

INDEPENDENCE REALTY TRUST, INC.
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number 001-36041

INDEPENDENCE REALTY TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	26-4567130
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
Two Liberty Place	
50 S. 16 th Street, Suite 3575	
Philadelphia, PA	19102

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(Address of Principal Executive Offices) (Zip Code)

(267) 270-4800

(Registrant's Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the 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

Non-Accelerated filer

(Do not check if a smaller reporting company) 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

As of August 2, 2017 there were 69,143,955 shares of the Registrant's common stock issued and outstanding.

INDEPENDENCE REALTY TRUST, INC.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited and dollars in thousands, except share and per share data)

	As of June 30, 2017	As of December 31, 2016
ASSETS:		
Investments in real estate:		
Investments in real estate, at cost	\$1,340,573	\$ 1,249,356
Accumulated depreciation	(66,853)	(51,511)
Investments in real estate, net	1,273,720	1,197,845
Real estate held for sale	21,964	60,786
Cash and cash equivalents	6,271	20,892
Restricted cash	5,690	5,518
Accounts receivable and other assets	5,114	5,211
Derivative assets	3,619	3,867
Intangible assets, net of accumulated amortization of \$248 and \$0, respectively	799	118
Total Assets	\$1,317,177	\$ 1,294,237
LIABILITIES AND EQUITY:		
Indebtedness, net of unamortized deferred financing costs of \$5,979 and \$6,371, respectively	\$764,521	\$ 743,817
Accounts payable and accrued expenses	16,940	14,028
Accrued interest payable	176	491
Dividends payable	4,313	4,297
Other liabilities	2,906	2,913
Total Liabilities	788,856	765,546
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized, 0 and 0 shares issued and outstanding, respectively	—	—
Common stock, \$0.01 par value; 300,000,000 shares authorized, 69,143,955 and 68,996,070 shares issued and outstanding, including 296,957 and 281,000 unvested restricted common share awards, respectively	691	690
Additional paid-in capital	565,372	564,633
Accumulated other comprehensive income	3,468	3,683
Retained earnings (accumulated deficit)	(64,260)	(62,181)
Total stockholders' equity	505,271	506,825
Noncontrolling interests	23,050	21,866
Total Equity	528,321	528,691
Total Liabilities and Equity	\$1,317,177	\$ 1,294,237

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited and dollars in thousands, except share and per share data)

	For the Three Months		For the Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
REVENUE:				
Rental income	\$35,176	\$34,185	\$69,913	\$68,938
Tenant reimbursement income	1,398	1,405	2,859	2,843
Other property income	2,857	2,737	5,554	5,212
Property management and other income	130	-	377	-
Total revenue	39,561	38,327	78,703	76,993
EXPENSES:				
Property operating expenses	15,918	15,623	31,910	31,481
Property management expenses	1,444	1,229	2,982	2,491
General and administrative expenses	2,706	2,787	4,806	5,409
Acquisition and integration expenses	265	8	387	18
Depreciation and amortization expense	8,011	7,635	15,618	19,162
Total expenses	28,344	27,282	55,703	58,561
Operating income	11,217	11,045	23,000	18,432
Interest expense	(7,162)	(9,018)	(14,610)	(18,995)
Hedge ineffectiveness	(12)	—	(12)	—
Other income (expense)	—	—	(5)	—
Net gains (losses) on sale of assets	16,050	29,321	15,965	31,774
Gains (losses) on extinguishment of debt	(572)	(558)	(572)	(558)
Gains (losses) on TSRE merger	—	—	—	91
Net income (loss):	19,521	30,790	23,766	30,744
(Income) loss allocated to noncontrolling interest	(782)	(1,803)	(950)	(1,832)
Net income (loss) allocable to common shares	\$18,739	\$28,987	\$22,816	\$28,912
Earnings (loss) per share:				
Basic	\$0.27	\$0.61	\$0.33	\$0.61
Diluted	\$0.27	\$0.61	\$0.33	\$0.61
Weighted-average shares:				
Basic	68,832,855	47,183,804	68,810,131	47,138,573
Diluted	68,943,869	47,229,736	69,007,862	47,159,220

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited and dollars in thousands)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income (loss)	\$19,521	\$30,790	\$23,766	\$30,744
Other comprehensive income (loss):				
Change in fair value of interest rate hedges	(706)	(1,169)	(410)	(1,187)
Realized (gains) losses on interest rate hedges reclassified to earnings	59	—	191	—
Total other comprehensive income	(647)	(1,169)	(219)	(1,187)
Comprehensive income (loss) before allocation to noncontrolling interests	18,874	29,621	23,547	29,557
Allocation to noncontrolling interests	(764)	(1,803)	(946)	(1,832)
Comprehensive income (loss)	\$18,110	\$27,818	\$22,601	\$27,725

