment is adequate to demonstrate a commitment to pay for the condominium, the new owner's receivable is not subject to future subordination, and we do not have a substantial continuing involvement with the new

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condominium. Amounts received prior to closing on sales of condominiums are recorded as deposits in our financial statements.

***Income Taxes***

We elected to be taxed, and qualified, as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), beginning with the year ended December 31, 2006. We are organized and operate in such a manner as to qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our stockholders. As a REIT, we generally will not be subject to federal income tax at the corporate level except for the operations of our wholly owned taxable REIT subsidiaries. Taxable income from non-REIT activities managed through a taxable REIT subsidiary (“TRS”) is subject to applicable federal, state, and local income and margin taxes. We have no taxable income associated with a TRS. Our operating partnerships are flow-through entities and are not subject to federal income taxes at the entity level. We have two TRS that own and/or provide management and development services to certain of our investments in real estate and real estate under development.

We have reviewed our tax positions under GAAP guidance that clarifies the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. We believe it is more likely than not that the tax positions taken relative to our status as a REIT will be sustained in any tax examination. We believe that it is more likely than not that the tax positions taken relative to the TRS will be sustained in any tax examination.

For the years ended December 31, 2015, 2014, and 2013, we recognized a current and deferred tax provision of \$0.1 million, \$0.1 million and less than \$0.1 million, respectively, related to the Texas margin tax.

Taxable income (loss) differs from net income (loss) for financial reporting purposes principally because of differences in the timing of recognition of depreciation expense, impairment losses and gain from sales of property. As a result of these differences, the tax basis of our fixed assets exceeds the book value by \$223.3 million at December 31, 2015 and \$176.3 million at December 31, 2014. The Company also has net operating losses accumulated for federal income tax reporting purposes. The Company has fully reserved any potential assets associated with these tax assets as recognition is not likely.

***Stock-Based Compensation***

We have a stock-based incentive award plan for our directors and consultants and for employees, directors, and consultants of our affiliates. Awards are granted at the fair market value on the date of grant with fair value estimated using the Black-Scholes-Merton option valuation model, which incorporates assumptions surrounding volatility, dividend yield, the risk-free interest rate, expected life, and the exercise price as compared to the underlying stock price on the grant date. The tax benefits associated with these share-based payments are classified as financing activities in the consolidated statement of cash flows. On March 25, 2013, our board of directors, voted to amend the Incentive Award Plan to eliminate the automatic option grant. We did not recognize any incremental compensation cost as a result of these modifications. There were no stock options granted, exercised, or forfeited in 2015.

***Concentration of Credit Risk***

At December 31, 2015 and 2014, we had cash and cash equivalents deposited in certain financial institutions in excess of federally insured levels. We have diversified our cash and cash equivalents between several banking institutions in an attempt to minimize exposure to any one of these entities. We regularly monitor the financial stability of these financial institutions and believe that we are not exposed to any significant credit risk in cash and cash equivalents or restricted cash.

***Geographic Concentration***

At any one time, a significant portion of our consolidated investments could be in one property class or concentrated in one or several geographic regions. For the year ended December 31, 2015, excluding revenue of \$2.7 million for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015, and mineral rights we received in 2015 of less than \$0.1 million on a parcel of land we sold in 2013, 60%, 32% and 8% of our total revenues were derived from properties in Missouri, Texas and Colorado, respectively. Additionally, excluding revenue of \$2.7 million for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015, and mineral rights we received in 2015 of less than \$0.1 million on a parcel of land we sold in 2013, 68%, 28% and 4% of our total revenues for the year ended December 31, 2015 were from our three asset types, hotel, office building and multifamily, respectively. To the extent that our portfolio is concentrated in limited geographic regions, types of assets, industries or business sectors, downturns relating

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generally to such region, type of asset, industry or business sector may result in defaults by our tenants within a short time period, which may reduce our net income and the value of our common stock and accordingly limit our ability to fund our operations.

Three of our consolidated properties represented more than 10% of our 2015 total revenue, excluding revenues for Las Colinas Commons which was classified as real estate held for sale at December 31, 2015: Chase Park Plaza at 60%; Frisco Square at 14%; and Northborough Tower at 11%. During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account to be deposited into a lender-controlled and administered bank account. In December 2015, the lender exercised its right to control the operating funds of the property. See Note 9, Notes Payable, for additional information.

***Noncontrolling Interest***

Noncontrolling interest represents the noncontrolling ownership interest's proportionate share of the equity in our consolidated real estate investments. Income and losses are allocated to noncontrolling interest holders based on their ownership percentage.

***Reportable Segments***

We have determined that we have one reportable segment, with activities related to the ownership, development and management of real estate assets. Our income producing properties generated 100% of our consolidated revenues for the years ended December 31, 2015, 2014, and 2013. Our chief operating decision maker evaluates operating performance on an individual property level. Therefore, our properties are aggregated into one reportable segment.

***Earnings (loss) per Share***

Earnings (loss) per share is calculated based on the weighted average number of shares outstanding during each period. As of each of the periods ended December 31, 2015, 2014 and 2013, we had options to purchase 75,000 shares of common stock at a weighted average exercise price of \$7.50. These options are excluded from the calculation of earnings (loss) per share for the years ended December 31, 2015, 2014, and 2013 because the effect would be anti-dilutive.

***Subsequent Events***

We have evaluated subsequent events for recognition or disclosure in our consolidated financial statements.

**3. New Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-08 ("ASU 2014-08"), Presentation of Financial Statements and Property, Plant, and Equipment (Topics 205 and 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The updated guidance revised the definition of a discontinued operation by limiting discontinued operations reporting to disposals of components of an entity that represent a strategic shift, or change in the entity's strategy, that has, or will have, a major effect on an entity's operations and financial results. This guidance applies to a component of an entity or a group of components of an entity classified as held for sale or disposed of by sale or by means other than a sale, such as abandonment. The Company adopted ASU 2014-08 effective January 1, 2015. As a result of this adoption, the results of operations and gains on sales of real estate for disposals from January 1, 2015 forward which do not meet the criteria of a strategic shift that has or will have a major effect on our operations and financial results will be presented as continuing operations in our consolidated statements of operations. We believe future sales of our individual operating properties will no longer qualify as discontinued operations.

In May 2014, the FASB issued an update ("ASU 2014-09") to ASC Topic 606, Revenue from Contracts with Customers. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for public companies for interim and annual reporting periods beginning after December 15, 2017, as adjusted by a one-year deferral of the new revenue standard, confirmed by FASB in the July 2015 meeting. In addition, early adoption will be permitted as of the original effective date in ASU 2014-09 which was annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. Either full retrospective adoption or modified retrospective adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

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In August 2014, the FASB issued an update (“ASU 2014-15”), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 requires management’s assessment of a company’s ability to continue as a going concern and provide related footnote disclosures when conditions give rise to substantial doubt about a company’s ability to continue as a going concern within one year from the financial statement issuance date. ASU 2014-15 applies to all companies and is effective for annual reporting periods ending after December 15, 2016, and all annual and interim periods thereafter. We do not believe the adoption of this guidance will have a material impact on our disclosures.

In January 2015, the FASB issued an update (“ASU 2015-01”) to ASC Topic 225, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates the concept of an extraordinary item from U.S. GAAP. An entity is no longer required to (i) segregate an extraordinary item from the results of ordinary operations; (ii) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; and (iii) disclose income taxes and earnings per share data applicable to an extraordinary item. ASU 2015-01 does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in occurrence. ASU 2015-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Adoption of ASU 2015-01, effective January 1, 2016, will not have a material impact on our consolidated financial position, results of operations, or cash flows.

In February 2015, the FASB issued an update (“ASU No. 2015-02”) to ASC Topic 810, Amendments to the Consolidation Analysis. ASU 2015-02 makes several modifications to the consolidation guidance for VIEs and general partners’ investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. The amendments in ASU 2015-02 are effective for public companies in interim and annual reporting periods in fiscal years beginning after December 15, 2015. Adoption of ASU 2015-02, effective January 1, 2016, may result in additional disclosures, however, it will not impact the status of our seven consolidated investments and one unconsolidated joint venture as of December 31, 2015.

In April 2015, the FASB issued an update (“ASU 2015-03”) to ASC Topic 835, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts, instead of being presented as a deferred charge. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this updated guidance. ASU 2015-03 is effective for public companies in interim and annual reporting periods beginning after December 15, 2015. The new guidance requires retrospective application. As of December 31, 2015, we have \$1.2 million of net deferred financing costs that would be reclassified from a long-term asset to a reduction in the carrying amount of our debt. The adoption of this guidance, effective January 1, 2016, will change the classification of deferred financing fees on our balance sheet, but it will not otherwise have an impact on our financial statements.

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#### **4. Assets and Liabilities Measured at Fair Value**

Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy) has been established.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

##### ***Recurring Fair Value Measurements***

Historically, we have used interest rate caps to manage our interest rate risk. The valuation of these instruments was determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including interest rate curves, implied volatilities, and foreign currency exchange rates.

As of December 31, 2015 and 2014, we had no derivatives.

##### ***Nonrecurring Fair Value Measurements***

During the year ended December 31, 2015, we recorded approximately \$12.3 million of non-cash impairment charges as a result of measurable decreases in the fair value of four of our investments. We recorded approximately \$0.7 million of non-cash impairment charges for our one remaining condominium unit at Chase - The Private Residences to reduce the carrying value to current market price. We recorded a non-cash impairment charge of approximately \$6.8 million for our Frisco Square land based on an indication of a change in market conditions for land development. In estimating the fair value of the Frisco Square land, we considered market comparables as well as the time and costs to hold the land until developed. We also recorded non-cash impairment charges of approximately \$2.1 million for Northborough Tower and approximately \$2.7 million for our Northpoint Central office building during 2015. In estimating the fair value of both Northborough Tower and Northpoint Central, we considered offers received during the marketing process of the assets in the third quarter of 2015, market comparables and management's internal discounted cash flow analysis prepared with the consideration of the market conditions in Houston where both buildings are located.

