

PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
May 09, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x 1934

For the quarterly period ended March 31, 2016

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 (I.R.S. Employer
incorporation or organization) 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock, as of May 6, 2016 was 23,183,396.

PART I - FINANCIAL INFORMATION

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

	March 31, 2016	December 31, 2015
Assets		
Real estate		
Land	\$ 174,662,174	\$ 141,729,264
Building and improvements	908,022,540	733,417,442
Tenant improvements	6,029,479	5,781,199
Furniture, fixtures, and equipment	102,159,856	86,092,408
Construction in progress	814,623	609,400
Gross real estate	1,191,688,672	967,629,713
Less: accumulated depreciation	(59,160,582)	(48,155,874)
Net real estate	1,132,528,090	919,473,839
Property held for sale (net of accumulated depreciation of \$6,034,171 and \$5,838,792)	33,666,369	33,817,081
Real estate loans, net of deferred fee income	169,409,097	180,688,293
Real estate loans to related parties, net	91,221,265	57,313,465
Total real estate and real estate loans, net	1,426,824,821	1,191,292,678
Cash and cash equivalents		
Restricted cash	4,703,505	2,439,605
Notes receivable	13,597,705	12,539,440
Note receivable and revolving line of credit to related party	12,864,229	18,489,247
Accrued interest receivable on real estate loans	26,181,955	19,454,486
Acquired intangible assets, net of amortization of \$31,229,089 and \$27,032,157	13,219,191	14,294,648
Deferred loan costs for revolving line of credit, net of amortization of \$836,761 and \$791,002	22,094,521	19,381,473
Deferred offering costs	443,654	488,770
Tenant receivables (net of allowance of \$435,508 and \$434,773) and other assets	5,031,237	5,834,304
Total assets	11,874,629	11,314,382
Total assets		
	\$ 1,536,835,447	\$ 1,295,529,033
Liabilities and equity		
Liabilities		
Mortgage notes payable, principal amount	\$ 818,291,100	\$ 668,836,291
Less: deferred loan costs, net of amortization of \$2,587,310 and \$2,021,696	(10,642,652)	(8,099,517)
Mortgage notes payable, net of deferred loan costs	807,648,448	660,736,774
Mortgage note held for sale	28,109,000	28,109,000
Revolving line of credit	17,000,000	34,500,000
Term note payable	30,000,000	—
Less: deferred loan costs, net of amortization	(5,611)	—
Term note payable, net of deferred loan costs	29,994,389	—
Real estate loan participation obligation	13,769,962	13,544,160
Accounts payable and accrued expenses	12,274,575	12,644,818
Accrued interest payable	2,524,558	1,803,389
Dividends and partnership distributions payable	7,322,267	6,647,507

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Acquired below market lease intangibles, net of amortization of \$1,932,035 and \$1,578,205	8,899,620	9,253,450
Security deposits and other liabilities	3,466,767	2,836,145
Total liabilities	931,009,586	770,075,243
Commitments and contingencies (Note 12)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, \$0.01 par value per share; 1,050,000 shares authorized; 587,219 and 486,182 shares issued; 583,110 and 482,964 shares outstanding at March 31, 2016 and December 31, 2015, respectively	5,831	4,830
Common Stock, \$0.01 par value per share; 400,066,666 shares authorized; 23,063,026 and 22,761,551 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	230,630	227,616
Additional paid-in capital	621,265,574	536,450,877
Accumulated deficit	(16,999,449)	(13,698,520)
Total stockholders' equity	604,502,586	522,984,803
Non-controlling interest	1,323,275	2,468,987
Total equity	605,825,861	525,453,790
Total liabilities and equity	\$1,536,835,447	\$1,295,529,033