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity

(Unaudited and dollars in thousands, except share information)

	Common Shares	Par Value Common Shares	Additional Paid In Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2017	68,996,070	\$ 690	\$ 564,633	\$ 3,683	\$(62,181)	\$ 506,825	\$ 21,866	\$ 528,691
Net income	-	-	-	-	22,816	22,816	950	23,766
Common dividends declared	-	-	-	-	(24,895)	(24,895)	-	(24,895)
Other comprehensive income	-	-	-	(215)	-	(215)	(4)	(219)
Stock compensation expense	168,010	1	1,125	-	-	1,126	-	1,126
Issuance of LP Units related to acquisitions	-	-	-	-	-	-	1,654	1,654
Repurchase of shares related to equity award tax withholding	(60,024)	(1)	(757)	-	-	(758)	-	(758)
Conversion of noncontrolling interest to common shares	39,899	1	371	-	-	372	(372)	-
Distribution to noncontrolling interest declared	-	-	-	-	-	-	(1,044)	(1,044)
Balance, June 30, 2017	69,143,955	\$ 691	\$ 565,372	\$ 3,468	\$(64,260)	\$ 505,271	\$ 23,050	\$ 528,321

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited and dollars in thousands)

	For the Six Months June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$23,766	\$30,744
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depreciation and amortization	15,618	19,162
Amortization of deferred financing costs	878	1,639
Stock compensation expense	1,126	585
Net (gains) losses on sale of assets	(15,965)	(31,774)
(Gains) losses on extinguishment of debt	572	558
(Gains) losses on TSRE merger	-	(91)
Changes in assets and liabilities:		
Accounts receivable and other assets	(517)	(297)
Accounts payable and accrued expenses	2,839	(1,261)
Accrued interest payable	(302)	(505)
Other liabilities	18	87
Net cash provided by operating activities	28,033	18,847
Cash flows from investing activities:		
Disposition of real estate properties	34,611	39,691
Acquisition of real estate properties	(84,417)	-
TSRE merger, net of cash acquired	-	91
Capital expenditures	(5,728)	(5,429)
(Increase) in restricted cash	(172)	(1,366)
Cash flow (used in) provided by investing activities	(55,706)	32,987
Cash flows from financing activities:		
Proceeds from unsecured credit facility	63,190	93,501
Unsecured credit facility repayments	(21,000)	(197,666)
Proceeds from mortgages	-	105,980
Mortgage principal repayments	(1,291)	(44,229)
Payments for deferred financing costs	(1,166)	(1,449)
Distributions on common stock	(24,887)	(16,998)
Distributions to noncontrolling interests	(1,036)	(1,086)
Payments for tax withholding related to vesting/exercise of equity compensation	(758)	(137)
Cash flow provided by (used in) financing activities	13,052	(62,084)
Net change in cash and cash equivalents	(14,621)	(10,250)
Cash and cash equivalents, beginning of period	20,892	38,301
Cash and cash equivalents, end of the period	\$6,271	\$28,051

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

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2017

(Unaudited and dollars in thousands, except share and per share data)

NOTE 1: Organization

Independence Realty Trust, Inc. was formed on March 26, 2009 as a Maryland corporation that has elected to be taxed as a real estate investment trust, or REIT, commencing with the taxable year ended December 31, 2011. As of June 30, 2017, we own and operate 46 multifamily apartment properties, totaling 12,812 units, across non-gateway U.S markets, including Louisville, Memphis, Atlanta and Raleigh. Our investment strategy is focused on gaining scale within key amenity rich submarkets that offer good school districts, high-quality retail and major employment centers. We aim to provide stockholders with attractive risk-adjusted returns through diligent portfolio management, strong operational performance, and a consistent return through distributions and capital appreciation. We own substantially all of our assets and conduct our operations through Independence Realty Operating Partnership, LP, which we refer to as IROP, of which we are the sole general partner.