Due to a change in the estimated hold period of our Northborough Tower office building, we evaluated the asset for recoverability and as a result recorded a non-cash impairment charge of \$9.4 million during the year ended December 31, 2014. This change was based on the commercial real estate market conditions in Houston, Texas, where our Northborough office building is located, which market conditions are not expected to recover within our estimated hold period.

For the year ended December 31, 2013, we recorded the following non-cash impairment charges. We recorded \$0.3 million of impairment expense to reduce the carrying value of condominiums at Chase—The Private Residences to current market prices and an additional \$0.2 million of impairment was recorded on a related intangible asset. We recorded \$0.3 million in discontinued operations related to a reduction in the fair value of the Becket House leasehold interest based upon the final negotiated sales price. On April 5, 2013, we sold Becket House. In addition, we recorded non-cash impairment charges of \$0.1 million in continuing operations related to 4950 S. Bowen Road land based upon the sale price. The sale was completed on October 22, 2013.

The inputs used to calculate the fair value of these assets included bona fide purchase offers, or the expected sales price of an executed sales agreement and market comparables. The market comparable estimate is considered Level 3 under the fair value hierarchy described above.



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**Notes to Consolidated Financial Statements**

The following fair value hierarchy table presents information about our assets measured at fair value on a nonrecurring basis during the periods presented (in thousands):

<b>As of December 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Loss</b>
<b>Assets</b>					
Buildings and improvements, net <sup>(1)</sup>	\$ —	\$ —	\$ 29,500	\$ 29,500	\$ (4,778)
Land and improvements, net <sup>(2)</sup>	—	—	19,606	19,606	(6,762)
Condominium inventory (one remaining finished unit) <sup>(3)</sup>	—	—	2,201	2,201	(761)

(1) During the year ended December 31, 2015, we recorded non-cash impairments of \$2.1 million and \$2.7 million associated with our Northborough Tower and Northpoint Central office buildings.

(2) In the third quarter of 2015, we recorded a \$6.8 million non-cash impairment associated with our Frisco land.

(3) During 2015, we recorded non-cash impairment charges totaling approximately \$0.7 million associated with our one remaining condominium unit at Chase — The Private Residences.

<b>As of December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Loss<sup>(1)</sup></b>
<b>Assets</b>					
Buildings and improvements, net	\$ —	\$ —	\$ 19,397	\$ 19,397	\$ (9,371)

(1) In the fourth quarter of 2014, we recorded an impairment of \$9.4 million associated with our Northborough office building.

Quantitative Information about Level 3 Fair Value Measurements

<b>Description</b>	<b>Fair Value at December 31, 2015 (in 000s)</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
Buildings and improvements, net <sup>(1)</sup>	\$ 29,500	Discounted cash flow	Discount rate Terminal capitalization rate Market rent growth Expense growth rate	7.75% - 11.50% 8.00% - 9.75% 0% - 3.00% 0% - 3.00%
Land and improvements, net <sup>(2)</sup>	\$ 19,606	Market comparable	Lot price Inflation rate Discount rate	\$20 - \$45 psf 0% - 3.00% 12.50% - 20.00%
Condominium inventory (one remaining finished unit) <sup>(3)</sup>	\$ 2,201	Market comparable	List price for unit; due to limited market comparables	\$511 to \$555 per square feet

(1) In the third quarter of 2015, we recorded non-cash impairments of \$2.1 million and \$2.7 million associated with our Northborough Tower and Northpoint Central office buildings.

(2) In the third quarter of 2015, we recorded a \$6.8 million non-cash impairment associated with our Frisco land.

(3) In the second quarter of 2015, we recorded a non-cash impairment of \$0.6 million associated with our one remaining condominium unit at Chase — The Private Residences. We recorded an additional \$0.1 million non-cash impairment for the condominium unit in the fourth quarter of 2015, based on offers received during the marketing process.

<b>Description</b>	<b>Fair Value at December 31, 2014 (in 000s)</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
Buildings and improvements, net <sup>(1)</sup>	\$ 19,397	Discounted cash flow	Discount rate Terminal capitalization rate Market rent growth Expense growth rate	9.75% 8.75% 0% - 3.00% 0% - 3.00%

(1) Due to a change in the estimated hold period of our Northborough Tower office building, we evaluated the asset for recoverability, and as a result, recorded a non-cash impairment of \$9.4 million during the year ended December 31, 2014.

**Behringer Harvard Opportunity REIT I, Inc.**  
**Notes to Consolidated Financial Statements**

There were no transfers of assets or liabilities between the levels of the fair value hierarchy during the years ended December 31, 2015 or 2014.

**5. Fair Value Measurement of Financial Instruments**

We determined the following disclosure of estimated fair values using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop the related estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

As of December 31, 2015 and 2014, management estimated that the carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued expenses, other liabilities, and payables/receivables from related parties were at amounts that reasonably approximated their fair value based on their highly liquid nature and/or short-term maturities.

The notes payable of \$155.5 million, excluding \$14.9 million of contractual obligations on real estate held for sale, and \$153.6 million as of December 31, 2015 and 2014, respectively, have a fair value of approximately \$155.6 million and \$154.3 million, respectively. The fair values are based upon interest rates for mortgages with similar terms and remaining maturities that management believes we could obtain. The fair value of the notes payable is categorized as a Level 2 basis. The fair value is estimated using a discounted cash flow analysis valuation on the borrowing rates currently available for loans with similar terms and maturities. The fair value of the notes payable was determined by discounting the future contractual interest and principal payments by a market rate.

The fair value estimates presented herein are based on information available to our management as of December 31, 2015 and 2014. Although our management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those respective dates, and current estimates of fair value may differ significantly from the amounts presented herein.

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**Notes to Consolidated Financial Statements**

**6. Real Estate Investments**

As of December 31, 2015, we wholly owned four properties and consolidated three properties through investments in joint ventures on our consolidated balance sheet, including Las Colinas Commons, which is classified as real estate held for sale in our consolidated balance sheet. In addition, we have a noncontrolling, unconsolidated ownership interest in a joint venture consisting of 18 properties that is accounted for using the equity method. Capital contributions, distributions, and profits and losses of these properties are allocated in accordance with the terms of the applicable partnership agreement.

The following table presents certain information about our consolidated properties as of December 31, 2015:

<b>Property Name</b>	<b>Location</b>	<b>Approximate Rentable Square Footage (Unaudited)</b>	<b>Description</b>	<b>Ownership Interest</b>	<b>Year Acquired</b>
Chase Park Plaza	St. Louis, Missouri	—	hotel and condominium development property	100% (1)	2006
Las Colinas Commons <sup>(2)</sup>	Irving, Texas	239,000	3-building office complex	100%	2006
Frisco Square	Frisco, Texas	(3)	mixed-use development (multifamily, retail, office, restaurant and land)	(3)	2007
Northpoint Central	Houston, Texas	180,000	9-story office building	100%	2007
The Lodge & Spa at Cordillera	Edwards, Colorado	—	land, hotel and development property	94%	2007
Northborough Tower	Houston, Texas	207,000	14-story office building	100%	2008
Royal Island <sup>(4)</sup>	Commonwealth of Bahamas	—	land	87%	2012

- (1) On August 5, 2014, we received the 5% interests of Chase Park Plaza Hotel and Chase — The Private Residences held by Kingsdell, L.P. and now own 100% of the entities.
- (2) Our Las Colinas Commons office building is classified as held for sale in our consolidated balance sheet as of December 31, 2015. We sold the property on February 2, 2016.
- (3) Our Frisco Square mixed-use development consists of 101,000 square feet of office space, 71,000 square feet of retail, a 41,500 square foot movie theater, 114 multifamily units, approximately 27 acres of land which we own 100%, and a 3.4 acre multifamily project in development in which we own a 90% interest.
- (4) Our initial investment in Royal Island was made in May 2007. We consolidated Royal Island as of June 6, 2012 when we obtained all of the outstanding shares of Royal Island (Australia) Pty Limited. A third party indirectly owns 12.71% of Royal Island.

During the year ended December 31, 2015, we recorded \$12.3 million of non-cash impairment charges as a result of measurable decreases in the fair value of four of our investments. See Note 4, Assets and Liabilities Measured at Fair Value - Nonrecurring Fair Value Measurements, for additional information.

***Hotel Operations***

On February 19, 2013, we: (a) terminated the Chase Park Plaza hotel operating lease which we had entered into in December 2006 with Kingsdell, L.P., a 5% limited partner in our Chase Park Plaza joint venture; (b) formed a wholly-owned entity to lease the hotel; (c) terminated CWE Hospitality Services, LLC as the hotel's management company; and (d) engaged an unaffiliated third-party management company to manage the hotel. As a result of the operational changes, effective February 19, 2013, we fully consolidate the operations of the hotel in our financial statements.

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**Notes to Consolidated Financial Statements**

Chase Park Plaza Hotel contributed a net loss of \$0.7 million to our consolidated statements of operations for the period from February 19, 2013 through December 31, 2013. The following unaudited pro forma summary presents financial information as if the hotel operations had been consolidated on January 1, 2012 (in thousands, except per share amounts):

<b>Description</b>	<b>Unaudited Pro Forma for the Twelve Months Ended December 31, 2013</b>
Rental revenue	\$ 20,007
Hotel revenue	33,313
Property operating expenses	11,127
Hotel operating expenses	25,331
Bad debt expense <sup>(1)</sup>	498
Net loss	(18,537)
Net loss per share	\$ (0.33)

These unaudited pro forma amounts have been calculated after applying our accounting policies and adjusting the results of Chase Park Plaza Hotel to reflect the elimination of the lease rental revenue and the consolidation of the hotel operations as if it had been applied from January 1, 2012.

***Real Estate Development***

*The Ablon at Frisco Square*

On August 26, 2014, we contributed 3.4 acres of land held by our Frisco Square mixed-use project to The Ablon at Frisco Square, LLC ("Ablon Frisco Square Venture"), a special purpose entity in which we own a 90% limited partnership interest. The venture was formed to construct a 275-unit multifamily project. Construction on the development began on September 2, 2014. Total construction costs are expected to be approximately \$42.1 million. Concurrently with the land contribution, the joint venture closed on a \$26.3 million construction loan. Construction costs drawn through December 31, 2015 were \$36.4 million. The expected delivery date of the development is the first quarter of 2016. See Note 9, Notes Payable, for additional information.

