PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
May 03, 2018

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-34995

Preferred Apartment Communities, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-1712193
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3284 Northside Parkway NW, Suite 150, Atlanta, GA 30327
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (770) 818-4100

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec. 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares outstanding of the registrant’s Common Stock, as of April 20, 2018 was 39,219,777.

PART I - FINANCIAL INFORMATION

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Preferred Apartment Communities, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except per-share par values)	March 31, 2018	December 31, 2017
Assets		
Real estate		
Land	$422,361	$406,794
Building and improvements	2,146,135	2,043,853
Tenant improvements	75,531	63,425
Furniture, fixtures, and equipment	225,553	210,779
Construction in progress	13,420	10,491
Gross real estate	2,883,000	2,735,342
Less: accumulated depreciation	(193,141)	(172,756)
Net real estate	2,689,859	2,562,586
Real estate loans, net of deferred fee income	278,258	255,345
Real estate loans to related parties, net	134,786	131,451
Total real estate and real estate loan investments, net	3,102,903	2,949,382
Cash and cash equivalents	19,711	21,043
Restricted cash	47,683	51,969
Notes receivable	12,174	17,318
Note receivable and revolving line of credit due from related party	28,020	22,739
Accrued interest receivable on real estate loans	29,693	26,865
Acquired intangible assets, net of amortization of $84,198 and $73,521	100,276	102,743
Deferred loan costs on Revolving Line of Credit, net of amortization of $150 and $1,153	1,578	1,385
Deferred offering costs	7,374	6,544
Tenant lease inducements, net of amortization of $708 and $452	16,318	14,425
Tenant receivables (net of allowance of $644 and $715) and other assets	28,444	37,957
Total assets	$3,394,174	$3,252,370
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs and mark-to-market adjustment of $36,008 and $35,397	$1,871,966	$1,776,652
Revolving line of credit	13,200	41,800
Term note payable, net of deferred loan costs of $0 and $6	—	10,994
Real estate loan participation obligation	10,798	13,986
Deferred revenue	31,053	27,947
Accounts payable and accrued expenses	33,053	31,253
Accrued interest payable	5,472	5,028
Dividends and partnership distributions payable	16,460	15,680
Acquired below market lease intangibles, net of amortization of $9,554 and $8,095	38,991	38,857
Security deposits and other liabilities	12,349	9,407
Total liabilities	2,033,342	1,971,604

Commitments and contingencies (Note 11)

Equity

Stockholders' equity		
Series A Redeemable Preferred Stock, $0.01 par value per share; 3,050 shares authorized; 1,348 and 1,250 shares issued; 1,313 and 1,222 shares outstanding at March 31, 2018 and December 31, 2017, respectively	13	12
Series M Redeemable Preferred Stock, $0.01 par value per share; 500 shares authorized; 20 and 15 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Common Stock, $0.01 par value per share; 400,067 shares authorized; 39,208 and 38,565 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	392	386
Additional paid-in capital	1,357,725	1,271,040
Accumulated earnings (deficit)	—	4,449
Total stockholders' equity	1,358,130	1,275,887
Non-controlling interest	2,702	4,879
Total equity	1,360,832	1,280,766
Total liabilities and equity	$3,394,174	$3,252,370

The accompanying notes are an integral part of these consolidated financial statements.
1

Preferred Apartment Communities, Inc.
Consolidated Statements of Operations
(Unaudited)

(In thousands, except per-share figures)	Three months ended March 31, 2018	2017
Revenues:		
Rental revenues	$64,077	$45,363
Other property revenues	11,728	8,436
Interest income on loans and notes receivable	10,300	7,948
Interest income from related parties	4,265	4,814
Total revenues	90,370	66,561
Operating expenses:		
Property operating and maintenance	8,805	6,539
Property salary and benefits (including reimbursements of $3,609 and $2,777 to related party)	3,899	3,028
Property management fees (including $2,105 and $1,434 to related parties)	2,756	1,902
Real estate taxes	9,975	7,904
General and administrative	1,841	1,505
Equity compensation to directors and executives	1,135	873
Depreciation and amortization	40,616	24,826
Acquisition and pursuit costs	—	9
Asset management fees to related party	6,241	4,513
Insurance, professional fees and other expenses	1,445	1,291
Total operating expenses	76,713	52,390
Contingent asset management and general and administrative expense fees	(1,220)	(175)
Net operating expenses	75,493	52,215
Operating income	14,877	14,346
Interest expense	20,968	15,009
Net (loss) before gain on sale of real estate	(6,091)	(663)
Gain on sale of real estate, net of disposition expenses	20,354	30,724
Net income	14,263	30,061
Consolidated net (income) attributable to non-controlling interests	(380)	(999)
Net income attributable to the Company	13,883	29,062
Dividends declared to preferred stockholders	(19,517)	(14,386)
Earnings attributable to unvested restricted stock	(2)	(1)
Net (loss) income attributable to common stockholders	$(5,636)	$14,675
Net (loss) income per share of Common Stock available to common stockholders, basic and diluted	$(0.14)	$0.54

Dividends per share declared on Common Stock	$0.25	$0.22
Weighted average number of shares of Common Stock outstanding, Basic and diluted	39,098	26,936

The accompanying notes are an integral part of these consolidated financial statements.
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Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

(In thousands, except dividend per-share figures)	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2018	$ 12	$ 386	$1,271,040	$ 4,449	$1,275,887	$ 4,879	$1,280,766
Issuance of Units	1	—	97,394	—	97,395	—	97,395
Issuance of mShares	—	—	5,209	—	5,209	—	5,209
Redemptions of Series A Preferred Stock	—	—	(5,766)	—	(5,766)	—	(5,766)
Exercises of warrants	—	5	7,185	—	7,190	—	7,190
Syndication and offering costs	—	—	(9,772)	—	(9,772)	—	(9,772)
Equity compensation to executives and directors	—	—	138	—	138	—	138
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	1	850	—	851	(851)	—
Current period amortization of Class B Units	—	—	—	—	—	996	996
Net income	—	—	—	13,883	13,883	380	14,263
Reallocation adjustment to non-controlling interests	—	—	2,434	—	2,434	(2,434)	—
Distributions to non-controlling interests	—	—	—	—	—	(268)	(268)
Dividends to series A preferred stockholders ($5.00 per share per month)	—	—	(1,166)	(18,038)	(19,204)	—	(19,204)
Dividends to mShares preferred stockholders	—	—	(19)	(294)	(313)	—	(313)
Dividends to common stockholders ($0.25 per share)	—	—	(9,802)	—	(9,802)	—	(9,802)
Balance at March 31, 2018	$ 13	$ 392	$1,357,725	$ —	$1,358,130	$ 2,702	$1,360,832

The accompanying notes are an integral part of these consolidated financial statements.
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Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity, continued
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

(In thousands, except dividend per-share figures)	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	$ 9	$ 265	$906,737	$ (23,231)	$ 883,780	$ 1,481	$885,261
Issuance of Units	1	—	78,241	—	78,242	—	78,242
Redemptions of Series A Preferred Stock	—	2	(1,585)	—	(1,583)	—	(1,583)
Issuance of common stock	—	—	189	—	189	—	189
Exercises of Warrants	—	3	3,849	—	3,852	—	3,852
Syndication and offering costs	—	—	(9,034)	—	(9,034)	—	(9,034)
Equity compensation to executives and directors	—	—	128	—	128	—	128
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	2	1,662	—	1,664	(1,664)	—
Current period amortization of Class B Units	—	—	—	—	—	745	745
Net income	—	—	—	29,062	29,062	999	30,061
Reallocation adjustment to non-controlling interests	—	—	895	—	895	(895)	—
Distributions to non-controlling interests	—	—	—	—	—	(199)	(199)
Dividends to Series A preferred stockholders ($5.00 per share per month)	—	—	(14,428)	—	(14,428)	—	(14,428)
Dividends to mShares preferred stockholders ($4.79 - $6.25 per share per month)	—	—	(2)	—	(2)	—	(2)
Dividends to common stockholders ($0.22 per share)	—	—	(5,971)	—	(5,971)	—	(5,971)
Balance at March 31, 2017	$ 10	$ 272	$960,681	$ 5,831	$ 966,794	$ 467	$967,261

The accompanying notes are an integral part of these consolidated financial statements.