We became an internally managed REIT in December 2016. Prior to that date, we were externally managed by a subsidiary of RAIT Financial Trust, or RAIT, a publicly traded Maryland REIT whose common shares are listed on the New York Stock Exchange under the symbol "RAS" (referred to as our former advisor). On December 20, 2016, we completed our management internalization, which was announced on September 27, 2016 as part of the agreement, or the internalization agreement, with RAIT and RAIT affiliates that provided for transactions which changed us from being externally managed to being internally managed and separated us from RAIT. The management internalization consisted of two parts: (i) our acquisition of our former advisor, which was a subsidiary of RAIT, and (ii) our acquisition of substantially all of the assets and the assumption of certain liabilities relating to the multifamily property management business of RAIT, including property management contracts relating to apartment properties owned by us, RAIT and third parties. Also, pursuant to the internalization agreement, on October 5, 2016, we repurchased all of the 7,269,719 shares of our common stock owned by certain of RAIT's subsidiaries and retired these shares.

As used herein, the terms "we," "our" and "us" refer to Independence Realty Trust, Inc. and, as required by context, IROP and their subsidiaries.

NOTE 2: Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in the United States, or GAAP. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2016 included in our Annual Report on Form 10-K or the 2016 annual report. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations and cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

b. Principles of Consolidation

The consolidated financial statements reflect our accounts and the accounts of IROP and other wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Pursuant to FASB Accounting Standards Codification Topic 810, "Consolidation", IROP is considered a variable interest entity. As our significant asset is our investment in IROP, substantially all of our assets and liabilities represent the assets and liabilities of IROP.

c. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2017

(Unaudited and dollars in thousands, except share and per share data)

d. Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and highly liquid investments with maturities of three months or less when purchased. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of \$250 per institution. We mitigate credit risk by placing cash and cash equivalents with major financial institutions. To date, we have not experienced any losses on cash and cash equivalents.

e. Restricted Cash

Restricted cash includes escrows of our funds held by lenders to fund certain expenditures, such as real estate taxes and insurance, or to be released at our discretion upon the occurrence of certain pre-specified events. As of June 30, 2017 and December 31, 2016, we had \$5,690 and \$5,518, respectively, of restricted cash.

f. Accounts Receivable and Allowance for Bad Debts

We make estimates of the collectability of our accounts receivable related to base rents, expense reimbursements and other revenue. We analyze accounts receivable and historical bad debt levels, tenant credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants experiencing financial difficulties are analyzed and estimates are made in connection with expected uncollectible receivables. Our reported operating results are affected by management's estimate of the collectability of accounts receivable. For the three months ended June 30, 2017 and 2016, we recorded bad debt expense of \$255 and \$202, respectively. For the six months ended June 30, 2017 and 2016, we recorded bad debt expense of \$569 and \$421, respectively.

g. Investments in Real Estate

Investments in real estate are recorded at cost less accumulated depreciation. Costs that both add value and appreciably extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are expensed as incurred.

Investments in real estate are classified as held for sale in the period in which certain criteria are met including when the sale of the asset is probable and actions required to complete the plan of sale indicate that it is unlikely that significant changes to the plan of sale will be made or the plan of sale will be withdrawn.

Allocation of Purchase Price of Acquired Assets

We account for acquisitions of properties that meet the definition of a business pursuant to Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805, "Business Combinations". The fair value of the real estate acquired is allocated to the acquired tangible assets, generally consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and

below-market leases for acquired in-place leases and the value of tenant relationships, based in each case on their fair values. Purchase accounting is applied to assets and liabilities associated with the real estate acquired. Transaction costs and fees incurred related to an acquisition are expensed as incurred. Transaction costs and fees incurred related to the financing of an acquisition are capitalized and amortized over the life of the related financing.

Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets (consisting of in-place leases), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months after the acquisition date.

The aggregate value of in-place leases is determined by evaluating various factors, including the terms of the leases that are in place and assumed lease-up periods. During the six months ended June 30, 2017, we acquired in-place leases with a value of \$929, related property acquisitions that are discussed further in Note 3. The value assigned to this intangible asset is amortized over the assumed lease up period, typically six months. For the three and six months ended June 30, 2017, we recorded \$193 and \$248, respectively, of amortization expense for intangible assets. For the three and six months ended June 30, 2016, we recorded \$0

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2017

(Unaudited and dollars in thousands, except share and per share data)

and \$3,735, respectively, of amortization expense for intangible assets. As of June 30, 2017, we expect to record additional amortization expense on current in-place intangible assets of \$692 for the remainder of 2017.

Impairment of Long-Lived Assets

Management evaluates the recoverability of our investment in real estate assets, including related identifiable intangible assets, in accordance with FASB ASC Topic 360, "Property, Plant and Equipment". This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that recoverability of the assets is not assured.