***Mezzanine Investment***

On August 18, 2015, we executed a consent and release agreement for the owner of Alexan Black Mountain to sell the multifamily property that was security for our mezzanine loan investment. The sale of the asset closed on August 19, 2015. We received less than \$0.1 million for executing the consent. Our mezzanine loan, which was fully reserved, was retired and the proceeds were recorded as other income.

***Discontinued Operations***

Effective January 1, 2015, we adopted the provisions of FASB guidance in ASU 2014-08, issued in April 2014, regarding the reporting of discontinued operations. As a result of this adoption, the results of operations and gains on sales of real estate for disposals from January 1, 2015 forward which do not meet the criteria of a strategic shift that has or will have a major effect on our operations and financial results will be presented as continuing operations in our consolidated statements of operations. We believe future sales of our individual operating properties will no longer qualify as discontinued operations. See Note 17, Discontinued Operations for more details.

**Behringer Harvard Opportunity REIT I, Inc.**  
**Notes to Consolidated Financial Statements**

***Investment in Unconsolidated Joint Venture***

The following table presents certain information about our unconsolidated investment as of December 31, 2015 and 2014 (\$ in thousands):

<b>Property Name</b>	<b>Ownership Interest</b>	<b>Carrying Value of Investment</b>	
		<b>December 31, 2015</b>	<b>December 31, 2014</b>
Central Europe Joint Venture	47.01%	\$ 13,953	\$ 15,948

Our investment in the unconsolidated joint venture as of December 31, 2015 and 2014 consisted of our proportionate share of the combined assets and liabilities of our investment property, shown at 100%, as follows (in thousands):

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Real estate assets, net	\$ 59,415	\$ 88,681
Cash and cash equivalents	6,827	3,872
Other assets	1,441	1,872
Total assets	<u>\$ 67,683</u>	<u>\$ 94,425</u>
Notes payable	\$ 40,895	\$ 65,373
Other liabilities	2,526	3,239
Total liabilities	<u>43,421</u>	<u>68,612</u>
Equity	<u>24,262</u>	<u>25,813</u>
Total liabilities and equity	<u>\$ 67,683</u>	<u>\$ 94,425</u>

**Behringer Harvard Opportunity REIT I, Inc.**  
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Our equity in earnings (losses) from our investment is our proportionate share of the combined earnings (losses) of our unconsolidated joint venture for the years ended December 31, 2015, 2014, and 2013, shown at 100%, as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Revenue	\$ 8,247	\$ 10,696	\$ 11,259
Operating expenses:			
Operating expenses	2,165	2,487	2,846
Property taxes	252	321	323
Total operating expenses	2,417	2,808	3,169
Operating income	5,830	7,888	8,090
Non-operating expenses:			
Depreciation and amortization	3,131	4,225	4,752
Impairment charge	2,634 (1)	—	5,913 (1)
Interest and other, net	3,244	3,743	1,029
Gain on sale	(3,294)	(442)	—
Gain on extinguishment of debt	(2,030)	—	—
Total non-operating expenses	3,685	7,526	11,694
Net income	\$ 2,145	\$ 362	\$ (3,604)
Equity in earnings of unconsolidated joint venture <sup>(2)</sup>	\$ 1,008	\$ 170	\$ (1,694)

(1) Our Central Europe Joint Venture recorded impairment charges of approximately \$2.6 million and \$5.9 million during the years ended December 31, 2015 and 2013, respectively.

(2) Company's share of net income (loss).

On February 1, 2015, one of the Central Europe Joint Venture properties was sold for €0.7 million or \$0.9 million. We recognized our portion of the net gain of less than €0.1 million, or less than \$0.1 million, as equity in earnings of unconsolidated joint venture during the year ended December 31, 2015. The net proceeds to the joint venture, after the repayment of debt and closing costs, were approximately €0.2 million.

On July 15, 2015, another Central Europe Joint Venture property was sold for €3.9 million or approximately \$4.3 million, based on the exchange rate in effect on July 15, 2015. We recognized our portion of the net gain of €0.2 million, or \$0.2 million, as equity in earnings of unconsolidated joint venture during the year ended December 31, 2015. The net proceeds to the joint venture, after the repayment of debt and closing costs, were approximately €1.4 million.

On October 21, 2015, another Central Europe Joint Venture property was sold for €13.1 million, or approximately \$14.8 million. We recognized our portion of the net gain of €2.5 million, or \$2.8 million, as equity in earnings of unconsolidated joint venture during the year ended December 31, 2015. The lender accepted €10.8 million as payment in full for the loan which had a balance of €12.6 million at the date of sale. As a result, the venture recognized a gain on extinguishment of debt of €1.8 million, or approximately \$2 million. The net proceeds to the joint venture, after the repayment of the debt and closing costs, were approximately €1.1 million.

All U.S. dollars related to the three properties we sold from the Central Europe Joint Venture during 2015 are based on the exchange rate in effect on the respective sale dates.

We will recognize CTA upon the sale of all or substantially all of the assets in our Central Europe Joint Venture, which is our only foreign investment. See Note 2, Summary of Significant Accounting Policies, Foreign Currency Translation.

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We evaluate our investment in unconsolidated joint venture at each reporting date. If we believe there is an other than temporary decline in market value, we will record an impairment charge based on these evaluations. We assess potential impairment by comparing our portion of estimated future undiscounted operating cash flows expected to be generated by the joint venture over the life of the joint venture's assets to the carrying amount of the joint venture. In the event that the carrying amount exceeds our portion of estimated future undiscounted operating cash flows, we recognize an impairment loss to adjust the carrying amount of the joint venture to its estimated fair value.

For the years ended December 31, 2015 and 2013, our Central Europe Joint Venture recorded impairment charges of \$2.6 million and \$5.9 million respectively, to bring certain assets to their fair value. The Company's portion of the impairment was \$1.2 million and \$2.8 million, respectively, which was recorded in the Company's statement of operations through equity in earnings (losses) of unconsolidated joint venture line item. There were no impairment charges recorded for the year ended December 31, 2014.

## **7. Real Estate Held for Sale**

As of December 31, 2015, Las Colinas Commons was classified as real estate held for sale on our consolidated balance sheet. We did not have any real estate assets classified as held for sale at December 31, 2014.

In 2006, we acquired Las Colinas Commons, an office building located in the Dallas, Texas area. We entered into a PSA with an unaffiliated third party on December 18, 2015 for a contract sales price of \$14.3 million. The sales transaction closed on February 2, 2016.

The following table presents net loss attributable to the Company for the three years ended December 31, 2015, 2014 and 2013 related to the Las Colinas Commons office building (in millions):

<b>Description</b>	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net loss attributable to the Company	\$ (0.3)	\$ (0.4)	\$ (0.3)

The major classes of assets and liabilities associated with our real estate held for sale as of December 31, 2015 were as follows (in thousands):

<b>Description</b>	<b>Amount</b>
Land and improvements, net	\$ 2,785
Building and improvements, net	8,362
Lease intangibles, net	668
Straight-line rent	864
Assets associated with real estate held for sale	<u>\$ 12,679</u>
Notes payable <sup>(1)</sup>	\$ 14,900
Accrued and other liabilities	66
Obligations associated with real estate held for sale	<u>\$ 14,966</u>

- (1) Las Colinas Commons and Northpoint Central are both borrowers under a loan that matures in May 2017. The Las Colinas Commons loan balance at December 31, 2015 is \$11.3 million. Under the terms of the loan, the lender requires a release price payment of \$14.9 million to release the Las Colinas Commons property from the loan. The \$3.6 million excess principal payment amount is used to reduce Northpoint Central's loan balance. We have reclassified the full release price as a liability associated with our real estate held for sale as of December 31, 2015.

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**8. Variable Interest Entities**

GAAP requires the consolidation of VIEs in which an enterprise has a controlling financial interest. A controlling financial interest will have both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

In February 2015, the FASB issued an update ("ASU No. 2015-02") to ASC Topic 810, Amendments to the Consolidation Analysis. ASU 2015-02 makes several modifications to the consolidation guidance for VIEs and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. The amendments in ASU 2015-02 are effective for public companies in interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted. Adoption of ASU 2015-02, effective January 1, 2016, will result in additional disclosures, however, it will not impact our consolidated financial position, results of operations, or cash flows.

Our variable interest in VIEs may be in the form of (i) equity ownership and/or (ii) loans provided by us to a VIE or other partner. We examine specific criteria and use judgment when determining if we are the primary beneficiary of a VIE. Factors considered in determining whether we are the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE's executive committee, existence of unilateral kick-out rights or voting rights, level of economic disproportionality between us and the other partner(s), and contracts to purchase assets from VIEs.