Preferred Apartment Communities, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Three months ended March 31, 2018	2017
Operating activities:		
Net income	$14,263	$30,061
Reconciliation of net income to net cash provided by operating activities:		
Depreciation expense	27,990	18,288
Amortization expense	12,626	6,539
Amortization of above and below market leases	(1,178)	(798)
Deferred revenues and fee income amortization	(943)	(284)
Amortization of market discount on assumed debt and lease incentives	323	—
Deferred loan cost amortization	1,480	1,180
(Increase) in accrued interest income on real estate loans	(2,828)	(1,546)
Equity compensation to executives and directors	1,135	873
Gain on sale of real estate	(20,354)	(30,724)
Other	—	187
Changes in operating assets and liabilities:		
Increase (Decrease) in tenant receivables and other assets	625	(1,965)
(Decrease) in tenant lease incentives	(2,149)	(2,913)
(Decrease) in accounts payable and accrued expenses	(1,074)	(716)
Increase in accrued interest, prepaid rents and other liabilities	1,502	95
Net cash provided by operating activities	31,418	18,277
Investing activities:		
Investments in real estate loans	(68,929)	(16,272)
Repayments of real estate loans	42,312	9,866
Notes receivable issued	(472)	(1,263)
Notes receivable repaid	5,618	—
Note receivable issued to and draws on line of credit by related party	(14,419)	(7,650)
Repayments of line of credit by related party	9,034	7,554
Loan origination fees received	1,600	—
Loan origination fees paid to Manager	(800)	—
Acquisition of properties	(170,072)	(165,825)
Disposition of properties, net	42,266	107,656
Receipt of insurance proceeds for capital improvements	412	—
Additions to real estate assets - improvements	(7,637)	(3,680)
Deposits refunded (paid) on acquisitions	4,021	(1,838)
Net cash used in investing activities	(157,066)	(71,452)
Financing activities:		
Proceeds from mortgage notes payable	123,275	104,300
Repayments of mortgage notes payable	(27,350)	(67,141)
Payments for deposits and other mortgage loan costs	(1,733)	(3,399)
Proceeds from real estate loan participants	5	82
Payments to real estate loan participants	(3,314)	(2,467)
Proceeds from lines of credit	86,200	37,500

Payments on lines of credit	(114,800)	(68,000)
Repayment of the Term Loan	(11,000)	—
Proceeds from sales of Units, net of offering costs and redemptions	87,490	68,987
Proceeds from sales of Common Stock	—	186
Proceeds from exercises of Warrants	11,169	4,249
Common Stock dividends paid	(9,576)	(5,741)
Preferred stock dividends paid	(18,963)	(13,961)
Distributions to non-controlling interests	(221)	(195)
Payments for deferred offering costs	(1,152)	(2,126)
Net cash provided by financing activities	120,030	52,274
Net decrease in cash, cash equivalents and restricted cash	(5,618)	(901)
Cash, cash equivalents and restricted cash, beginning of period	73,012	67,715
Cash, cash equivalents and restricted cash, end of period	$67,394	$66,814

The accompanying notes are an integral part of these consolidated financial statements.

Preferred Apartment Communities, Inc.
Consolidated Statements of Cash Flows - continued
(Unaudited)

(in thousands)	Three months ended March 31, 2018	2017
Supplemental cash flow information:		
Cash paid for interest	$18,938	$13,983
Supplemental disclosure of non-cash activities:		
Accrued capital expenditures	$1,735	$455
Writeoff of fully depreciated or amortized assets and liabilities	$135	$146
Writeoff of fully amortized deferred loan costs	$1,331	$—
Lessee-funded tenant improvements, capitalized as landlord assets	$3,602	$9,257
Dividends payable - Common Stock	$9,802	$5,971
Dividends payable - Series A Preferred Stock	$6,456	$4,887
Dividends payable - mShares Preferred Stock	$96	$2
Dividends declared but not yet due and payable	$106	$—
Partnership distributions payable to non-controlling interests	$268	$199
Accrued and payable deferred offering costs	$342	$1,027
Offering cost reimbursement to related party	$475	$105
Reclass of offering costs from deferred asset to equity	$446	$1,370
Extinguishment of land loan for property	$—	$—
Proceeds of like-kind exchange funds for dispositions	$—	$31,288
Use of like-kind exchange funds for acquisitions	$—	$27,527
Fair value issuances of equity compensation	$4,612	$3,728
Mortgage loans assumed on acquisitions	$—	$30,250
Noncash repayment of mortgages through refinance	$37,485	$—
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$19,711	$13,365
Restricted cash	47,683	53,449
Cash, cash equivalents and restricted cash, end of period	$67,394	$66,814

The accompanying notes are an integral part of these consolidated financial statements.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements
March 31, 2018
(unaudited)

1. Organization and Basis of Presentation

Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009, and elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, effective with its tax year ended December 31, 2011. Unless the context otherwise requires, references to the "Company", "we", "us", or "our" refer to Preferred Apartment Communities, Inc., together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. The Company was formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of its business strategy, the Company may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, the Company also may acquire or originate senior mortgage loans, subordinate loans or real estate loan investments secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of its assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loan investments secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by its Manager (as defined below) as appropriate for the Company. The Company is externally managed and advised by Preferred Apartment Advisors, LLC, or its Manager, a Delaware limited liability company and related party (see Note 6).

As of March 31, 2018, the Company had 39,208,477 shares of common stock, par value $0.01 per share, or Common Stock, issued and outstanding and was the approximate 97.3% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 1,070,103 at March 31, 2018 and represented Class A OP Units of the Operating Partnership, or Class A OP Units. The Class A OP Units are convertible at any time at the option of the holder into the Operating Partnership's choice of either cash or Common Stock. In the case of cash, the value is determined based upon the trailing 20-day volume weighted average price of the Company's Common Stock.

The Company controls the Operating Partnership through its sole general partner interest and conducts substantially all of its business through the Operating Partnership. The Company has determined the Operating Partnership is a variable interest entity, or VIE, of which the Company is the primary beneficiary. New Market Properties, LLC owns and conducts the business of our portfolio of grocery-anchored shopping centers. Preferred Office Properties, LLC owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities, LLC owns and conducts the business of our portfolio of off-campus student housing communities. Each of these entities are wholly-owned subsidiaries of the Operating Partnership.

Basis of Presentation

These consolidated financial statements include all of the accounts of the Company and the Operating Partnership presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. All significant intercompany transactions have been eliminated in consolidation. Certain adjustments have been made consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of the Company's financial condition and results of operations. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the

consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all the disclosures required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 1, 2018. Amounts are presented in thousands where indicated.

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

When the Company acquires property, it allocates the aggregate purchase price to tangible assets, consisting of land, building, site improvements and furniture, fixtures and equipment, and identifiable intangible assets, consisting of the value of in- place leases

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and above-market and below-market leases as described further below, using estimated fair values of each component at the time of purchase. The Company follows the guidance as outlined in ASC 805-10, Business Combinations, as amended by ASU-2017-01.