Management reviews its long-lived assets on an ongoing basis and evaluates the recoverability of the carrying value when there is an indicator of impairment. An impairment charge is recorded when it is determined that the carrying value of the asset exceeds the fair value. The estimated cash flows used for the impairment analysis and the determination of estimated fair value are based on our plans for the respective assets and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the respective and/or comparable properties, and recent sales data for comparable properties. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses, which, under the applicable accounting guidance, could be substantial.

Depreciation Expense

Depreciation expense for real estate assets is computed using a straight-line method based on a life of 40 years for buildings and improvements and five to ten years for equipment and fixtures. For the three and six months ended June 30, 2017, we recorded \$7,818 and \$15,370 of depreciation expense, respectively. For the three and six months ended June 30, 2016, we recorded \$7,635 and \$15,427 of depreciation expense, respectively.

h. Revenue and Expenses

Rental revenues are recognized on an accrual basis when due from residents. We primarily lease apartments units under operating leases generally with terms of one year or less. Rental payments are generally due monthly and recognized when earned. Rental income represents gross market rent less adjustments for concessions and vacancy loss. Tenant reimbursement income represents reimbursement from tenants for utility charges while other property income includes parking, trash, late fee, and other miscellaneous property related income

For the three and six months ended June 30, 2017, we recognized revenues of \$34 and \$85, respectively, related to recoveries of lost rental revenue due to natural disasters and other insurable events from our insurance providers. For the three and six months ended June 30, 2016, we recognized revenues of \$38 and \$113, respectively, related to recoveries of lost rental revenue due to natural disasters and other insurable events from our insurance providers.

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For the three and six months ended June 30, 2017, we incurred \$423 and \$848 of advertising expenses, respectively. For the three and six months ended June 30, 2016, we incurred \$443 and \$890 of advertising expenses, respectively.

For the three months ended June 30, 2017 and 2016, we incurred \$0 and \$1,863 of asset management and incentive fees, respectively. For the six months ended June 30, 2017 and 2016, we incurred \$0 and \$3,559 of asset management and incentive fees, respectively. These fees are now included in general and administrative expenses since as an internally-managed REIT, we will no longer incur asset management fees and the compensation cost of our employees who now perform this function are recorded within general and administrative expenses. See Note 8: Related Party Transactions.

For the three months ended June 30, 2017 and 2016, we incurred \$1,444 and \$1,229 of property management expenses, respectively. For the six months ended June 30, 2017 and 2016, we incurred \$2,982 and \$2,491 of property management expenses, respectively. Subsequent to our management internalization, property management expenses include payroll and related expenses that directly support on-site property management. Prior to our management internalization, property management expenses included property and construction management fees paid to our former property manager. See Note 8: Related Party Transactions.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2017

(Unaudited and dollars in thousands, except share and per share data)

i. Derivative Instruments

We may use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with our operating and financial structure, as well as, to hedge specific anticipated transactions. While these instruments may impact our periodic cash flows, they benefit us by minimizing the risks and/or costs previously described. The counterparties to these contractual arrangements are major financial institutions with which we and our affiliates may also have other financial relationships. In the event of nonperformance by the counterparties, we are potentially exposed to credit loss. However, because of the high credit ratings of the counterparties, we do not anticipate that any of the counterparties will fail to meet their obligations.

In accordance with FASB ASC Topic 815, "Derivatives and Hedging", we measure each derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record such amounts in our consolidated balance sheet as either an asset or liability. For derivatives designated as cash flow hedges, the changes in the fair value of the effective portions of the derivative are reported in other comprehensive income and changes in the fair value of the ineffective portions of cash flow hedges, if any, are recognized in earnings. For derivatives not designated as hedges (or designated as fair value hedges), or for derivatives designated as cash flow hedges associated with debt for which we elected the fair value option under FASB ASC Topic 825, "Financial Instruments", the changes in fair value of the derivative instrument are recognized in earnings. Any derivatives that we designate in hedge relationships are done so at inception. At inception, we determine whether or not the derivative is highly effective in offsetting changes in the designated interest rate risk associated with the identified indebtedness using regression analysis. At each reporting period, we update our regression analysis and use the hypothetical derivative method to measure any ineffectiveness.

j. Fair Value of Financial Instruments

In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures", fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity for disclosure purposes. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB ASC Topic 820, "Fair Value Measurements and Disclosures" and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

Level 1: Valuations are based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are equity securities listed in active markets. As such, valuations of these investments do not entail a significant degree of judgment.

•

Level 2: Valuations are based on quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of investment, whether the investment is new, whether the investment is traded on an active exchange or in the secondary market, and the current market condition. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by us in determining fair value is greatest for instruments categorized in Level 3.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2017

(Unaudited and dollars in thousands, except share and per share data)

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that management believes are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be transferred from Level 1 to Level 2 or Level 2 to Level 3.