**9. Notes Payable**

The following table sets forth our notes payable on our consolidated properties at December 31, 2015 and 2014 (\$ in thousands):

Description	Notes Payable as of		Interest Rate	Maturity Date
	December 31, 2015	December 31, 2014		
Northborough Tower	\$ 18,516	\$ 19,071	5.67%	1/11/2016
Royal Island	13,872	13,872	15.00%	10/10/2016
Northpoint Central	11,720 (1)	15,574	5.15%	5/9/2017
Las Colinas Commons	N/A (1)	11,484	5.15%	5/9/2017
Chase Park Plaza Hotel and Chase— The Private Residences	62,182	62,500	4.95%	8/11/2017
BHFS II, LLC	6,856	6,962	30-day LIBOR + 3% <sup>(2)</sup>	2/1/2018
BHFS III, LLC	6,154	6,250	30-day LIBOR + 3% <sup>(2)</sup>	2/1/2018
BHFS IV, LLC	12,783	12,983	30-day LIBOR + 3% <sup>(2)</sup>	2/1/2018
BHFS Theatre, LLC	4,785	4,860	30-day LIBOR + 3% <sup>(2)</sup>	2/1/2018
The Ablon at Frisco Square	18,679	—	30-day LIBOR + 2.5% <sup>(2)</sup>	8/26/2017
	<u>\$ 155,547</u>	<u>\$ 153,556</u>		
Notes payable included with Obligations related to real estate held for sale:				
Las Colinas Commons	14,900 (1)	n/a (1)	5.15%	5/9/2017
Total notes payable obligations	<u>\$ 170,447</u>	<u>\$ 153,556</u>		

- (1) Las Colinas Commons and Northpoint Central are both borrowers under a loan that matures in May 2017. The Las Colinas Commons loan balance at December 31, 2015 is \$11.3 million. Under the terms of the loan, the lender requires a release price payment of \$14.9 million to release the Las Colinas Commons property from the loan. The \$3.6 million excess principal payment amount is used to reduce Northpoint Central's loan balance. We have reclassified the full release price as a liability associated with our real estate held for sale as of December 31, 2015.
- (2) 30-day LIBOR was 0.43% at December 31, 2015.



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At December 31, 2015, our notes payable balance was \$155.5 million, excluding \$14.9 million of contractual obligations on real estate held for sale, as compared to \$153.6 million as of December 31, 2014 and consisted of new financing and loan assumptions related to our consolidated property acquisitions.

Each of our notes payable is collateralized by one or more of our properties. At December 31, 2015, our notes payable interest rates ranged from 2.9% to 15%, with a weighted average interest rate of approximately 5.4%. Of our \$155.5 million in notes payable at December 31, 2015, \$49.3 million represented debt subject to variable interest rates. At December 31, 2015, our notes payable had maturity dates that ranged from January 2016 to February 2018. We have unconditionally guaranteed payment of the notes payable related to the four loan tranches associated with our Frisco Square investment (the “BHFS Loans”) up to \$11.2 million. The BHFS Loans had an outstanding balance at December 31, 2015 of \$30.6 million.

Las Colinas Commons and Northpoint Central are both borrowers under a loan that matures in May 2017. The Las Colinas Commons loan balance at December 31, 2015 is \$11.3 million. Under the terms of the loan, the lender requires a release price payment of \$14.9 million to release the Las Colinas Commons property from the loan. The \$3.6 million excess principal payment amount is used to reduce Northpoint Central’s loan balance. We have reclassified the full release price as a liability associated with our real estate held for sale as of December 31, 2015.

***Ablon at Frisco Square Financing***

On August 26, 2014, The Ablon at Frisco Square venture obtained a \$26.3 million construction loan. The loan incurs interest at 30-day LIBOR plus 2.5% and has a 3-year term with two 12-month extensions available. Payments of interest-only are required during the initial 3-year term. Equity of \$15.8 million must be contributed to the project before any draws under the loan. As of December 31, 2015, the partners have funded \$15.8 million of equity (which includes land) towards the construction. We have drawn approximately \$18.7 million under the construction loan as of December 31, 2015. Our joint venture partner, or one of its affiliates, has provided the completion guaranty and any other carve-out guaranties for the construction loan.

***Northborough Tower Debt Lender Sweep***

During the third quarter of 2015, Northborough Tower’s single tenant vacated the building. The tenant’s lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account, consisting primarily of tenant rental payments, to be deposited into a lender-controlled and administered bank account. In December 2015, the lender exercised its right to control the operating funds of the property.

We have been actively marketing the Northborough Tower property for sale; however, we have not received any offers above the loan balance. The outstanding principal balance of the loan was approximately \$18.5 million at December 31, 2015. We did not pay the outstanding principal balance of the loan at maturity, January 11, 2016, which constituted an event of default. The lender has been funding the operations of the property from the tenant rental funds and indicated they expect to continue to do so. The loan is non-recourse to the Company and we have been in discussions with the lender’s special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016.

Northborough Tower accounted for \$5.7 million, or 40%, of our aggregate annual rental revenue from our consolidated office properties, and 11% of our total revenues, excluding revenues for Las Colinas Commons which was classified as real estate held for sale as of December 31, 2015. The carrying value of the Northborough Tower asset at December 31, 2015, was \$15.2 million.

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**Contractual Obligations**

The following table summarizes our aggregate contractual obligations for principal payments as of December 31, 2015 (in thousands):

<b>Principal Payments Due:</b>	<b>Amount<sup>(1)</sup></b>
2016	\$ 35,557
2017	71,839
2018	29,456
2019	18,680
2020	—
Thereafter	—
Total contractual obligations	155,532
Unamortized premium	15
Total	<u>\$ 155,547</u>

(1) Our office building, Las Colinas Commons, was classified as real estate held for sale on our consolidated balance sheet as of December 31, 2015. Total contractual obligations does not include \$14.9 million of debt that is classified as obligations related to real estate held for sale as of December 31, 2015.

We are subject to customary affirmative, negative, and financial covenants and representations, warranties, and borrowing conditions, all as set forth in our loan agreements, including, among other things, maintaining minimum debt service coverage ratios, loan to value ratios and liquidity. As of December 31, 2015, we believe we were in compliance with the covenants under our loan agreements.

**10. Derivative Instruments and Hedging Activities**

We may be exposed to the risk associated with variability of interest rates that might impact our cash flows and the results of operations. Our hedging strategy of entering into interest rate caps and swaps, therefore, has been to eliminate or reduce, to the extent possible, the volatility of cash flows.

In November 2011, we entered into an interest rate cap agreement related to our Chase Park Plaza Hotel debt. We refinanced this debt on August 11, 2014 and the interest rate cap was cancelled. The new loan bears interest at a fixed rate of 4.95%; therefore, we will not enter into an interest rate cap agreement for this loan.

We had no derivative instruments as of December 31, 2015 and 2014. During the year ended December 31, 2014, we recorded a reclassification of unrealized loss of less than \$0.1 million to interest expense to adjust the carrying amount of the interest rate cap related to our Chase Park Plaza Hotel debt which qualified as a non-hedge for the period January 1, 2014 to August 11, 2014, the date we refinanced such debt. There was no gain or loss recorded for the year ended December 31, 2015.

The table below presents the effect of our derivative financial instruments on the consolidated statements of operations and comprehensive loss for the year ended December 31, 2014 (in thousands):

<b>Description</b>	<b>Derivatives Not Designated as Hedging Instruments</b>
	<b>Amount of Loss<sup>(1)</sup></b>
	<b>Year Ended December 31, 2014</b>
Interest rate	\$ 86

(1) Amounts related to interest rate derivative contracts are included in interest expense.

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**11. Leasing Activity**

Future minimum base rental payments of our office properties due to us under non-cancelable leases in effect as of December 31, 2015 for our consolidated properties are as follows (in thousands):

<b>Year</b>	<b>Future Minimum Base Rental</b>
2016	\$ 13,165
2017	11,954
2018	5,312
2019	3,751
2020	2,994
2021	2,364
2022	1,913
2023	1,511
2024	976
2025	957
Thereafter	660
Total	<u>\$ 45,557</u>

The schedule above does not include rental payments due to us from our multifamily, hotel and student housing properties, as leases associated with these properties typically are for periods of one year or less. We have excluded Las Colinas Commons, our office building located in Texas, from the schedule above as it was classified as held for sale at December 31, 2015.

**Significant Tenants**

As of December 31, 2015, we had one lease that accounted for 10% or more of our aggregate annual rental revenue from our consolidated office properties. Northborough Tower, a single-tenant office building accounted for \$5.7 million (or 40%) of our aggregate annual rental revenue from our consolidated office properties, and 11% of our total revenues, excluding revenues for Las Colinas Commons which was classified as real estate held for sale as of December 31, 2015. During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. We did not pay the outstanding principal balance of the loan at maturity, January 11, 2016, which constituted an event of default. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account, consisting primarily of tenant rental payments, to be deposited into a lender-controlled and administered bank account to be applied to the outstanding principal balance. In December 2015, the lender exercised its right to control the operating funds of the property. The lender has been funding the operations of the property from the tenant rental funds and indicated they expect to continue to do so. The loan is non-recourse to the Company and we have been in discussions with the lender's special servicer to transfer the asset to the lender. On February 5, 2016, we received a notice from the lender of their intent to increase the interest on the Northborough loan to the default interest rate of 8.67%, effective January 12, 2016, due to the maturity default. On March 15, 2016, we received notice that Northborough Tower had been posted for foreclosure on April 5, 2016. The balance of the nonrecourse debt, secured by Northborough, was \$18.5 million at December 31, 2015. The carrying value of the asset was \$15.2 million at December 31, 2015.

**Geographic Concentration**

At any one time, a significant portion of our consolidated investments could be in one property class or concentrated in one or several geographic regions. For the year ended December 31, 2015, excluding revenue of \$2.7 million for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015, and mineral rights we received in 2015 of less than \$0.1 million on a parcel of land we sold in 2013, 60%, 32% and 8% of our total revenues were derived from properties in Missouri, Texas and Colorado, respectively. Additionally, excluding revenue of \$2.7 million for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015, and mineral rights we received in 2015 of less than \$0.1 million on a parcel of land we sold in 2013, 68%, 28% and 4% of our total revenues for the year ended December 31, 2015 were from our three asset types, hotel, office building and multifamily. To the extent that our portfolio is concentrated in limited geographic regions, types of assets, industries or business sectors, downturns relating generally to such

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region, type of asset, industry or business sector may result in defaults by our tenants within a short time period, which may reduce our net income and the value of our common stock and accordingly limit our ability to fund our operations.

Excluding revenue of \$2.7 million for Las Colinas Commons, which was classified as real estate held for sale as of December 31, 2015, and mineral rights we received in 2015 of less than \$0.1 million on a parcel of land we sold in 2013, three of our consolidated properties represented more than 10% of our 2015 total revenue: Chase Park Plaza at 60%; Frisco Square at 14%; and Northborough Tower at 11%. During the third quarter of 2015, Northborough Tower's single tenant vacated the building. The tenant's lease does not expire until April 2018, and the tenant has continued to make its monthly rental payment. The cash management agreement provides that upon an event of default, the lender can cause all funds in the property account to be deposited into a lender-controlled and administered bank account. In December 2015, the lender exercised its right to control the operating funds of the property. See Note 9, Notes Payable, for additional information.