Tangible assets

The fair values of land acquired is calculated under the highest and best use model, using formal appraisals and comparable land sales, among other inputs. Building value is determined by valuing the property on a “go-dark” basis as if it were vacant, and also using a replacement cost approach, which two results are then reconciled. Site improvements are valued using replacement cost. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases, including leasing commissions and other related costs. The values of furniture, fixtures, and equipment are estimated by calculating their replacement cost and reducing that value by factors based upon estimates of their remaining useful lives.

Identifiable intangible assets

In-place leases

Multifamily communities and student housing properties

The fair value of in-place leases are estimated by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level (estimated to be 93% occupancy) based on historical observed move-in rates for each property, and which approximate market rates. Carrying costs during these hypothetical expected lease-up periods are estimated, considering current market conditions and include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates. The intangible assets are calculated by estimating the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. The acquired in-place lease values are amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases.

Grocery-anchored shopping centers and office buildings

The fair value of in-place leases represent the value of direct costs associated with leasing, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases. Direct costs associated with obtaining a new tenant include commissions, legal and marketing costs, incentives such as tenant improvement allowances and other direct costs. Such direct costs are estimated based on our consideration of current market costs to execute a similar lease. The value of opportunity costs is calculated using the estimated market lease rates and the estimated absorption period of the space. These direct costs and opportunity costs are included in the accompanying consolidated balance sheets as acquired intangible assets and are amortized to expense over the remaining term of the respective leases.

Above-market and below-market lease values

Multifamily communities and student housing properties

These values are usually not significant or are not applicable for these properties.

Grocery-anchored shopping centers and office buildings

The values of above-market and below-market leases are developed by comparing the Company's estimate of the average market rents and expense reimbursements to the average contract rent at the property acquisition date. The amount by which contract rent and expense reimbursements exceed estimated market rent are summed for each individual lease and discounted for a singular aggregate above-market lease intangible asset for the property. The amount by which estimated market rent exceeds contract rent and expense reimbursements are summed for each individual lease and discounted for a singular aggregate below-market lease intangible liability. The above-market or below-market lease values are recorded as a reduction or increase, respectively, to rental revenue over the remaining noncancelable term of the respective leases, plus any below-market probable renewal options.

Impairment assessment

The Company evaluates its tangible and identifiable intangible real estate assets for impairment when events such as declines in a property's operating performance, deteriorating market conditions, or environmental or legal concerns bring recoverability of the carrying value of one or more assets into question. When qualitative factors indicate the possibility of impairment, the total

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2018
(unaudited)

undiscounted cash flows of the asset group, including proceeds from disposition, are compared to the net book value of the asset group. If this test indicates that impairment exists, an impairment loss is recorded in earnings equal to the shortage of the book value to fair value, calculated as the discounted net cash flows of the asset group.

Revenue Recognition

Multifamily communities and student housing properties

Rental revenue is recognized when earned from residents of the Company's multifamily communities, which is over the terms of rental agreements, typically of 12 months' duration. The Company evaluates the collectability of amounts due from residents and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of residents to make required payments then due under lease agreements. The balance of amounts due from residents are generally deemed uncollectible 30 days beyond the due date, at which point they are fully reserved.

Grocery-anchored shopping centers and office buildings

Rental revenue from tenants' operating leases in the Company's grocery-anchored shopping centers and office buildings is recognized on a straight-line basis over the term of the lease. Revenue based on "percentage rent" provisions that provide for additional rents that become due upon achievement of specified sales revenue targets (as specified in each lease agreement) is recognized only after the tenant exceeds its specified sales revenue target. Revenue from reimbursements of the tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized in the period in which the related expenses are incurred. Lease termination revenues are recognized ratably over the revised remaining lease term after giving effect to the termination notice or when tenant vacates and the Company has no further obligations under the lease. Rents and tenant reimbursements collected in advance are recorded as prepaid rent within other liabilities in the accompanying consolidated balance sheets. The Company estimates the collectability of the tenant receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental revenue on a straight-line basis, by taking into consideration the Company's historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms. The Company may provide retail and office building tenants an allowance for the construction of leasehold improvements. These leasehold improvements are capitalized and depreciated over the shorter of the useful life of the improvements or the remaining lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements, the allowance is considered to be a lease incentive and is recognized over the lease term as a reduction of rental revenue. Determination of the appropriate accounting for the payment of a tenant allowance is made on a lease-by-lease basis, considering the facts and circumstances of the individual tenant lease. When the Company is the owner of the leasehold improvements, recognition of rental revenue commences when the lessee is given possession of the leased space upon completion of tenant improvements. However, when the leasehold improvements are owned by the tenant, the lease inception date is the date the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements. For our office buildings, if the improvement is deemed to be a "landlord asset," and the tenant funded the tenant improvements, the cost is amortized over the term of the underlying lease as rental revenues. In order to qualify as a landlord asset, the specifics of the tenant's assets are reviewed, including the Company's approval of the tenant's detailed expenditures, whether such assets may be usable by other future tenants, whether the Company has consent to alter or remove the assets from the premises and generally remain the Company's property at the end of the lease.

Acquisition Costs

Accounting Standards Update 2017-01 was adopted by the Company effective January 1, 2017, which changed the definition of a business. Under this new guidance, most property acquisitions made by the Company will fall within the category of acquired assets rather than acquired businesses. This distinction will cause the Company to capitalize its costs for acquisitions (including, effective July 1, 2017, a 1% acquisition fee), allocate them to the fair value of

acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Restricted cash includes cash restricted by state law or contractual requirement and relates primarily to real estate tax and insurance escrows, capital improvement reserves and resident security deposits.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company will adopt the new standard on January 1, 2018,when effective, utilizing the modified retrospective transition method with a cumulative effect recognized as of the date of adoption. In addition, the evaluation of non-lease components under ASU 2014-09 will not be effective until Accounting Standards Update No. 2016-02, Leases (Topic 842), ("ASU 2016-02") becomes effective (see further discussion below), which will be January 1, 2019 for the Company. The Company has determined that approximately 90% of its consolidated revenues are derived from either long-term leases with its tenants and reimbursement of related property tax and insurance expenses (considered executory costs of leases) or its mezzanine loan interest income, which are excluded from the scope of the ASU 2014-09. Of the remaining approximately 10% of the Company’s revenues, the majority is comprised of common area maintenance (“CAM”) reimbursements and utility reimbursements, which are non-lease components. The Company has concluded that the adoption of ASU 2014-09 will have no material effect upon the timing of the recognition of reimbursement revenue and other miscellaneous income. The Company also evaluated its amenity and ancillary services to its multifamily and student housing residents and does not expect the timing and recognition of revenue to change as a result of implementing ASU 2014-09. Additional required disclosures regarding the nature and timing of the Company's revenue transactions will be provided upon adoption of ASU 2016-02.

In January 2016, the FASB issued Accounting Standards Update 2016-01 ("ASU 2016-01"), Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The new standard's applicable provisions to the Company include an elimination of the disclosure requirement of the significant inputs and assumptions underlying the fair value calculations of its financial instruments which are carried at amortized cost. The Company adopted ASU 2016-01 on January 1, 2018. The adoption of ASU 2016-01 did not impact the Company's results of operations or financial condition but did reduce the required disclosures concerning financial instruments.