Fair value for certain of our Level 3 financial instruments is derived using internal valuation models. These internal valuation models include discounted cash flow analyses developed by management using current interest rates, estimates of the term of the particular instrument, specific issuer information and other market data for securities without an active market. In accordance with FASB ASC Topic 820, "Fair Value Measurements and Disclosures", the impact of our own credit spreads is also considered when measuring the fair value of financial assets or liabilities, including derivative contracts. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality and market liquidity. These adjustments are applied on a consistent basis and are based on observable inputs where available. Management's estimate of fair value requires significant management judgment and is subject to a high degree of variability based upon market conditions, the availability of specific issuer information and management's assumptions.

FASB ASC Topic 825, "Financial Instruments" requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. Given that cash and cash equivalents and restricted cash are short term in nature with limited fair value volatility, the carrying amount is deemed to be a reasonable approximation of fair value and the fair value input is classified as a Level 1 fair value measurement. The fair value input for the derivatives is classified as a Level 2 fair value measurement within the fair value hierarchy. The fair value inputs for the secured credit facility is classified as Level 2 fair value measurements within the fair value hierarchy. The fair value of mortgage indebtedness is based on a discounted cash flows valuation technique. As this technique utilizes current credit spreads, which are generally unobservable, this is classified as a Level 3 fair value measurement within the fair value hierarchy. We determine appropriate credit spreads based on the type of debt and its maturity. The following table summarizes the carrying amount and the fair value of our financial instruments as of the periods indicated:

Financial Instrument	As of June 30, 2017		As of December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$6,271	\$6,271	\$20,892	\$20,892
Restricted cash	5,690	5,690	5,518	5,518

Derivative assets	3,619	3,619	3,867	3,867
Liabilities				
Debt:				
Unsecured credit facility	189,507	192,190	147,280	150,000
Mortgages	575,014	566,073	596,537	588,523

k. Deferred Financing Costs

Costs incurred in connection with debt financing are deferred and classified within indebtedness and charged to interest expense over the terms of the related debt agreements, under the effective interest method. As of January 1, 2016, we adopted the accounting standard classified under FASB ASC Topic 835, "Interest" which required deferred financing costs to be presented on the balance sheet as a direct deduction from indebtedness.

l. Income Taxes

We have elected to be taxed as a REIT beginning with the taxable year ended December 31, 2011. Accordingly, we recorded no income tax expense for the three and six months ended June 30, 2017 and 2016.

To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our ordinary taxable income to stockholders. As a REIT, we generally are not subject to federal income tax on taxable

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income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders; however, we believe that we are organized and operate in such a manner as to qualify and maintain treatment as a REIT and intend to operate in such a manner so that we will remain qualified as a REIT for federal income tax purposes.

m. Recent Accounting Pronouncements

Below is a brief description of recent accounting pronouncements that could have a material effect on our financial statements.

Adopted Within these Financial Statements

In March 2016, the FASB issued an accounting standard classified under FASB ASC Topic 718, "Compensation – Stock Compensation". This accounting standard simplifies several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences; (ii) classification of awards as either equity or liabilities; and (iii) classification on the statement of cash flows. This standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

Not Yet Adopted Within these Financial Statements

In May 2014, the FASB issued an accounting standard classified under FASB ASC Topic 606, "Revenue from Contracts with Customers". This accounting standard generally replaces existing guidance by requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This accounting standard applies to all contracts with customers, except those that are within the scope of other Topics in the FASB ASC. During 2016, the FASB issued three amendments to this accounting standard which provide further clarification to this accounting standard. These standards amending FASB ASC Topic 606 are currently effective for annual reporting periods beginning after December 15, 2017. We are continuing to evaluate the impact that these standards may have on our consolidated financial statements, however, a majority of our revenue is derived from real estate lease contracts, which are specifically excluded from the scope of this standard.

In February 2016, the FASB issued an accounting standard classified under FASB ASC Topic 842, "Leases". This accounting standard amends lease accounting by requiring the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases on the balance sheet and disclosing key information about leasing arrangements. This standard is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this standard is permitted. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

In August 2016, the FASB issued an accounting standard classified under FASB ASC Topic 230, "Statement of Cash Flows". This accounting standard provides guidance on eight specific cash flow issues: (i) debt prepayment or debt extinguishment costs; (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (iii) contingent consideration payments made after a business combination; (iv) proceeds from the settlement of insurance claims; (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions; and (viii) separately identifiable cash flows and application of the predominance principle. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Management is currently evaluating the impact that this standard may have on our consolidated statement of cash flows.