## **12. Commitments and Contingencies**

### *Frisco Square*

In connection with our investment in the Frisco Square property, we are responsible, through our wholly owned subsidiaries who hold title to the Frisco Square property, for half of the bond debt service related to the \$12.5 million of bonds (the "Bond Obligation") the City of Frisco issued to fund public improvements within the Frisco Square Management District (the "MMD"). For each \$1 million increase in assessed value for the real property within the MMD above \$125 million, the Bond Obligation will be reduced by 1% and will terminate at \$225 million of real property values. The total outstanding Bond Obligation at December 31, 2015 and 2014 was \$4.7 million and \$5.1 million, respectively. As of December 31, 2015 the assessed value of the real property within the MMD is assessed at \$174 million therefore we are currently responsible for 26% of the bond debt service payments.

Although, as described above, we are ultimately responsible for 26% of the bond debt service payments, the Frisco Square Property Owner's Association (the "POA") has the authority to assess its members for various monetary obligations related to the Frisco Square development, including the Bond Obligation, based upon the value of the real property and real property improvements. We are not the sole member of the POA. For 2015, the annual bond debt service assessed by the POA is approximately \$0.4 million. For the year ended December 31, 2015, we expensed less than \$0.1 million for our pro rata share of the annual bond debt service. For the year ended December 31, 2014, we had an expense credit of less than \$0.1 million related to bond debt service. The expense is included in the accompanying consolidated statements of operations and other comprehensive loss.

Under a development agreement with the City of Frisco, we are obligated to construct a minimum of two parking garages with 720 spaces by February 1, 2018 (the "Parking Obligation"). The City of Frisco secured the Bond Obligation and the Parking Obligation by placing liens on the vacant land held by our indirect, wholly owned subsidiary, BHFS I, LLC. In the event we sell all or a part of the vacant land, 33% of the net sales proceeds are to be deposited into an escrow account ("City Escrow") for the benefit of the City of Frisco to secure the Parking Obligation until the amount in the City Escrow account is \$7 million. Currently, the City Escrow account balance is \$1.4 million and the book value of the BHFS I, LLC land and land improvements at December 31, 2015 are approximately \$16 million. On February 4, 2014, the City of Frisco amended the Parking Obligation with respect to its lien on the vacant land held by us. Under the amended Parking Obligation, if we contribute land for the development of a garage constructed for a certain building and parking garage development (the "Gearbox" development), construct a proposed multifamily development (including a related garage) and build a structured public parking garage, that when combined with the Gearbox garage, provides 108 parking spaces that are open and free to the public at all times, the City of Frisco will not require any further escrow of funds from the sale of Frisco Square land and will release the lien on the land.

On June 13, 2014, we sold 1.62 acres of land to Frisco Square Developers, LLC for the Gearbox development for approximately \$1.8 million and escrowed \$0.6 million of the proceeds from the sale. Concurrently, we contributed 1.66 acres of land for the development of the Gearbox development. We agreed to contribute approximately \$1.7 million to build 152 additional spaces in the Gearbox development. The funds for the 152 spaces and related infrastructure costs were placed in an escrow account ("Parking Garage Escrow") in December 2014 and were drawn as construction on the garage was completed. In November 2015, the garage was completed and the final remaining funds in the Parking Garage Escrow account were disbursed. As of December 31, 2015 the Parking Garage Escrow account was zero.

On August 26, 2014, we contributed 3.4 acres of land held by our Frisco Square mixed use project to The Ablon at Frisco Square, LLC ("Ablon Venture"), a special purpose entity in which we own a 90% limited partnership investment. Ablon Multifamily III, L.P. ("Ablon") holds a 10% interest in the Ablon Venture and is the managing member. In accordance with the agreement, we contributed the land for a \$2.5 million equity credit. In accordance with GAAP, we transferred the land at the full carrying value of \$2.8 million to the Construction in Progress (Real Estate Under Development) account. The Ablon Venture was formed to construct a 275-unit multifamily project. On August 7, 2014, the Ablon Venture executed at \$33.2

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million general construction contract. Construction commenced on September 2, 2014. Total construction costs are expected to be approximately \$42.1 million. Concurrently with the land contribution the Ablon Venture closed on a \$26.3 million construction loan. Proceeds from the construction loan cannot be drawn until the venture partners have contributed \$15.8 million of equity. As of December 31, 2015, the partners have funded all of the required equity (which includes land). As of December 31, 2015, we have drawn \$18.7 million under the construction loan. Ablon, or its principals, are the guarantors for the construction loan. The first phase of the project, which includes the parking garage, was completed in February 2016 and final completion of the project is expected in March 2016.

On August 7, 2014 BHFS II, LLC entered into a \$3.4 million general construction contract for a 226 space public parking garage. On September 2, 2014, construction commenced and on November 3, 2015, the garage was completed. We believe the completion of the three garages discussed above have fulfilled our Parking Obligation, as amended, and we have submitted our request to the City of Frisco to release the liens on the undeveloped land in the City Escrow.

*Chase Park Plaza Hotel*

On February 19, 2013, Chase Park Plaza Hotel, LLC (“Plaintiff”) filed suit against James L. Smith, Francine V. Smith, Marcia Smith Niedringhaus, Kingsdell L.P., IFC, Inc. and CWE Hospitality Services, LLC (“CWE”) (collectively, the “Smith Defendants”) in the 22nd Judicial Circuit Court of the City of St. Louis, Missouri to take over control of the Hotel and against the former manager for damages associated with his theft and mismanagement. A temporary restraining order (“TRO”) was entered the same day terminating the Hotel Operating Agreement between CWE and Kingsdell and the lease between Plaintiff, as lessor, and Kingsdell, as lessee, of the Chase Park Plaza Hotel and ordering Plaintiff to take immediate and exclusive possession of the Chase Park Plaza real property, improvements, and personal property. The TRO also ordered the defendants to turn over the property, keys, books, records, licenses, and permits to Plaintiff.

The Smith Defendants countersued for wrongful termination and a termination fee. Plaintiff amended its petition to add as parties, based on civil conspiracy and tortious interference with contracts causes of action, claims against the Smith Defendants’ attorneys and accountants. The case as to the Smith Defendants was settled on August 5, 2014, resulting in Chase Park Plaza Hotel obtaining Smith Defendants’ 5% ownership interest in the Hotel. As of February 19, 2015, Plaintiff is in settlement negotiations with the Smith Defendants’ attorneys and accountants.

### **13. Stockholders’ Equity**

On November 23, 2004 (date of inception), we sold 1,000 shares of convertible stock and 21,739 shares of common stock to Behringer Harvard Holdings, LLC for \$201,000 in cash. Pursuant to its terms, the convertible stock generally is convertible into shares of our common stock with a value equal to 15% of the amount by which (i) our enterprise value, including the total amount of distributions paid to our stockholders, exceeds (ii) the sum of the aggregate capital invested by our stockholders plus a 10% cumulative, non-compounded, annual return on such capital. At the date of issuance of the shares of convertible stock, management determined the fair value under GAAP was less than the nominal value paid for the shares; therefore, the difference is not material. Conversion of the convertible stock may be limited by our board of directors if it determines that full conversion may jeopardize our qualification as a REIT. Our board of directors may authorize additional shares of capital stock and their characteristics without obtaining stockholder approval.

***Share Redemption Program***

In February 2006, our board of directors authorized a share redemption program for stockholders who held their shares for more than one year. Under the program, our board reserved the right in its sole discretion at any time, and from time to time, to (i) waive the one-year holding period in the event of the death, disability or bankruptcy of a stockholder or other exigent circumstances, (ii) reject any request for redemption, (iii) change the purchase price for redemptions, or (iv) terminate, suspend or amend the share redemption program.

In January 2011, the board completely suspended the redemption program and has not considered any redemption requests since 2010. Therefore, we did not redeem any shares of our common stock during the year ended December 31, 2015. An aggregate total of 984,267 shares of common stock have been redeemed since inception.

***Distributions***

We initiated the payment of monthly distributions in August 2006. Pursuant to our distribution reinvestment plan (the “DRP”), many of our stockholders elected to reinvest any cash distributions in additional shares of common stock. We have recorded all distributions when declared, except for the stock issued through the DRP which has been recorded when the shares were actually issued.

Distributions are authorized at the discretion of our board of directors based on its analysis of our forthcoming cash needs, earnings, cash flow, anticipated cash flow, capital expenditure requirements, cash on hand, general financial condition

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and other factors that our board deems relevant. The board's decision will be influenced, in substantial part, by its obligation to ensure that we maintain our status as a REIT. In connection with entering our disposition phase, on March 28, 2011, our board of directors discontinued regular quarterly distributions. Any future distributions will be based on available cash after weighing operational needs.

Historically, distributions paid to stockholders have been funded through various sources, including cash flow from operating activities, proceeds raised as part of our initial public offering, reinvestment through our distribution reinvestment plan and/or additional borrowings. We paid no distributions to stockholders during the years ended December 31, 2015, 2014 and 2013.

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**14. Stock-Based Compensation**

Our board of directors originally approved the Behringer Harvard Opportunity REIT I, Inc. Incentive Award Plan on November 23, 2004. An Amended and Restated 2004 Incentive Award Plan (“Incentive Award Plan”) was approved by our board of directors on July 19, 2005 and by our stockholders on July 25, 2005. The Incentive Award Plan provides for equity awards to our directors and consultants and to employees, directors, and consultants of our affiliates. In November 2008, the board of directors approved an amendment to the grantees’ stock option agreements for all awards granted prior to December 31, 2007, setting forth a revised vesting and expiration schedule. Accordingly, all options granted prior to December 31, 2007 that were previously outstanding and fully vested were subject to the revised vesting and expiration schedule as follows: 25% became exercisable in each of the calendar years 2010 and 2011 with the remaining 50% exercisable in the calendar year 2012. Any vested awards not exercised in the calendar year specified were forfeited and were no longer exercisable. None of the options granted prior to December 31, 2007 were exercised and all expired as of December 31, 2012.