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases and supersedes the previous standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The new lease guidance requires an entity to separate lease components from non-lease components, such as maintenance services or other activities that transfer a good or service to our residents and tenants in a contract; it also considers the reimbursement of real estate taxes and insurance as executory costs of the lease and requires that such amounts be consolidated with the base rent revenue. For lessors, the consideration in the contract is allocated to the lease and non-lease components on a relative standalone price basis in accordance with the allocation guidance in the new revenue standard. The Company concluded that adoption of ASU 2016-02 does not change the timing of revenue recognition over the lease component, which remains over a straight line method, though the reimbursement

of property tax and insurance, considered executory costs of leasing, will be combined with the base rent revenue and presented within rental income instead of other income within the Company's income statement. Non-lease components are evaluated under ASU 2014-09, Revenue from Contracts with Customers (Topic 606), discussed above. In its March 2018 meeting, the FASB approved a practical expedient for lessors to elect, by class of underlying assets, to not separate lease and non-lease components if both (1) the timing and pattern of revenue recognition are the same for the non-lease component(s) and related lease component and (2) the combined single lease component would be classified as an operating lease. The Company anticipates adopting ASC 842 utilizing this practical expedient as it relates to its common area maintenance services.

In June 2016, the FASB issued Accounting Standards Update 2016-13 ("ASU 2016-13"), Financial Instruments-Credit Losses
(Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial instruments carried at amortized cost to be presented at the net amount expected to be collected, utilizing a valuation account which reflects the cumulative net adjustments from the gross amortized cost value. Under existing GAAP, entities would not record a valuation allowance until a loss was probable of occurring. The standard will become effective for the Company on January 1, 2020. The Company is currently evaluating methods of deriving initial valuation accounts to be applied to its real estate loan portfolio and is also revising its policies for credit loss on resident and tenant receivables to comply with the expected credit loss model under this guidance. The Company is continuing to evaluate the pending guidance but does not believe the adoption of ASU 2016-13 will have a

material impact on its results of operations or financial condition, since the Company has not yet experienced a credit loss related to any of its financial instruments and has minimal history of loss on its resident and tenant receivables.

In August 2016, the FASB issued Accounting Standards Update 2016-15 ("ASU 2016-15"), Statement of Cash Flows—(Topic 326): Classification of Certain Cash Receipts and Cash Payments. The new standard clarifies or establishes guidance for the presentation of various cash transactions on the statement of cash flows. The portion of the guidance applicable to the Company's business activities include the requirement that cash payments for debt prepayment or debt extinguishment costs be presented as cash out flows for financing activities. The Company adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not impact the Company’s consolidated financial statements, since its current policy is to classify such costs as cash out flows for financing activities.

In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), Statement of Cash Flows—(Topic 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents when reconciling the beginning and ending amounts in the statements of cash flows. The Company adopted ASU 2016-18 on January 1, 2018 and its adoption of ASU 2016-18 did not impact its results of operations or financial condition, but did change the line upon which changes in restricted cash are presented.

In February 2017, the FASB issued Accounting Standards Update 2017-05 (“ASU 2017-05”), Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets, and is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. The Company adopted this guidance on January 1, 2018. The new standard clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments also clarify that an entity should allocate consideration to each distinct asset by applying the guidance in Topic 606 on allocating the transaction price to performance obligations for sales to customers. The Company’s sales of nonfinancial real estate assets are generally made to non-customers, which is a scope exception under Topic 606. The Company elected to adopt this practical expedient and the proceeds from real estate sales continue to be recognized as gain or loss on sale of real estate in the Consolidated Statement of Operations.

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3. Real Estate Assets

The Company's real estate assets consisted of:

	As of:	
	March 31, 2018	December 31, 2017
Multifamily communities:		
Properties [(1)]	31	30
Units	9,768	9,521
New Market Properties: [(2)]		
Properties	39	39
Gross leasable area (square feet) [(3)]	4,055,714	4,055,461
Student housing properties:		
Properties	4	4
Units	891	891
Beds	2,950	2,950
Preferred Office Properties:		
Properties	5	4
Rentable square feet	1,539,000	1,352,000

[(1)] The acquired second and third phase of the Summit Crossing community is managed in combination with the initial phase and so together are considered a single property, as are the three assets that comprise the Lenox Portfolio.
[(2)] See Note 12, Segment information.
[(3)] The Company also owns approximately 47,600 square feet of gross leasable area of ground floor retail space which is embedded within the Lenox Portfolio and not included in the totals above for New Market Properties.

Storm-related costs

Remediation of property damages due to Hurricane Harvey at our Stone Creek multifamily community located in Port Arthur, Texas is progressing on schedule, and we anticipate full completion in the third quarter 2018. For the three-month period ended March 31, 2018, rental revenues decreased approximately $252,000 due to lost rental and other property revenues. During the first quarter, we received proceeds from our insurance company of $588,000 for lost rental and other property revenues, which has been reflected in income for the first quarter 2018. We expect to record a full recovery of the remainder of lost rental and other property revenues upon settlement with our insurance carrier and receipt of funds later in 2018.

Multifamily communities sold

On March 20, 2018, the Company closed on the sale of its 328-unit multifamily community in Raleigh, North Carolina, or Lake Cameron, to an unrelated third party for a purchase price of approximately $43.5 million, exclusive of closing costs and resulting in a gain of $20.4 million. Lake Cameron contributed approximately $0.2 million and 0.1 million of net income to the consolidated operating results of the Company for the three-month periods ended March 31, 2018 and 2017, respectively.

On January 20, 2017, the Company closed on the sale of its 364-unit multifamily community in Kansas City, Kansas, or Sandstone Creek, to an unrelated third party for a purchase price of $48.1 million, exclusive of closing costs and resulting in a gain of $0.3 million. Sandstone Creek contributed approximately $0.1 million of net loss to the consolidated operating results of the Company for the three-month period ended March 31, 2017.

On March 7, 2017, the Company closed on the sale of its 408-unit multifamily community in Atlanta, Georgia, or Ashford Park, to an unrelated third party for a purchase price of $65.5 million, exclusive of closing costs and resulting in a gain of $30.4 million. Ashford Park contributed approximately $0.5 million of net income to the consolidated operating results of the Company for the three-month period ended March 31, 2017.

Each of the gains recorded for these sales transactions were net of disposition expenses and debt defeasance related costs and prepayment premiums, as described in Note 9.

The carrying amounts of the significant assets and liabilities of the disposed properties at the dates of sale were:

(in thousands)	Lake Cameron March 20, 2018	Sandstone Creek January 20, 2017	Ashford Park March 7, 2017
Real estate assets:			
Land	$4,000	$2,846	$10,600
Building and improvements	21,519	41,860	24,075
Furniture, fixtures and equipment	3,687	5,278	4,223
Accumulated depreciation	(7,220)	(4,809)	(6,816)
Total assets	$21,986	$45,175	$32,082
Liabilities:			
Mortgage note payable	$19,736	$30,840	$25,626
Supplemental mortgage note	—	—	6,374
Total liabilities	$19,736	$30,840	$32,000

Multifamily communities acquired

During the three-month periods ended March 31, 2018 and 2017, the Company completed the acquisition of the following multifamily communities:

Acquisition date	Property	Location	Approximate purchase price (millions) [1]	Units
1/9/2018	The Lux at Sorrel	Jacksonville, Florida	$ 48.5	265
2/28/2018	Green Park	Atlanta, Georgia	58.0	310
			$ 106.5	575
2/28/2017	SoL [2]	Tempe, Arizona	$ 53.3	225
3/3/2017	Broadstone at Citrus Village	Tampa, Florida	47.4	296
3/24/2017	Retreat at Greystone	Birmingham, Alabama	50.0	312
3/31/2017	Founders Village	Williamsburg, Virginia	44.4	247
			$ 195.1	1,080

[1] Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.
[2] A 640-bed student housing community located adjacent to the campus of Arizona State University in Tempe, Arizona.

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The Company allocated the purchase prices and capitalized acquisition costs to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities.