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

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

	Three months ended March 31,	
	2016	2015
Revenues:		
Rental revenues	\$28,255,599	\$13,141,120
Other property revenues	3,760,083	1,969,767
Interest income on loans and notes receivable	6,942,159	4,875,086
Interest income from related parties	2,777,940	1,358,542
Total revenues	41,735,781	21,344,515
Operating expenses:		
Property operating and maintenance	4,021,362	2,079,359
Property salary and benefits reimbursement to related party	2,363,463	1,117,573
Property management fees (including \$1,071,088 and \$480,051 to related parties)	1,228,021	570,406
Real estate taxes	5,173,441	2,076,677
General and administrative	919,952	458,204
Equity compensation to directors and executives	610,425	590,308
Depreciation and amortization	15,346,726	7,945,428
Acquisition and pursuit costs (including \$67,131 and \$47,005 to related party)	2,652,705	423,592
Acquisition fees to related parties	110,880	760,300
Asset management fees to related party	2,766,086	1,350,890
Insurance, professional fees and other expenses	1,306,981	705,552
Total operating expenses	36,500,042	18,078,289
Contingent asset management and general and administrative expense fees	(269,601)	(345,960)
Net operating expenses	36,230,441	17,732,329
Operating income	5,505,340	3,612,186
Interest expense	8,894,830	4,377,115
Net loss	(3,389,490)	(764,929)
Consolidated net loss attributable to non-controlling interests	88,561	9,699
Net loss attributable to the Company	(3,300,929)	(755,230)
Dividends declared to Series A preferred stockholders	(7,881,735)	(3,172,897)
Earnings attributable to unvested restricted stock	(1,451)	(6,863)
Net loss attributable to common stockholders	\$(11,184,115)	\$(3,934,990)
Net loss per share of Common Stock available to common stockholders, basic and diluted	\$(0.49)	\$(0.18)

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Dividends per share declared on Common Stock	\$0.1925	\$0.175
Weighted average number of shares of Common Stock outstanding, basic and diluted	22,983,741	21,813,974

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 months ended March 31, 2016 and 2015
 (Unaudited)

	Series A Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated (Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2015	\$ 1,928	\$214,039	\$300,576,349	\$(11,297,852)	\$289,494,464	\$2,087,410	\$291,581,874
Issuance of Units	515	—	51,468,556	—	51,469,071	—	51,469,071
Redemptions of Series A Preferred Stock	(4)	342	(51,279)	—	(50,941)	—	(50,941)
Issuance of Common Stock	—	5,479	5,487,828	—	5,493,307	—	5,493,307
Exercises of warrants	—	392	115,964	—	116,356	—	116,356
Syndication and offering costs	—	—	(6,269,925)	—	(6,269,925)	—	(6,269,925)
Equity compensation to executives and directors	—	18	98,382	—	98,400	—	98,400
Conversion of Class A Units to Common Stock	—	1,042	695,050	—	696,092	(696,092)	—
Current period amortization of Class B Units	—	—	—	—	—	491,908	491,908
Net loss	—	—	—	(755,230)	(755,230)	(9,699)	(764,929)
Reallocation adjustment to non-controlling interests	—	—	209,799	—	209,799	(209,799)	—
Distributions to non-controlling interests	—	—	—	—	—	(49,063)	(49,063)
Dividends to series A preferred stockholders (\$5.00 per share per month)	—	—	(3,172,897)	—	(3,172,897)	—	(3,172,897)
Dividends to common stockholders (\$0.175 per	—	—	(3,850,754)	—	(3,850,754)	—	(3,850,754)

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share)

Balance at March 31, 2015	\$ 2,439	\$ 221,312	\$ 345,307,073	\$(12,053,082)	\$ 333,477,742	\$ 1,614,665	\$ 335,092,407
Balance at January 1, 2016	\$ 4,830	\$ 227,616	\$ 536,450,877	\$(13,698,520)	\$ 522,984,803	\$ 2,468,987	\$ 525,453,790
Issuance of Units	1,010	—	100,979,717	—	100,980,727	—	100,980,727
Redemptions of Series A Preferred Stock	(9)	—	(803,938)	—	(803,947)	—	(803,947)
Exercises of warrants	—	1,967	1,976,547	—	1,978,514	—	1,978,514
Syndication and offering costs	—	—	(11,642,198)	—	(11,642,198)	—	(11,642,198)
Equity compensation to executives and directors	—	19	103,992	—	104,011	—	104,011
Vesting of restricted stock	—	75	(75)	—	—	—	—
Conversion of Class A Units to Common Stock	—	953	645,248	—	646,201	(646,201)	—
Current period amortization of Class B Units	—	—	—	—	—	506,414	506,414
Net loss	—	—	—	(3,300,929)	(3,300,929)	(88,561)	(3,389,490)
Class A Units issued for property acquisition	—	—	—	—	—	5,072,659	5,072,659
Reallocation adjustment to non-controlling interests	—	—	5,872,628	—	5,872,628	(5,872,628)	—
Distributions to non-controlling interests	—	—	—	—	—	(117,395)	(117,395)
Dividends to series A preferred stockholders (\$5.00 per share per month)	—	—	(7,881,735)	—	(7,881,735)	—	(7,881,735)
Dividends to common stockholders (\$0.1925 per share)	—	—	(4,435,489)	—	(4,435,489)	—	(4,435,489)
	\$ 5,831	\$ 230,630	\$ 621,265,574	\$(16,999,449)	\$ 604,502,586	\$ 1,323,275	\$ 605,825,861