Options to acquire 5,000 shares of our common stock were awarded to each of Ms. Bufkin, Mr. Gage and Mr. Kaplan on July 24, 2008, June 22, 2009, October 18, 2010, October 17, 2011 and November 9, 2012 in connection with their reelection to our board of directors each year. As of December 31, 2015, each of Ms. Bufkin, Mr. Gage and Mr. Kaplan have 25,000 stock options for a total of 75,000 stock options outstanding at December 31, 2015.

On March 25, 2013, our board of directors, voted to amend the Incentive Award Plan to eliminate the automatic option grant. We did not recognize any incremental compensation cost as a result of these modifications. As no awards could be granted after November 2014, there were no stock options granted, exercised, forfeited or expired in 2015.

The following table summarizes the outstanding options, options granted, exercised, and forfeited or expired, as well as the corresponding weighted average exercise prices, for the years ended December 31, 2015, 2014 and 2013:

<b>Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at January 1, 2013	75,000	\$ 7.50
Granted	—	
Exercised	—	
Forfeited or expired	—	
Outstanding at December 31, 2013	75,000	7.50
Granted	—	
Exercised	—	
Forfeited or expired	—	
Outstanding at December 31, 2014	75,000	7.50
Granted	—	
Exercised	—	
Forfeited or expired	—	
Outstanding at December 31, 2015	75,000 (1)	7.50
Exercisable at December 31, 2015	75,000	7.50

(1) The remaining contractual life of the outstanding options is 3.3 years.

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## **15. Related Party Transactions**

The Advisor and certain of its affiliates receive fees and compensation in connection with the acquisition, financing, management, and sale of our assets.

Since our inception, the Advisor or its predecessors have been responsible for managing our day-to-day affairs and for, among other things, identifying and making acquisitions and other investments on our behalf. Our relationship with the Advisor, including the fees paid by us to the Advisor or the reimbursement of expenses by us for amounts paid, or incurred by the Advisor, on our behalf is governed by an advisory management agreement that has been in place since September 20, 2005 and amended at various times thereafter. We entered into the Third Amended and Restated Advisory Management Agreement effective May 15, 2013 for a term of one-year. When the Advisory Agreement expired on May 15, 2014, we renewed it on the same terms for an additional one-year term with an expiration date of May 15, 2015. We then renewed the Advisory Agreement for additional one-month terms on both May 8, 2015 and June 15, 2015, which extended the Advisory Agreement to July 15, 2015. On July 8, 2015, we entered into the First Amendment to Third Amended and Restated Advisory Management Agreement with the Advisor that renewed the Advisory Agreement for a ten-month term with an expiration date of May 15, 2016. The Amendment amended the Advisory Agreement to (i) limit certain cost reimbursements to the Advisor for administrative services, to be effective January 1, 2015, and (ii) document a waiver of \$200,000 of acquisition fees related to the construction of The Ablon at Frisco Square multifamily development. In all other material respects, the terms of the Advisory Agreement remain unchanged.

We pay the Advisor, or its affiliates, an asset management fee of 0.575% of the aggregate asset value of acquired real estate and real estate-related assets other than Alexan Black Mountain and Royal Island. The fee is payable monthly in arrears in an amount equal to one-twelfth of 0.575% of the aggregate asset value as of the last day of the month. For each of the years ended December 31, 2015, 2014 and 2013, we incurred \$2.3 million of asset management fees. Amounts for the year ended December 31, 2013 include asset management fees that were classified in discontinued operations for our held for sale property and our disposed properties.

The Advisor, or its affiliates, receive acquisition and advisory fees of 2.5% of the contract purchase price of each asset for the acquisition, development or construction of real property or 2.5% of the funds advanced in respect of a loan investment. For the years ended December 31, 2015 and 2014, we incurred acquisition and advisory fees of \$0.3 million and \$0.2 million, respectively, related to The Ablon at Frisco Square development. As noted above, during the year ended December 31, 2015, the Advisor waived \$200,000 of acquisition fees related to the construction of The Ablon at Frisco Square. For the year ended December 31, 2013, there were no acquisition and advisory fees.

Under the Advisory Agreement, the debt financing fee paid to the Advisor for a Loan (as defined in the Advisory Agreement) will be 1% of the loan commitment amount. Amounts due to the Advisor for a Revised Loan (as defined in the agreement) will be 40 basis points of the loan commitment amount for the first year of any extension (provided the extension is for at least 120 days), an additional 30 basis points for the second year of an extension, and another 30 basis points for the third year of an extension in each case, prorated for any extension period less than a full year. The maximum debt financing fee for any extension of three or more years is 1% of the loan commitment amount. We incurred \$0.6 million in debt financing fees for the year ended December 31, 2014 related to the Chase Park Plaza Hotel debt that we refinanced on August 11, 2014. We did not incur any debt financing fees for the years ended December 31, 2015 and 2013.

Subject to certain restrictions as described in the Amendment, we reimburse the Advisor or its affiliates for all expenses paid or incurred by them in connection with the services they provide to us, including direct expenses and the costs of salaries and benefits of persons employed by those entities and performing services for us, subject to the limitation that we will not reimburse for any amount by which our Advisor's operating expenses (including the asset management fee) at the end of the four fiscal quarters immediately preceding the date reimbursement is sought exceeds the greater of: (i) 2% of our average invested assets or (ii) 25% of our net income for that four quarter period other than any additions to reserves for depreciation, bad debts or other similar non-cash reserves and any gain from the sale of our assets for that period. Notwithstanding the preceding sentence, we may reimburse the Advisor for expenses in excess of this limitation if a majority of our independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. In addition, pursuant to the Amendment, our obligation to reimburse the Advisor for certain costs incurred in connection with administrative services is limited to \$1.7 million. We do not reimburse our Advisor for the salaries and benefits that our Advisor or its affiliates pay to our named executive officers. For the years ended December 31, 2015, 2014 and 2013, we incurred costs for administrative services of \$1.4 million, \$1.7 million and \$1.4 million, respectively.

We pay our property manager and affiliate of the Advisor, Behringer Harvard Opportunity Management Services, LLC or its affiliates (collectively, "BH Property Management"), fees for management, leasing, and maintenance supervision of our properties. Such fees are equal to 4.5% of gross revenues plus leasing commissions based upon the customary leasing commission applicable to the same geographic location of the respective property. We will pay BH Property Management an



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oversight fee equal to 0.5% of gross revenues of the property managed if we contract directly with a non-affiliated third-party property manager in respect of the property. In no event will we pay both a property management fee and an oversight fee to BH Property Management with respect to any particular property. If we own a property through a joint venture that does not pay BH Property Management directly for its services, we will pay BH Property Management a management fee or oversight fee, as applicable, based only on our economic interest in the property. We incurred property management fees or oversight fees of \$0.7 million, \$0.9 million and \$1 million during the years ended December 31, 2015, 2014 and 2013, respectively.

At December 31, 2015 and 2014, we had a payable to our Advisor and its affiliates of \$0.8 million and \$1.1 million, respectively. These balances consist of accrued fees, including asset management fees, administrative service expenses, property management fees and other miscellaneous costs payable to the Advisor and BH Property Management.

We are dependent on the Advisor and BH Property Management for certain services that are essential to us, including asset disposition decisions, property management and leasing services, and other general administrative responsibilities. If these companies are unable to provide us with the respective services, we would be required to obtain such services from other sources.

## **16. Supplemental Cash Flow Information**

Supplemental cash flow information is summarized below for the years ended December 31, 2015, 2014, and 2013:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Supplemental disclosure:</b>			
Interest paid, net of amounts capitalized	\$ 5,402	\$ 7,188	\$ 11,414
Reorganization expenses paid	—	—	768
Income taxes paid, net of refunds	140	135	198
<b>Non-cash investing and financing activities:</b>			
Property and equipment additions and purchases of real estate in accrued liabilities	2,580	1,479	1,353
Capital expenditures for real estate under development in accounts payable and accrued liabilities	1,940	1,817	47
Additions to real estate under development reclassified from land	108	3,346	—
Additions to building and building improvements reclassified from real estate under development	6,879	—	—
Additions to land and land improvements reclassified from real estate under development	542	170	—
Additions to furniture, fixtures and equipment reclassified from real estate under development	—	211	—
Amortization of deferred financing fees in properties under development	88	31	—
Transfer of noncontrolling interest	—	2,136	—
Capitalized deferred financing costs in accrued liabilities	—	31	—
<b>Consolidation of hotel operations with no consideration paid:</b>			
Assets consolidated	—	—	(2,649)
Liabilities consolidated	—	—	2,649

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**Notes to Consolidated Financial Statements**

**17. Discontinued Operations**

Effective as of January 1, 2015, we adopted the revised guidance for discontinued operations as further discussed in Note 3, New Accounting Pronouncements. For sales of real estate or assets classified as held for sale after January 1, 2015, we will evaluate whether the disposal transaction meets the criteria of a strategic shift and will have a major effect on our operations and financial results to determine if the results of operations and gains on sale of real estate will be presented as part of our continuing operations or as discontinued operations in our consolidated statements of operations. If the disposal represents a strategic shift, it will be classified as discontinued operations for all periods presented; if not, it will be presented in continuing operations. Any sales of real estate prior to January 1, 2015 that were reported in discontinued operations in prior reporting periods will continue to be reported as discontinued operations.