	Multifamily Communities acquired during the three months ended:					
	March 31, 2018		March 31, 2017			
(in thousands)	The Lux at Sorrel	Green Park	Broadstone at Citrus Village	SoL	Retreat at Greystone	Founders Village
Land	$5,332	$7,478	$4,809	$7,441	$4,077	$5,315
Buildings and improvements	34,768	39,005	34,181	40,059	35,336	32,792
Furniture, fixtures and equipment	7,763	10,206	6,300	3,771	9,125	5,969
Lease intangibles	1,477	2,829	1,625	2,344	1,844	1,421
Prepaids & other assets	123	70	133	51	78	113
Escrows	—	—	68	—	102	—
Accrued taxes	(13)	(153)	(108)	(72)	(139)	—
Security deposits, prepaid rents, and other liabilities	(70)	(113)	(26)	(377)	(107)	(103)
Net assets acquired	$49,380	$59,322	$46,982	$53,217	$50,316	$45,507
Cash paid	$17,855	$19,572	$17,625	$15,732	$15,106	$13,902
Mortgage debt, net	31,525	39,750	29,357	37,485	35,210	31,605
Total consideration	$49,380	$59,322	$46,982	$53,217	$50,316	$45,507
Three months ended March 31, 2018:						
Revenue	$1,001	$469	$1,196	$1,344	$1,218	$1,022
Net income (loss)	$(879)	$(643)	$(524)	$(301)	$(776)	$(421)
Capitalized acquisition costs incurred by the Company	$846	$1,501	$458	$290	$383	$1,103
Acquisition costs paid to related party (included above)	$485	$609	$24	$60	$56	$8
Remaining amortization period of intangible assets and liabilities (months)	3.5	13.5	0	0	0	0

[1] The Company's real estate loan investment in support of Founders Village was repaid in full at the closing of the acquisition of the property.

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Preferred Office Properties

On January 29, 2018, the Company acquired Armour Yards, a collection of four adaptive re-use office buildings comprised of approximately 187,000 square feet of office space in Atlanta, Georgia. The gross purchase price was $66.5 million, exclusive of credited unfunded leasing costs, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

The Company allocated the purchase prices and capitalized acquisition costs to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities.

(in thousands)	Armour Yards
Land	$6,756
Buildings and improvements	48,332
Tenant improvements	6,201
In-place leases	3,762
Above-market leases	61
Leasing costs	2,181
Below-market leases	(1,594)
Security deposits, prepaid rents, and other liabilities	(4,335)
Net assets acquired	$61,364
Cash paid	$21,364
Mortgage debt, net	40,000
Total consideration	$61,364
Three months ended March 31, 2018:	
Revenue	$955
Net income (loss)	$(170)
Capitalized acquisition costs incurred by the Company	$817
Acquisition costs paid to related party (included above)	$665
Remaining amortization period of intangible assets and liabilities (years)	7.5

The Company recorded aggregate amortization and depreciation expense of:

(in thousands)	Three months ended March 31, 2018	2017

Depreciation:		
Buildings and improvements	17,478	12,421
Furniture, fixtures, and equipment	10,512	5,867
	27,990	18,288
Amortization:		
Acquired intangible assets	12,500	6,500
Deferred leasing costs	91	32
Website development costs	35	6
Total depreciation and amortization	40,616	24,826

At March 31, 2018, the Company had recorded acquired gross intangible assets of $184.5 million, and accumulated amortization of $84.2 million; gross intangible liabilities of $48.5 million and accumulated amortization of $9.6 million. Net intangible assets and liabilities as of March 31, 2018 will be amortized over the weighted average remaining amortization period of approximately 7.1 years and 9.4 years, respectively.

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4. Real Estate Loans, Notes Receivable, and Line of Credit

Our portfolio of fixed rate, interest-only real estate loans consisted of:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Number of loans	23	23
Drawn amount	$415,123	$388,506
Deferred loan origination fees	(2,079)	(1,710)
Carrying value	$413,044	$386,796
Unfunded loan commitments	$144,012	$67,063
Weighted average current interest, per annum (paid monthly)	8.39 %	8.53 %
Weighted average accrued interest, per annum	5.17 %	4.99 %

(In thousands)	Principal balance	Deferred loan origination fees	Carrying value
Balances as of December 31, 2017	$388,506	$ (1,710)	$386,796
Loan fundings	68,929	—	68,929
Loan repayments	(30,848)	—	(30,848)
Loans settled with property acquisitions	(11,464)	—	(11,464)
Origination fees collected	—	(800)	(800)
Amortization of commitment fees	—	431	431
Balances as of March 31, 2018	$415,123	$ (2,079)	$413,044

Property type	Number of loans	Carrying value	Commitment amount	Percentage of portfolio
		(in thousands)		
Multifamily communities	14	$258,210	$ 392,303	63 %
Student housing properties	6	132,019	141,975	32 %
Grocery-anchored shopping centers	1	12,854	12,857	3 %
Other	2	9,961	12,000	2 %
Balances as of March 31, 2018	23	$413,044	$ 559,135	

Certain of the Company's real estate loan investments are subject to loan participation agreements with unaffiliated third parties. The Company's Palisades loan is subject to such an agreement, under which the syndicate is to fund approximately 25% of the loan commitment amount and collectively receive approximately 25% of interest payments, returns of principal and purchase option discount (if applicable). The Company's Encore loan is subject to a loan participation agreement of 49% of the loan commitment amount, interest payments, and return of principal. The aggregate amount of the Company's liability under the loan participation agreements at March 31, 2018 was approximately $10.8 million.

The Company's real estate loan investments are collateralized by 100% of the membership interests of the underlying project entity, and, where considered necessary, by unconditional joint and several repayment guaranties and performance guaranties by the principal(s) of the borrowers. These guaranties generally remain in effect until the receipt of a final certificate of occupancy. All of the guaranties are subject to the rights held by the senior lender pursuant to a standard intercreditor agreement. The Crescent Avenue, Haven Northgate and Brentwood loans are also collateralized by the acquired land or property. Prepayment of the real estate loans are permitted in whole, but not in part, without the Company's consent.

Management monitors the credit quality of the obligors under each of the Company's real estate loans by tracking the timeliness of scheduled interest and principal payments relative to the due dates as specified in the loan documents, as well as draw requests

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on the loans relative to the project budgets. In addition, management monitors the actual progress of development and construction relative to the construction plan, as well as local, regional and national economic conditions that may bear on our current and target markets. The credit quality of the Company's borrowers is primarily based on their payment history on an individual loan basis, and as such, the Company does not assign quantitative credit value measures or categories to its real estate loans and notes receivable in credit quality categories. At March 31, 2018, none of the Company's real estate loans were delinquent.

Our portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of: March 31, 2018	December 31, 2017	Interest rate
(Dollars in thousands)						
360 Residential, LLC [1]	3/20/2013		$ —	—	$ 2,000	12 %
Preferred Capital Marketing Services, LLC [3]	1/24/2013	12/31/2018	1,500	926	926	10 %
Preferred Apartment Advisors, LLC [2,3,4]	8/21/2012	12/31/2018	18,000	15,474	14,488	6 %
Haven Campus Communities, LLC [2,3]	6/11/2014	12/31/2018	11,660	11,620	7,325	8 % [5]
Oxford Capital Partners, LLC [2,6]	10/5/2015	6/30/2018	10,150	6,788	6,628	12 %
360 Residential, LLC II [1]	12/30/2015		—	—	3,255	15 %
Mulberry Development Group, LLC [2]	3/31/2016	6/30/2018	500	500	479	12 %
Mulberry Alexandria Group, LLC	7/31/2017	6/30/2018	2,060	2,059	1,921	12 %
360 Capital Company, LLC [2]	5/24/2016	12/31/2019	3,400	2,830	3,041	12 %
Unamortized loan fees				(3)	(6)	
			$ 47,270	40,194	$ 40,057	

[1] The amount payable under the note was repaid during the first quarter 2018.
[2] The amounts payable under the terms of these revolving credit lines are collateralized by a personal guaranty of repayment by the principals of the borrower.
[3] See related party disclosure in Note 6.
[4] The amounts payable under this revolving credit line were collateralized by an assignment of the Manager's rights to fees due under the Sixth Amended and Restated Management Agreement between the Company and the Manager, or the Management Agreement.
[5] Effective January 1, 2018, the interest rate was lowered from 12.0% per annum to 8.0% per annum.
[6] The amounts payable under the terms of this revolving credit line, up to the lesser of 25% of the loan balance or $2,000,000, are collateralized by a personal guaranty of repayment by the principals of the borrower.