In January 2017, the FASB issued an accounting standard under FASB ASC Topic 805, "Business Combinations" that changes the definition of a business to assist entities with evaluating whether a set of transferred assets is a business. As a result, the accounting for acquisitions of real estate could be impacted. The updated standard will be effective for the Company on January 1, 2018 with early adoption permitted. The new definition will be applied prospectively to any transactions occurring within the period of adoption.

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Management expects that the updated standard will result in fewer acquisitions of real estate meeting the definition of a business and fewer acquisition-related costs being expensed in the period incurred.

In May 2017, the FASB issued an accounting standard under FASB ASC Topic 718, "Compensation – Stock Compensation." The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. As a result, the accounting for share-based payment award transactions could be impacted. The updated standard will be effective for the Company on January 1, 2018 with early adoption permitted. The new definition will be applied prospectively to an award modified on or after the adoption date. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

NOTE 3: Investments in Real Estate

As of June 30, 2017, our investments in real estate consisted of 46 apartment properties with 12,812 units (unaudited). The table below summarizes our investments in real estate:

As of June 30, 2017 and December 31, 2016, we had investments in real estate with a carrying value of \$21,964 and \$60,786, respectively, classified as held for sale.

	As of June 30, 2017	As of December 31, 2016	Depreciable Lives (In years)
Land	\$178,566	\$ 165,120	—
Building	1,139,176	1,066,611	40
Furniture, fixtures and equipment	22,831	17,625	5-10
Total investment in real estate	\$1,340,573	\$ 1,249,356	
Accumulated depreciation	(66,853)	(51,511)	
Investments in real estate, net	\$1,273,720	\$ 1,197,845	

Acquisitions

The below table summarizes the acquisitions for the six months ended June 30, 2017:

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Property Name	Date of Purchase	Location	Units (unaudited)	Purchase Price
Lakes of Northdale	2/27/2017	Tampa, FL	216	\$ 29,750
Haverford Place	5/24/2017	Lexington, KY	160	\$ 14,240
South Terrace (1)	6/30/2017	Durham, NC	328	\$ 42,950
Total			704	\$ 86,940

(1) This property was acquired from a joint venture of which our former advisor was a controlling member. See Note 8: Related Party Transactions and Arrangements. In conjunction with this acquisition, we issued IROP units to third parties that were members of the joint venture that owned the property. See Note 6: Shareholder Equity and Noncontrolling Interests.

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The following table summarizes the aggregate fair value of the assets and liabilities associated with the properties acquired during the six-month period ended June 30, 2017, on the date of acquisition, accounted for under FASB ASC Topic 805.

Description	Fair Value of Assets Acquired During the Six-Month Period Ended June 30, 2017
Assets acquired:	
Investments in real estate	\$ 86,012
Accounts receivable and other assets	331
Intangible assets	928
Total assets acquired	\$ 87,271
Liabilities assumed:	
Accounts payable and accrued expenses	398
Other liabilities	150
Total liabilities assumed	\$ 548
Estimated fair value of net assets acquired	\$ 86,723

The table below presents the revenue and net income (loss) for the properties acquired during the six-month period ended June 30, 2017 as reported in our consolidated financial statements.

For the Three-Month Period	For the Six-Month Period
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	Ended June 30, 2017		Ended June 30, 2017	
	Net income (loss) allocable to common revenue shares		Net income (loss) allocable to common revenue shares	
Property	Total	common	Total	common
Lakes of Northdale	\$ 771	\$ 150	\$ 1,040	\$ 224
Haverford Place	\$ 185	\$ 71	\$ 185	\$ 71
South Terrace	\$ 10	\$ 5	\$ 10	\$ 5
Total	\$ 966	\$ 226	\$ 1,235	\$ 300

The table below represents the revenue, net income and earnings per share effect of the acquired property, as reported in our consolidated financial statements and on a pro forma basis as if the acquisition occurred on January 1, 2016. These pro forma results are not necessarily indicative of the results that actually would have occurred if the acquisition had occurred on the first day of the periods presented, nor does the pro forma financial information purport to represent the results of operations for future periods.

Description	For the	For the	For the	For the
	Three-Month Period Ended	Three-Month Period Ended	Six-Month Period Ended	Six-Month Period Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Pro forma total revenue (unaudited)	41,162	40,498	81,904	81,334
Pro forma net income (loss) allocable to common shares (unaudited)	18,999	29,425	23,335	29,788
Earnings (loss) per share attributable to common shareholders:				
Basic-pro forma (unaudited)	\$ 0.28	\$ 0.62	\$ 0.34	\$ 0.63
Diluted-pro forma (unaudited)	\$ 0.28	\$ 0.62	\$ 0.34	\$ 0.63

We did not make any purchase price allocation adjustments during the six month period ended June 30, 2017.