The following table summarizes the disposition of our properties during 2013 (in millions):

<b>Property Name</b>	<b>Date of Disposition</b>	<b>Contract Sales Price</b>
Becket House	April 5, 2013	\$ 19.8
Rio Salado	May 28, 2013	9.3
4950 S. Bowen Road	October 22, 2013	1.6

We classified the results of operations for Becket House into discontinued operations in the accompanying consolidated statements of operations and comprehensive loss for the year ended December 31, 2013. We did not classify the results of operations for Rio Salado and 4950 S. Bowen Road into discontinued operations as they represent land-only interests. The following table summarizes the income from discontinued operations for Becket House for the year ended December 31, 2013 (in thousands):

<b>Description</b>	<b>Year Ended December 31, 2013</b>
<b>Revenues</b>	
Rental revenue	\$ 514
<b>Expenses</b>	
Property operating expenses	189
Bad debt expense	(111)
Interest expense	633
Real estate taxes	(21)
Impairment charge	305
Property management fees	24
Asset management fees	16
Depreciation and amortization	—
Total expenses	1,035
Interest Income	(2)
Realized loss on currency translation adjustment <sup>(1)</sup>	(3,624)
Gain on troubled debt restructuring <sup>(1)</sup>	8,132
Income from discontinued operations	3,985
Loss attributable to noncontrolling interests	(1,460)
Income from discontinued operations attributable to the Company	\$ 2,525

(1) Due to the sale of Becket House on April 5, 2013, \$3.6 million was reclassified from unrealized foreign currency translation loss in OCI to net loss and \$8.1 million was recorded as a gain on troubled debt restructuring.

We did not classify the condominiums sold during 2013 at Chase—The Private Residences as discontinued operations. Additionally, on June 13, 2014, we sold 1.62 acres of land that was a part of our Frisco Square investment to an unaffiliated third party that is not included in discontinued operations.

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**18. Quarterly Results (Unaudited)**

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2015 and 2014 (in thousands, except per share amounts):

	<b>2015 Quarters Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Revenue	\$ 12,025	\$ 15,081	\$ 14,863	\$ 13,422
Loss from continuing operations	(4,392)	(2,934)	(16,547)	(1,701) (1)
Gain on sale of real estate	—	—	—	—
Add: Net loss attributable to the noncontrolling interest	97	92	84	113
Net loss attributable to common stockholders	(4,295)	(2,842)	(16,463)	(1,588)
Basic and diluted weighted average shares outstanding	56,500	56,500	56,500	56,500
Basic and diluted loss per share	\$ (0.08)	\$ (0.05)	\$ (0.29)	\$ (0.03)

- (1) We recorded the following non-cash impairment charges during the year ended December 31, 2015: (i) a \$0.7 million impairment for our one remaining condominium unit at Chase - The Private Residences, and (ii) a total of \$11.6 million was recorded during 2015 for non-cash impairment charges which consisted of \$6.8 million for our Frisco Square land, \$2.1 million for Northborough Tower and \$2.7 million for Northpoint Central. See Note 4, Assets and Liabilities Measured at Fair Value - Nonrecurring Fair Value Measurements, for additional information.

	<b>2014 Quarters Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Revenue	\$ 12,418	\$ 15,009	\$ 14,838	\$ 13,222
Loss from continuing operations	(4,270)	(2,907)	(3,546)	(13,697) (1)
Gain on sale of real estate	—	476	—	—
Add: Net loss attributable to the noncontrolling interest	97	104	104	109
Net loss attributable to common stockholders	(4,173)	(2,327)	(3,442)	(13,588)
Basic and diluted weighted average shares outstanding	56,500	56,500	56,500	56,500
Basic and diluted loss per share	\$ (0.08)	\$ (0.04)	\$ (0.06)	\$ (0.24)

- (1) During the fourth quarter of 2014, we recorded a non-cash impairment charge of \$9.4 million related to our Northborough office building. See Note 4, Assets and Liabilities Measured at Fair Value - Nonrecurring Fair Value Measurements, for additional information.

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**Valuation and Qualifying Accounts and Reserves**  
**Schedule II**  
**December 31, 2015, 2014, and 2013**  
**(in thousands)**

	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
<i>Year ended December 31, 2015</i>					
Allowance for doubtful accounts	\$ 207	58	—	19	\$ 246
Allowance for loan loss	13,670	—	—	13,670 (1)	—
<i>Year ended December 31, 2014</i>					
Allowance for doubtful accounts	\$ 2,375	\$ 137	\$ —	\$ 2,305	\$ 207
Allowance for loan loss	13,897	—	—	227	13,670
<i>Year ended December 31, 2013</i>					
Allowance for doubtful accounts	\$ 234	\$ 2,585	\$ —	\$ 444	\$ 2,375
Allowance for loan loss	13,897	—	—	—	13,897

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- (1) In September 2007, we made mezzanine loans to the owner and developer of Alexan Black Mountain Apartments, a multifamily community located in Henderson, Nevada, and obtained an option to purchase the property after completion of construction. On August 18, 2015, we entered into a letter agreement with the owner pursuant to which we consented to the sale of Alexan Black Mountain Apartments to a third party for an amount less than the senior mortgage loan on the property and released our option rights in exchange for a payment of less than \$0.1 million. The sale of the property closed on August 19, 2015. Our mezzanine loan, which was fully reserved, was retired and the proceeds were recorded as other income.

**Behringer Harvard Opportunity REIT I, Inc.**  
**Real Estate and Accumulated Depreciation**  
**Schedule III**  
**December 31, 2015**  
**(\$ in thousands)**

Initial Cost											
Property Name	Location	Encumbrances	Land and improvements	Building and improvements	Cost capitalized subsequent to acquisition <sup>(1)</sup>	Gross amount carried at close of period	Accumulated depreciation	Year of construction	Date acquired	Depreciable life	
Chase Park Plaza	St. Louis, MO	\$ 62,182	\$ 3,612	\$ 50,143	\$ 40,915	\$ 94,670	\$ 21,200	1922 - 1931	12/8/2006	(2)	
The Lodge & Spa at Cordillera	Edwards, CO	—	9,398	7,468	(6,603)	10,263	1,810	1988	6/6/2007	(2)	
	Frisco, TX	30,578	40,098	27,907	10,525	78,530	16,387	2002 - 2003	8/3/2007	(3)	
Northpoint Central	Houston, TX	11,720	(5)	19,849	(5,403)	15,196	2,397	1982	9/13/2007	(3)	
Northborough Tower	Houston, TX	18,516	1,400	31,401	(19,748)	13,053	194	1983	2/26/2008	(3)	
Royal Island	Commonwealth of Bahamas	13,872	21,158	2,842	—	24,000	2,099	—	6/6/2012	(3)	
The Ablon at Frisco Square	Frisco, TX	18,679	—	—	39,102	39,102	—	2014 - 2015	(4)	(4)	
Sub-total		155,547	76,416	139,610	58,788	274,814	44,087				
Real Estate Held for Sale:											
Las Colinas Commons	Irving, TX	14,900	(5)	9,718	3,507	16,010	4,864	1979 - 2001	12/20/2006	(3)	
Totals		\$ 170,447	\$ 79,201	\$ 149,328	\$ 62,295	\$ 290,824	\$ 48,951				

- (1) Includes adjustment to basis, such as impairment losses
- (2) Hotels are depreciated according to Company policy, which uses the straight-line method over their estimated useful life of 39 years.
- (3) Buildings are depreciated according to Company policy, which uses the straight-line method over their estimated useful life of 25 years.
- (4) Construction of a 275-unit multifamily project at The Ablon at Frisco Square development began on September 2, 2014.
- (5) Las Colinas Commons and Northpoint Central are both borrowers under a loan that matures in May 2017. The Las Colinas Commons loan balance at December 31, 2015 is \$11.3 million. Under the terms of the loan, the lender requires a release price payment of \$14.9 million to release the Las Colinas Commons property from the loan. The \$3.6 million excess principal payment amount is used to reduce Northpoint Central's loan balance. We have reclassified the full release price as a liability associated with our real estate held for sale as of December 31, 2015.

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2015, 2014 and 2013 is as follows:

**Real Estate and Accumulated Depreciation**  
**Schedule III**  
**(in thousands)**

	Year Ended December 31,		
	2015	2014	2013
<b>Real Estate:</b>			
Balance at beginning of period	\$ 278,558	\$ 284,532	\$ 292,737
Acquisitions	—	—	—
Improvements	34,587	14,519	4,222
Write-offs	(3,378)	(759)	(1,635)
Establishment of new basis for impaired assets	(18,943) (1)	(18,467) (2)	(119)
Cost of real estate sold	—	(1,267)	(10,673)
Balance at end of the period	<u>\$ 290,824</u>	<u>\$ 278,558</u>	<u>\$ 284,532</u>
<b>Accumulated depreciation:</b>			
Balance at beginning of period	\$ 49,258	\$ 48,652	\$ 41,186
Depreciation expense	10,366	9,931	9,073
Write-offs	(3,270)	(440)	(1,607)
Reclassification	(7,403) (1)	(8,885) (2)	—
Disposals	—	—	—
Balance at end of the period	<u>\$ 48,951</u>	<u>\$ 49,258</u>	<u>\$ 48,652</u>

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- (1) During the year ended December 31, 2015, we recorded non-cash impairment charges for our Frisco Square land and our Northborough Tower and Northpoint Central office buildings of \$6.8 million, \$2.1 million and \$2.7 million, respectively, for a total of \$11.6 million. The accumulated depreciation for Northborough Tower and Northpoint Central of \$0.8 million and \$6.6 million, respectively, were offset against the basis of the assets.
- (2) During the year ended December 31, 2014, we recorded non-cash impairment charges for our Northborough Tower office building of \$9.4 million. The accumulated depreciation for the asset, of \$8.9 million, was offset against the basis of the asset. The carrying value of the asset also includes a reclass of \$0.2 million.