The Company recorded interest income and other revenue from these instruments as follows:

(in thousands)	Three months ended March 31, 2018	2017

Real estate loans:		
Current interest payments	$8,506	$7,062
Additional accrued interest	4,726	4,413
Deferred origination fee amortization	431	259
Total real estate loan revenue	13,663	11,734
Interest income on notes and lines of credit	902	1,028
Interest income on loans and notes receivable	$14,565	$12,762

The Company extends loans for purposes such as to partially finance the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities, and for other real estate or real estate related projects. Certain of these loans include characteristics such as exclusive options to purchase the project within a specific time window following project completion and stabilization, the sufficiency of the borrowers' investment at risk and the existence of payment and performance guaranties provided by the borrowers, can cause the loans to create variable interests to

the Company and require further evaluation as to whether the variable interest creates a VIE, which would necessitate consolidation of the project.
The Company considers the facts and circumstances pertinent to each entity borrowing under the loan, including the relative amount of financing the Company is contributing to the overall project cost, decision making rights or control held by the Company, guarantees provided by third parties, and rights to expected residual gains or obligations to absorb expected residual losses that could be significant from the project. If the Company is deemed to be the primary beneficiary of a VIE, consolidation treatment would be required.
The Company has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. The Company has concluded that it is not the primary beneficiary of the borrowing entities and therefore it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of March 31, 2018 of approximately $404.3 million. The maximum aggregate amount of loans to be funded as of March 31, 2018 was approximately $559.1 million, which includes approximately$144.0 million of loan committed amounts not yet funded.
The Company has evaluated its real estate loans, where appropriate, for accounting treatment as loans versus real estate development projects, as required by ASC 310. For each loan, the characteristics and the facts and circumstances indicate that loan accounting treatment is appropriate.
The Company is also subject to a geographic concentration of risk that could be considered significant with regard to the Encore, Encore Capital, Bishop Street, Dawsonville Marketplace, Crescent Avenue, 360 Forsyth, Morosgo and TP Kennesaw loans, all of which are partially supporting proposed various real estate projects in or near Atlanta, Georgia. The drawn amount of these loans as of March 31, 2018 totaled approximately $99.1 million (with a total commitment amount of approximately $115.8 million) and in the event of a total failure to perform by the borrowers and guarantors, would subject the Company to a total possible loss of the drawn amount.

5. Redeemable Preferred Stock and Equity Offerings
At March 31, 2018, the Company's active equity offerings consisted of:

- an offering of a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock (the "$1.5 Billion Unit Offering");
- an offering of up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock (“mShares”), par value $0.01 per share (the “mShares Offering”);
- an offering of up to $300 million of equity or debt securities (the "Shelf Offering"), and
- an offering of up to $150 million of Common Stock from time to time in an "at the market" offering (the "2016 ATM Offering").

Certain offering costs are specifically identifiable to offering closing transactions, such as commissions, dealer manager fees, and other registration fees. These costs are reflected as a reduction of stockholders' equity at the time of closing. Other offering costs are not related to specific closing transactions and are recognized as a reduction of stockholders' equity in the proportion of the number of instruments issued to the maximum number of Units anticipated to be issued. Any offering costs not yet reclassified as reductions of stockholders' equity are are reflected in the asset section of the consolidated balance sheets as deferred offering costs.

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As of March 31, 2018, cumulative gross proceeds and offering costs for our active equity offerings consisted of:

(In thousands)				Offering costs		
Offering	Total offering	Gross proceeds as of March 31, 2018	% collected of total offering	Reclassified as reductions of stockholders' equity	Recorded as deferred assets	Total
$1.5 Billion Unit Offering	$1,500,000	$359,066	24 %	$988	$ 3,139	$4,127
mShares Offering	500,000	20,484	4 %	128	2,986	3,114
Shelf Offering	300,000	98,080	33 %	268	552	820
2016 ATM Offering	150,000	51,942	35 %	369	697	1,066
Total	$2,450,000	$529,572		$1,753	$ 7,374	$9,127

Aggregate offering expenses of the $1.5 Billion Unit Offering, including selling commissions and dealer manager fees, and of the mShares Offering, including dealer manager fees, are each individually capped at 11.5% of the aggregate gross proceeds of the two offerings, of which the Company will reimburse its Manager up to 1.5% of the gross proceeds of such offerings for all organization and offering expenses incurred, excluding selling commissions and dealer manager fees for the $1.5 Billion Unit Offering and excluding dealer manager fees for the mShares Offering; however, upon approval by the conflicts committee of the board of directors, the Company may reimburse its Manager for any such expenses incurred above the 1.5% amount as permitted by the Financial Industry Regulatory Authority, or FINRA.

6. Related Party Transactions

As of March 31, 2018, John A. Williams, the Company's Chief Executive Officer and Chairman of the Board, and Leonard A. Silverstein, the Company's President and Chief Operating Officer and a member of the Board, are also executive officers and directors of NELL Partners, Inc., which controls the Manager. As of March 31, 2018, Mr. Williams, Mr. Silverstein, and Daniel M. DuPree comprised the board of directors of Nell Partners, Inc. Mr. Williams was the Chief Executive Officer and Mr. Silverstein is the President and Chief Operating Officer of the Manager. As of March 31, 2018, Mr. DuPree was the Chief Investment Officer of the Manager. See Note 16.

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The Management Agreement entitles the Manager to receive compensation for various services it performs related to acquiring assets and managing properties on the Company's behalf:

(In thousands)		Three months ended March 31,	
Type of Compensation	Basis of Compensation	2018	2017
Acquisition fees	As of July 1, 2017, 1.0% of the gross purchase price of real estate assets	$1,759	$—
Loan origination fees	1.0% of the maximum commitment of any real estate loan, note or line of credit receivable	800	—
Loan coordination fees	1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property. Effective July 1, 2017, the fee was reduced to 0.6% of any such debt.	740	2,054
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	3,665	3,063
Property management fees	Monthly fee equal to up to 4% of the monthly gross revenues of the properties managed	2,093	1,425
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	1,433	1,284
Construction management fees	Quarterly fee for property renovation and takeover projects	131	71
		$10,621	$7,897

The Manager may, in its discretion, forfeit some or all of the asset management, property management, or general and administrative fees for properties owned by the Company. The forfeited fees are converted at the time of forfeiture into contingent fees, which are earned by the Manger only in the event of a sales transaction, and whereby the Company's capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle. A cumulative total of approximately $7.1 million of combined asset management and general and administrative fees related to acquired properties as of March 31, 2018 have been forfeited by the Manager. A total of $6.2 million remains contingent and could possibly be earned by the Manager in the future.

As of July 1, 2017, the Manager reduced the loan coordination fee from 1.6% to 0.6% of the amount of assumed, new or incremental debt which leverages acquired real estate assets. In addition, the Manager reinstated a 1% acquisition fee charged on the cost of acquired real estate assets, which had historically been charged prior to its replacement effective January 1, 2016 by the 1.6% loan coordination fee. These changes were put in place to reflect a shift in the efforts of the Manager in property acquisitions.