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Dispositions

The table below summarizes the dispositions for the six months ended June 30, 2017 and also presents each property's contribution to net income (loss) allocable to common shares, excluding the impact of the gain (loss) on sale:

Property Name	Date of Sale	Sale Price	Gain (loss) on sale (1)	Net income (loss) allocable to common shares For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2017
Copper Mill	5/5/2017	\$32,000	\$15,616	\$109	\$ 531
Heritage Trace	6/1/2017	11,600	(1,237)	76	225
Berkshire	6/9/2017	16,000	1,671	54	176
Total		\$59,600	\$16,050	\$239	\$ 932

(1) The gain (loss) on sale for these properties is net of \$2,748 of defeasance costs. All properties were previously classified as held for sale.

NOTE 4: Indebtedness

The following tables contain summary information concerning our indebtedness as of June 30, 2017:

Debt:	Outstanding Principal	Unamortized Discount and Debt Issuance Costs	Carrying Amount	Type	Weighted Average Rate	Weighted Average Maturity (in years)
Unsecured credit facility						
(1)(2)	\$ 192,190	\$ (2,683)	\$ 189,507	Floating	2.7%	4.1
Mortgages-Fixed rate	578,310	(3,296)	575,014	Fixed	3.7%	6.3

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Total Debt	\$ 770,500	\$ (5,979)	\$ 764,521	3.5%	5.7
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(1) The secured credit facility total capacity is \$300,000, of which \$192,190 was outstanding as of June 30, 2017.

(2) As of June 30, 2017, IRT maintained a float-to-fixed interest rate swap with a \$150,000 notional amount. This swap, which expires on June 17, 2021 and has a fixed rate of 1.1325%, has converted \$150,000 of our floating rate debt to fixed rate debt.

Debt:	Original maturities on or before December 31,					
	2017	2018	2019	2020	2021	Thereafter
Unsecured credit facility	\$-	\$-	\$-	\$-	\$142,190	\$50,000
Mortgages-Fixed rate	1,365	3,209	4,660	7,612	102,633	458,831
Total	\$1,365	\$3,209	\$4,660	\$7,612	\$244,823	\$508,831

As of June 30, 2017, we were in compliance with all financial covenants contained in our indebtedness.

The following table contains summary information concerning our indebtedness as of December 31, 2016:

Debt:	Outstanding Principal	Unamortized Discount and Debt Issuance		Carrying Amount	Type	Weighted Average Rate	Weighted Average Maturity (in years)
		Costs					
Secured credit facility (1)	\$ 150,000	\$ (2,720)	\$ 147,280	Floating	3.0%	1.7	
Mortgages-Fixed rate	600,188	(3,651)	596,537	Fixed	3.8%	6.7	
Total Debt	\$ 750,188	\$ (6,371)	\$ 743,817		3.6%	5.7	

(1) The secured credit facility total capacity was \$312,500, of which \$150,000 was outstanding as of December 31, 2016.

In February 2017, IROP drew down \$22,000 on the secured credit facility in connection with the Lakes of Northdale acquisition.

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On May 1, 2017, we closed on a new \$300,000 unsecured credit facility, refinancing and terminating the previous secured credit facility. The new facility is comprised of a \$50,000 term loan and a revolving commitment of up to \$250,000. The maturity date on the new term loan is May 1, 2022, and the maturity date on borrowings outstanding under the revolving commitment is May 1, 2021, extending the September 17, 2018 maturity of the previous secured credit facility. Based on our current leverage levels, our annual interest cost is LIBOR plus 145 basis points under the term loan and LIBOR plus 150 basis points for borrowings outstanding under the revolving commitments. We recognized the refinance as a partial extinguishment of our prior secured credit facility and recognized a loss on extinguishment of debt of \$572.

In May 2017, IROP drew down \$9,000 on the unsecured credit facility in connection with the Haverford Place acquisition.

In June 2017, IROP drew down \$31,250 on the unsecured credit facility in connection with the South Terrace acquisition.

In connection with the three property dispositions during the three months ended June 30, 2017, we extinguished, through defeasance, property mortgages totaling \$20,586.

NOTE 5: Derivative Financial Instruments

We may use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with our operating and financial structure as well as to hedge specific anticipated transactions. While these instruments may impact our periodic cash flows, they benefit us by minimizing the risks and/or costs previously described.