## EXHIBIT INDEX

Exhibit Number	Description
3.1	Second Articles of Amendment and Restatement of the Registrant (previously filed in and incorporated by reference to Form 8-K filed on July 29, 2008)
3.2	Certificate of Correction to Second Articles of Amendment and Restatement of the Registrant (previously filed in and incorporated by reference to Form 8-K filed on June 9, 2011)
3.3	Amended and Restated Bylaws of the Registrant (previously filed in and incorporated by reference to Form 8-K filed on March 11, 2010)
3.4	First Amendment to the Amended and Restated Bylaws of the Registrant (previously filed in and incorporated by reference to Form 8-K filed on January 24, 2012)
10.1	First Amendment to Third Amended and Restated Advisory Management Agreement by and between Behringer Harvard Opportunity REIT I, Inc. and Behringer Harvard Opportunity Advisors I, LLC, dated July 8, 2015, effective as of January 1, 2015 (previously filed and incorporated by reference to Exhibit 10.1 to Form 10-Q filed on August 1, 2015)
10.2	Office Lease Agreement between EOP-Northborough Tower Limited Partnership and Noble Energy, Inc. dated October 23, 2002 (previously filed and incorporated by reference to Exhibit 10.1 to Form 10-K filed on March 25, 2014)
10.3	Exhibit B Registration and Commission Agreement between Northborough Partners, LP, Landlord, and Broker for Noble Energy, Inc. in connection with Northborough Tower, Houston, Texas dated in November 2006 (previously filed and incorporated by reference to Exhibit 10.2 to Form 10-K filed on March 25, 2014)
10.4	First Amendment to Office Lease Agreement between TX-Northborough Tower LP and Noble Energy, Inc. dated May 14, 2003 (previously filed and incorporated by reference to Exhibit 10.3 to Form 10-K filed on March 25, 2014)
10.5	Second Amendment to Office Lease Agreement between TX-Northborough Tower LP and Noble Energy, Inc. dated May 27, 2003 (previously filed and incorporated by reference to Exhibit 10.4 to Form 10-K filed on March 25, 2014)
10.6	Third Amendment to Office Lease Agreement between TX-Northborough Tower LP and Noble Energy, Inc. dated September 27, 2004 (previously filed and incorporated by reference to Exhibit 10.5 to Form 10-K filed on March 25, 2014)
10.7	Fourth Amendment to Office Lease Agreement between TX-Northborough Tower LP and Noble Energy, Inc. dated December 28, 2005 (previously filed and incorporated by reference to Exhibit 10.6 to Form 10-K filed on March 25, 2014)
10.8	Fifth Amendment to Office Lease Agreement between Northborough Partners LP and Noble Energy, Inc. dated February 13, 2007 (previously filed and incorporated by reference to Exhibit 10.7 to Form 10-K filed on March 25, 2014)
10.9	Sixth Amendment to Office Lease Agreement between Northborough Partners LP and Noble Energy, Inc. dated February 16, 2007 (previously filed and incorporated by reference to Exhibit 10.8 to Form 10-K filed on March 25, 2014)
10.10	Seventh Amendment to Office Lease Agreement between Northborough Partners LP and Noble Energy, Inc. dated May 15, 2007 (previously filed and incorporated by reference to Exhibit 10.9 to Form 10-K filed on March 25, 2014)
10.11	Eighth Amendment to Office Lease Agreement between Behringer Harvard Northborough LP and Noble Energy, Inc. dated April 22, 2009 (previously filed and incorporated by reference to Exhibit 10.10 to Form 10-K filed on March 25, 2014)

## EXHIBIT INDEX (Continued)

<b>Exhibit Number</b>	<b>Description</b>
21.1 *	List of Subsidiaries
31.1 *	Rule 13a-14(a)/15d-14(a) Certification
31.2 *	Rule 13a-14(a)/15d-14(a) Certification
32.1* (1)	Section 1350 Certification
32.2* (1)	Section 1350 Certification
99.1	Amended and Restated Policy for Estimation of Common Stock Value (previously filed in and incorporated by reference to Exhibit 99.2 to Form 10-K filed on March 29, 2012)
101	The following financial statements from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 18, 2016, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Loss, (iii) Consolidated Statements of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

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\* filed or furnished herewith

- (1) In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.



## REPORT OF INDEPENDENT DIRECTORS

As Independent Directors of Behringer Harvard Opportunity REIT I, Inc. (the “Company”), we have reviewed the policies being followed by the Company and believe they are in the best interests of its stockholders. These policies include policies with respect to investments, borrowings, dispositions, and distributions.

*Investment Objectives.* We have entered our disposition phase and are focused on selling our assets in an orderly manner. We are not actively seeking to purchase additional properties. The primary objective of our business plan is to continue to sustain and enhance the property values through additional leasing or capital expenditures, where necessary, while identifying and implementing disposition strategies for the remaining properties in our portfolio. Properties may be sold individually or as a portfolio. There can be no assurance that future dispositions will occur as planned, or if they occur, that they will help us to meet our liquidity demands. Once we anticipate selling all or substantially all of our assets, we will seek stockholder approval before liquidating our entire portfolio.

Our investment policies were designed in order that we could make investments that were consistent with our focus on acquiring properties with significant possibilities for capital appreciation. When making investment decisions, we followed rigorous acquisition criteria and closing conditions and reviewed other required documentation. These criteria were designed to assess and manage investment risks and support our basis for making investment decisions in the best interests of our stockholders.

Our investment objectives were:

- to realize growth in the value of our investments to enhance the value received upon our ultimate sale of such investments;
- to preserve, protect, and return stockholders’ capital contribution through our ultimate sale of our investments; and
- to provide stockholders with a return of their investment by liquidating and distributing net sales proceeds.

*Investment Policies.* We have invested in commercial properties, such as office, retail, multifamily, industrial, hospitality, and recreation and leisure properties that were initially identified as opportunistic and value-add investments with significant possibilities for capital appreciation due to their property specific characteristics or their market characteristics. We have disposed of 15 of our original portfolio assets through December 31, 2015. We are in our disposition phase and our board of directors is considering the orderly disposition of our assets or other appropriate exit strategy in the best interest of our stockholders. We can make no assurances as to the timing in which we will complete this process. Economic or market conditions may cause us to hold our investments for longer periods of time or sell an investment at a lower than anticipated price.

Our real estate investments are held in fee title or a long-term leasehold estate through the Operating Partnership or indirectly through limited liability companies or through investments in joint ventures, partnerships, co-tenancies or other co-ownership arrangements with the developers of the properties, affiliates of Behringer Opportunity Advisors I or other persons.

*Borrowing Policies.* There is no limitation on the amount we may invest in or borrow related to any single property or other investment. Under our charter, the maximum amount of our indebtedness shall not exceed 300% of the Company’s “net assets” (as defined in our charter) as of the date of any borrowing; however, we may exceed that limit if approved by a majority of our board of directors. In addition to our charter limitation and indebtedness target, our board has adopted a policy to limit our aggregate borrowings to approximately 75% of the aggregate value of our assets, unless substantial justification exists that borrowing a greater amount is in our best interests. Our policy limitation, however, does not apply to individual real estate assets. Our board of directors reviews the Company’s aggregate borrowings at least quarterly. We believe that these borrowing limitations reduce risk of loss and are in the best interests of the Company’s stockholders.

*Disposition Policies.* We are in our disposition phase and are focused on selling our assets in an orderly manner. We currently make decisions to dispose of properties based on factors including, but not limited to, the following:

- the property’s current and expected future performance;
- potential opportunities to increase revenues and property values;
- capital required to maintain the property; and
- the estimated value we may receive by selling the property.

We may sell an asset before the end of the expected holding period if we believe that market conditions have maximized its value to us or the sale of the asset would otherwise be in the best interests of our shareholders.

*Related-Party Transactions.* We have reviewed the material transactions between the Company and the Company’s advisor and its affiliates during 2015 as outlined in Note 15 to the Consolidated Financial Statements. In our opinion, the related-party transactions are fair and reasonable to the Company and its stockholders.

## **ANNUAL REPORT DISCLOSURES REQUIRED BY CHARTER**

### **Total Operating Expenses**

In accordance with the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Association, also known as the NASAA REIT Guidelines, our charter requires that we monitor our “total operating expenses” quarterly on a trailing twelve-month basis and report to our stockholders annually our total operating expenses stated as a percentage of “average invested assets” and “net income.” For the year ended December 31, 2015, our total operating expenses stated as a percentage of average invested assets and net income was 1.4% and 300.7%, respectively.

### **Cost of Raising Capital**

In accordance with the NASAA REIT Guidelines, our charter requires that we report to our stockholders annually the ratio of costs of raising capital during the year to the capital raised. We did not raise any capital during 2015.

# Officers and Directors

## Our Management Team

Behringer is managed by a seasoned, cohesive team of real estate and investment professionals with expertise in deal structure, finance, acquisition, management and disposition.

### Board of Directors, Executive Officers and Other Key Personnel

(as of April 1, 2016)

**Steven J. Kaplan**

*Independent Director*

*Chairman of the Board (Non-Executive)*

*Attorney and Independent Consultant*

**Barbara C. Bufkin**

*Independent Director*

*Executive Vice President,*

*Business Development*

*Hamilton USA*

**Michael D. Cohen**

*Director & President*

*Behringer*

**Terry L. Gage**

*Independent Director*

*Senior Vice President—Finance*

*Glazer's, Inc.*

**Thomas P. Kennedy**

*President*

**Lisa Ross**

*Senior Vice President,*

*Chief Financial Officer*

*and Treasurer*

**Terri Warren Reynolds**

*Senior Vice President—Legal,*

*General Counsel and Secretary*

**Jeffrey D. Burns**

*Managing Director*

*Behringer Lodging Group*

**Mark A. Flynt**

*Senior Vice President*

*Behringer*

**Heather McClure**

*Senior Vice President—Capital Markets*

*Behringer*



## E-Communications

Go paperless with electronic delivery. Sign up at **behringerinvestments.com** to switch from paper mailings and view your quarterly statements, tax forms, and other investor communications online.

## Safe Harbor

This report contains forward-looking statements. Please refer to the enclosed Annual Report on Form 10-K for additional information and qualifications regarding forward-looking statements.



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#### Investor Information

For additional information about Behringer, please contact us at 866.655.3650

#### Independent Registered Public Accounting Firm

Deloitte & Touche LLP  
2200 Ross Ave., Ste. 1600  
Dallas, Texas 75201

#### Registrar & Transfer Agent

DST Systems, Inc.  
333 W. 11<sup>th</sup> Street, 5th Floor  
Kansas City, Missouri 64105