In addition to property management fees, the Company incurred the following reimbursable on-site personnel salary and related benefits expenses at the properties, which are listed on the Consolidated Statements of Operations:
(thousands)

Three months ended March 31,	
2018	2017
$3,609	$2,777

The Manager utilizes its own and its affiliates' personnel to accomplish certain tasks related to raising capital that would typically be performed by third parties, including, but not limited to, legal and marketing functions. As permitted under the Management Agreement, the Manager was reimbursed $119,269 and $115,726 for the three-month periods ended March 31, 2018 and 2017, respectively and Preferred Capital Securities, LLC, or PCS, was reimbursed $356,022 and $255,695 for the three-month periods ended March 31, 2018 and 2017, respectively. These costs are recorded as deferred offering costs until such time as additional

closings occur on the $1.5 Billion Unit Offering, mShares Offering or the Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders' equity.

The Company's Haven 46, Lubbock II, Haven Northgate and Haven Charlotte real estate loans and the Haven Campus Communities' line of credit are supported in part by guaranties of repayment and performance by John A. Williams, Jr., our Chief Executive Officer's son, a principal of the borrowers and a related party of the Company under GAAP.

In addition to the fees described above, the Management Agreement also entitles the Manager to other potential fees, including a disposition fee of 1% of the sale price of a real estate asset. The Manager earned disposition fees totaling $434,500 for the three-month period ended March 31, 2018 on the sale of the Lake Cameron property, and $1,136,000 for the three-month period ended March 31, 2017 on the sale of the Ashford Park and Sandstone Creek properties. These fees are included in the Gain on sale of real estate, net of disposition expenses line on the Consolidated Statements of Operations. The Manager also receives leasing commission fees. Retail leasing commission fees (a) for new retail leases are equal to the greater of (i) $4.00 per square foot, and (ii) 4.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the original lease term; and (b) for lease renewals are equal to the greater of (i) $2.00 per square foot, and (ii) 2.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the newly renewed lease term. There are no commissions payable on retail lease renewals thereafter. Office leasing commission fees (a) for new office leases are equal to 50.0% of the first month's gross rent plus 2.0% of the remaining fixed gross rent on the guaranteed lease term, (b) in the event of co-broker participation in a new lease, the leasing commission determined for a new lease are equal to 150.0% of the first month's gross rent plus 6% of the remaining fixed gross rent of the guaranteed lease term, and (c) for lease renewals, are equal to 2% of the fixed gross rent of the guaranteed lease term or, in the event of a co-broker, 6% of the fixed gross rent of the guaranteed lease term. Office leasing commission fees may not exceed market rates for office leasing services.

The Company holds a promissory note in the amount of $926,422 due from Preferred Capital Marketing Services, LLC, or PCMS, which is a wholly-owned subsidiary of NELL Partners.

The Company has extended a revolving line of credit with a maximum borrowing amount of $18.0 million to its Manager.

7. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions on its Series A Preferred Stock in the amount of $5.00 per share per month and beginning in March 2017, on its Series M Preferred Stock, on an escalating scale of $4.79 per month in year one, increasing to $6.25 per month in year eight and beyond. All preferred stock dividends are prorated for partial months at issuance as necessary. The Company declared quarterly cash dividends on its Common Stock of $0.25 and $0.22 per share for the three-month periods ended March 31, 2018 and 2017, respectively. The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At March 31, 2018, the Company had 1,070,103 Class A OP Units outstanding, which are exchangeable on a one-for-one basis for shares of Common Stock or the equivalent amount of cash.

The Company's dividend and distribution activity consisted of:

Dividends/distributions
declared

	For the three months ended March 31,	
	2018	2017
(in thousands)		
Series A Preferred Stock	$ 19,204	$ 14,384
mShares	313	2
Common Stock	9,802	5,971
Class A OP Units	268	198
Total	$ 29,587	$ 20,555

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8. Equity Compensation
Stock Incentive Plan
On February 25, 2011, the Company's board of directors adopted, and the Company's stockholders approved, the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan to incentivize, compensate and retain eligible officers, consultants, and non-employee directors. On May 7, 2015, the Company's stockholders approved the third amendment to the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan, or, as amended, the 2011 Plan, which amendment increased the aggregate number of shares of Common Stock authorized for issuance under the 2011 Plan from 1,317,500 to 2,617,500 and extended the expiration date of the 2011 Plan to December 31, 2019.

Equity compensation expense by award type for the Company was:

	Three months ended March 31,		Unamortized expense as of March 31,
(in thousands)	2018	2017	2018
Class B Unit awards:			
Executive officers - 2016	74	89	226
Executive officers - 2017	107	656	616
Executive officers - 2018	816	—	3,451
Restricted stock grants:			
2016	—	102	—
2017	90	—	30
Restricted stock units:			
2017	21	26	156
2018	27	—	313
Total	$1,135	$873	$ 4,792

Restricted Stock Grants

The following annual grants of restricted stock were made to members of the Company's independent directors, as payment of the annual retainer fees. The restricted stock grants for the 2016 and 2017 service years vested (or are scheduled to vest) on a pro-rata basis over the four consecutive 90-day periods following the date of grant.

Service year	Shares	Fair value per share	Total compensation cost (in thousands)
2016	30,990	$13.23	$ 410
2017	24,408	$14.75	$ 360

Class B OP Units

On January 4, 2016, the Company caused the Operating Partnership to grant 265,931 Class B OP Units for service to be rendered during 2016, 2017 and 2018. On January 3, 2017, the Company caused the Operating Partnership to grant 286,392 Class B OP Units for service to be rendered during 2017, 2018 and 2019. On January 2, 2018, the Company caused the Operating Partnership to grant 256,087 Class B Units of the Operating Partnership, or Class B OP Units, for service to be rendered during 2018, 2019 and 2020.

Because of the market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, a Monte Carlo simulation was utilized to calculate the total fair values, which will be amortized as compensation expense over the periods beginning on the grant dates through the Initial Valuation Dates. On January 3, 2017, all of the 265,931 Class B

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Units granted on January 3, 2016 became earned and 206,534 automatically vested and converted to Class A Units. Of the remaining earned Class B Units, 29,699 vested and automatically converted to Class A Units on January 2, 2018 and the final 29,698 earned Class B Units will vest and automatically convert to Class A Units on January 2, 2019, assuming each grantee fulfills the requisite service requirement. On January 2, 2018, all of the 286,392 Class B Units granted on January 2, 2017 became vested and 227,599 automatically became earned and converted to Class A Units. Of the remaining earned Class B Units, 29,401 will vest and automatically convert to Class A Units on January 2, 2019 and the final 29,392 earned Class B Units will vest and automatically convert to Class A Units on January 2, 2020, assuming each grantee fulfills the requisite service requirement.

The underlying valuation assumptions and results for the Class B OP Unit awards were:

Grant dates	1/2/2018	1/3/2017
Stock price	$20.19	$14.79
Dividend yield	4.95 %	5.95 %
Expected volatility	25.70 %	26.40 %
Risk-free interest rate	2.71 %	2.91 %
Number of Units granted:		
One year vesting period	171,988	198,184
Three year vesting period	84,099	88,208
	256,087	286,392
Calculated fair value per Unit	$16.66	$11.92
Total fair value of Units	$4,266,409	$3,413,793
Target market threshold increase	$5,660,580	$4,598,624

The expected dividend yield assumptions were derived from the Company's closing prices of the Common Stock on the grant dates and the projected future quarterly dividend payments per share of $0.22 for the 2017 awards and $0.25 for the 2018 awards.