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

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

	Three months ended March 31,	
	2016	2015
Operating activities:		
Net loss	\$(3,389,490)	\$(764,929)
Reconciliation of net loss to net cash provided by operating activities:		
Depreciation expense	11,203,056	5,340,425
Amortization expense	4,143,670	2,605,003
Amortization of above and below market leases	(265,410)	(183,431)
Deferred fee income amortization	(264,197)	(158,817)
Deferred loan cost amortization	691,207	347,538
Decrease (increase) in accrued interest income on real estate loans	1,075,458	(817,449)
Equity compensation to executives and directors	610,425	590,308
Deferred cable income amortization	(4,616)	(4,936)
Changes in operating assets and liabilities:		
(Increase) decrease in tenant receivables and other assets	(86,020)	279,136
(Decrease) increase in accounts payable and accrued expenses	(1,267,380)	257,372
Increase in accrued interest payable	721,170	37,407
Increase in prepaid rents	113,055	193,338
Increase in security deposits and other liabilities	109,187	15,038
Net cash provided by operating activities	13,390,115	7,736,003
Investing activities:		
Investments in real estate loans	(56,970,287)	(24,279,317)
Repayments of real estate loans	27,695,229	5,206,045
Notes receivable issued	(3,870,191)	(2,554,590)
Notes receivable repaid	9,505,081	7,195,294
Note receivable issued to and draws on line of credit by related party	(12,382,910)	(3,880,139)
Repayments of line of credit by related party	5,508,066	2,097,135
Acquisition fees received on real estate loans	1,403,422	439,428
Acquisition fees paid on real estate loans	(701,369)	(219,714)
Acquisition fees paid to real estate loan participants	—	(24,665)
Acquisition of properties	(220,850,440)	(76,230,876)
Additions to real estate assets - improvements	(1,461,711)	(466,840)
Payment of deposits for property acquisitions	(2,644,056)	(541,475)
Decrease in restricted cash	1,808,375	387,260
Net cash used in investing activities	(252,960,791)	(92,872,454)
Financing activities:		
Proceeds from mortgage notes payable	151,640,000	50,778,000
Payments for mortgage debt	(2,185,191)	(670,762)
Payments for deposits and other mortgage loan costs	(3,716,469)	(830,311)
Proceeds from real estate loan participants	67,066	3,215,801
Proceeds from lines of credit	87,500,000	14,400,000
Payments on lines of credit	(105,000,000)	(38,900,000)
Proceeds from Term Loan	35,000,000	32,000,000

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Repayment of the Term Loan	(5,000,000)	(13,000,000)
Proceeds from sales of Units, net of offering costs and redemptions	90,090,574	44,317,018
Proceeds from sales of Common Stock	—	5,381,848
Proceeds from exercises of warrants	5,548,468	53,945
Common Stock dividends paid	(4,314,999)	(3,697,436)
Series A Preferred Stock dividends paid	(7,391,620)	(2,931,927)
Distributions to non-controlling interests	(53,241)	(25,377)
Payments for deferred offering costs	(350,012)	(452,825)
Net cash provided by financing activities	241,834,576	89,637,974
Net increase in cash and cash equivalents	2,263,900	4,501,523
Cash and cash equivalents, beginning of period	2,439,605	3,113,270
Cash and cash equivalents, end of period	\$4,703,505	\$7,614,793

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

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

	Three months ended March 31,	
	2016	2015
Supplemental cash flow information:		
Cash paid for interest	\$7,482,453	\$3,992,132
Supplemental disclosure of non-cash activities:		
Accrued capital expenditures	\$710,932	\$109,603
Writeoff of fully depreciated or amortized assets and liabilities	\$26,988	\$170,332
Dividends payable - Common Stock	\$4,435,489	\$3,850,754
Dividends payable - Series A Preferred Stock	\$2,769,385	\$1,141,403
Partnership distributions payable to non-controlling interests	\$117,392	\$49,063
Accrued and payable deferred offering costs	\$526,659	\$518,162
Reclass of offering costs from deferred asset to equity	\$1,545,488	\$985,679
Fair value issuance of Class A OP Units for contribution of property	\$5,072,659	\$—
Extinguishment of land loan for property	\$6,250,000	\$—
Fair value issuances of equity compensation	\$2,095,545	\$1,965,549