For the 2017 and 2018 awards, the Company's own stock price history was utilized as the basis for deriving the expected volatility assumption.

The risk-free rate assumptions were obtained from the Federal Reserve yield table and were calculated as the interpolated rate between the 20 and 30 year yield percentages on U. S. Treasury securities on the grant dates.

Since the Class B OP Units have no expiration date, a derived service period of one year was utilized, which equals the period of time from the grant date to the initial valuation date.

Restricted Stock Units

On January 3, 2017, the Company caused the Operating Partnership to grant 26,900 restricted stock units, or RSUs, for service to be rendered during 2017, 2018 and 2019. On January 2, 2018, the Company caused the Operating Partnership to grant 20,720 restricted stock units, or RSUs, for service to be rendered during 2018, 2019 and 2020.

The RSUs vest in three equal consecutive one-year tranches from the date of grant. For each grant, on the Initial Valuation Date, the market capitalization of the number of shares of Common Stock at the date of grant is compared to the market capitalization of the same number of shares of Common Stock at the Initial Valuation Date. If the market capitalization measure results in an increase which exceeds the target market threshold, the Vested RSUs become earned RSUs and automatically convert into Common Stock on a one-to-one basis. Vested RSUs may become Earned RSUs on a pro-rata basis should the result of the market capitalization test be an increase of less than the target market threshold. Any Vested RSUs that do not become Earned RSUs on the Initial Valuation Date are subsequently remeasured on a quarterly basis until such time as all Vested RSUs become Earned RSUs or are forfeited due to termination of continuous service due to an event other than as a result of a qualified event, which is generally the death or disability of the holder. Continuous service through the final valuation date is required for the Vested RSUs to qualify to become fully Earned RSUs.

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Because RSUs are valued using the identical market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, the same valuation assumptions and Monte Carlo result of $16.66 and $11.92 per RSU were utilized to calculate the total fair values of the RSUs of $345,195 and $320,648 for the 2018 and 2017 grants, respectively. The total fair value amounts pertaining to grants of RSUs, net of forfeitures, are amortized as compensation expense over the three one-year periods ending on the three successive anniversaries of the grant dates. As of March 31, 2018, a total of 4,430 RSUs have been forfeited from the 2017 grant and a total of 320 RSUs have been forfeited from the 2018 grant.

9. Indebtedness

Mortgage Notes Payable

Mortgage Financing of Property Acquisitions

The Company partially financed the real estate properties acquired during the three-month period ended March 31, 2018 with mortgage debt as shown in the following table:

Property	Date	Initial principal amount (in thousands)	Fixed/Variable rate	Rate	Maturity date
Lux at Sorrel	1/9/2018	$ 31,525	Fixed	3.91 %	2/1/2030
Green Park	2/28/2018	39,750	Fixed	4.09 %	3/10/2028
Armour Yards	1/29/2018	40,000	Fixed	4.10 %	2/1/2028
		$ 111,275			

Repayments and Refinancings

The sale of Lake Cameron on March 20, 2018 resulted in $0.4 million of debt defeasance related costs, which were netted against the gain on the sale of the property.

The sale of Sandstone Creek on January 20, 2017, resulted in $1.4 million of debt defeasance related costs. The sale of Ashford Park on March 7, 2017, resulted in $1.1 million of debt defeasance related costs plus a prepayment premium of approximately $0.4 million, which were netted against the gain on the sale of the property.

On March 29, 2018, the Company refinanced the mortgage on its Sol student housing property. A short-term bridge loan was used to replace the mortgage being held on the Acquisition Facility. The mortgage principal balance of approximately $37.5 million remained the same under the new financing arrangement, and the existing variable interest rate decreased 10 basis points, to 210 basis points over LIBOR. As a result of the refinance, the Company incurred expenses of approximately $41,000, which are included within the Interest Expense line of the Consolidated Statements of Operations.

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The following table summarizes our mortgage notes payable at March 31, 2018:
(dollars in thousands)

Fixed rate mortgage debt:	Principal balances due	Weighted-average interest rate		Weighted average remaining life (years)
Multifamily communities	$932,062	3.76	%	7.7
New Market Properties	357,904	3.84	%	7.4
Preferred Office Properties	247,331	4.20	%	16.9
Student housing projects	79,292	3.89	%	5.7
Total fixed rate mortgage debt	$1,616,589	3.85	%	8.9
Variable rate mortgage debt:				
Multifamily communities	$160,293	3.97	%	3.3
New Market Properties	62,206	4.32	%	3.3
Preferred Office Properties	—	—		0
Student housing projects	68,885	4.39	%	1.3
Total variable rate mortgage debt	$291,384	4.15	%	2.8
Total mortgage debt:				
Multifamily communities	$1,092,355	3.79	%	7.0
New Market Properties	420,110	3.91	%	6.8
Preferred Office Properties	247,331	4.20	%	16.9
Student housing projects	148,177	4.12	%	3.6
Total principal amount	1,907,973	3.90	%	8.0
Deferred loan costs	(30,926)			
Mark to market loan adjustment	(5,081)			
Mortgage notes payable, net	$1,871,966			

The Company has placed interest rate caps on the variable rate mortgages on its Avenues at Creekside and Citi Lakes multifamily communities. Under guidance provided by ASC 815-10, these interest rate caps fall under the definition of derivatives, which are embedded in their debt hosts. Because these interest rate caps are deemed to be clearly and closely related to their debt hosts, bifurcation and fair value accounting treatment is not required.

The mortgage note secured by our Independence Square property is a seven year term with an anticipated repayment date of September 1, 2022. If the Company elects not to pay its principal balance at the anticipated repayment date, the term will be extended for an additional five years, maturing on September 1, 2027. The interest rate from September 1, 2022 to September 1, 2027 will be the greater of (i) the Initial Interest Rate of 3.93% plus 200 basis points or (ii) the yield on the seven year U.S. treasury security rate plus approximately 400 basis points.

The mortgage note secured by our Royal Lakes Marketplace property has a maximum commitment of approximately $11.1 million. As of March 31, 2018, the Company has an outstanding principal balance of $9.7 million on this loan. Additional advances of the mortgage commitment will be drawn as the Company achieves incremental leasing benchmarks specified under the loan agreement. This mortgage has a variable interest of 1 Month

LIBOR plus 250 basis points, which was 4.16% as of March 31, 2018.

The mortgage note secured by our Champions Village property has a maximum commitment of approximately $34.2 million. As of March 31, 2018, the Company has an outstanding principal balance of $27.4 million. Additional advances of the mortgage commitment will be drawn as the Company achieves leasing activity. Additional advances are available through October 2019.

This mortgage note has a variable interest of the greater of (i) 3.25% or (ii) the sum of the 3.00% plus the LIBOR Rate, which was 4.67% as of March 31, 2018.

As of March 31, 2018, the weighted-average remaining life of deferred loan costs related to the Company's mortgage indebtedness was approximately 8.8 years.

Credit Facility

The Company has a credit facility, or Credit Facility, with KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), working capital and other general corporate purposes on an as needed basis. The maximum borrowing capacity on the Revolving Line of Credit was increased to $200 million pursuant to an accordion feature within the Fourth Amended and Restated Credit Agreement, as amended on March 23, 2018, but effective as of April 13, 2018, or the Amended and Restated Credit Agreement. The accordion feature permits the maximum borrowing capacity to be expanded or contracted without amending any further terms of the instrument. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus 3.25% per annum and matures on August 5, 2019, with an option to extend the maturity date to August 5, 2020, subject to certain conditions described therein. The weighted average interest rate for the Revolving Line of Credit was 4.87% for the three-month period ended March 31, 2018. The Revolving Line of Credit also bears a commitment fee on the average daily unused portion of the Revolving Line of Credit of 0.35% per annum.