Interest Rate Swaps and Caps

We have entered into an interest rate cap contract and an interest rate swap contract to hedge interest rate exposure on floating rate indebtedness.

On June 24, 2016, we entered into an interest rate swap contract with a notional value of \$150,000, a strike rate of 1.145% and a maturity date of June 17, 2021. We designated this interest rate swap as a cash flow hedge at inception and determined that the hedge is highly effective in offsetting interest rate fluctuations associated with the identified indebtedness. We have not recognized any ineffectiveness associated with this cash flow hedge through April 2017. On April 17, 2017, in conjunction with the refinance of our credit facility, we restructured our existing interest rate swap to remove the LIBOR floor. This resulted in a decrease in the strike rate to 1.1325%. The notional value and maturity date remained the same. We designated the restructured interest rate swap as a cash flow hedge at inception and determined that the hedge is highly effective in offsetting interest rate fluctuations associated with the identified indebtedness. However, since the fair value of the swap at inception of the hedging relationship was not

zero, we expect some ineffectiveness to be recognized over the life of the instrument. During the three months ended June 30, 2017, we recognized \$12 of ineffectiveness based on the hypothetical derivative method. Our interest rate cap is not designated as a cash flow hedge.

The following table summarizes the aggregate notional amount and estimated net fair value of our derivative instruments as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017			As of December 31, 2016		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Cash flow hedges:						
Interest rate swap	\$ 150,000	\$ 3,619	\$ —	\$ 150,000	\$ 3,867	\$ —
Freestanding derivatives:						
Interest rate cap	200,000	—	—	200,000	—	—
Net fair value	\$ 350,000	\$ 3,619	\$ —	\$ 350,000	\$ 3,867	\$ —

Effective interest rate swaps and caps are reported in accumulated other comprehensive income, and the fair value of these hedge agreements is included in other assets or other liabilities.

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For our interest rate swap that is considered a highly effective hedge, we reclassified realized losses of \$51 and \$183 to earnings within interest expense for the three and six months ended June 30, 2017, respectively, and we expect \$315 to be reclassified out of accumulated other comprehensive income to earnings over the next 12 months.

NOTE 6: Shareholder Equity and Noncontrolling Interests

Stockholder Equity

Common Shares

Our board of directors has declared the following dividends:

Month	Declaration Date	Record Date	Payment Date	Dividend
				Declared
				Per Share
January 2017	January 12, 2017	January 31, 2017	February 15, 2017	\$ 0.06
February 2017	January 12, 2017	February 28, 2017	March 15, 2017	\$ 0.06
March 2017	January 12, 2017	March 31, 2017	April 17, 2017	\$ 0.06
April 2017	April 12, 2017	April 28, 2017	May 15, 2017	\$ 0.06
May 2017	April 12, 2017	May 31, 2017	June 15, 2017	\$ 0.06
June 2017	April 12, 2017	June 30, 2017	July 17, 2017	\$ 0.06
July 2017	July 14, 2017	July 31, 2017	August 15, 2017	\$ 0.06
August 2017	July 14, 2017	August 31, 2017	September 15, 2017	\$ 0.06
September 2017	July 14, 2017	September 29, 2017	October 13, 2017	\$ 0.06

During the three and six months ended June 30, 2017, we also paid \$0 and \$126, respectively, of dividends on restricted common share awards that vested during the period.

On August 4, 2017, we entered into an At-the-Market Issuance Sales Agreement (the "Sales Agreement") with various sales agents. Pursuant to the Sales Agreement, we may offer and sell shares of our common stock, \$0.01 par value per share, having an aggregate offering price of up to \$150,000, from time to time through the sales agents. The sales agents are entitled to compensation in an agreed amount not to exceed 2.0% of the gross sales price per share for any shares sold from time to time under the Sales Agreement. We have no obligation to sell any of the shares under the

Sales Agreement and may at any time suspend solicitations and offers under the Sales Agreement.

Noncontrolling Interest

In June 2017, we issued 166,604 IROP units in connection with our acquisition of South Terrace. The IROP units were valued at \$1,654 based on the stock price of our common stock. See Note 3: Investments in Real Estate for details on the property acquisition.

As of June 30, 2017, 3,035,654 IROP units held by unaffiliated third parties remain outstanding with a redemption value of \$29,962, based on IRT's stock price of \$9.87 as of June 30, 2017.

Our board of directors has declared the following distributions on IROP's LP units:

				Dividend
				Declared
				Per
Month	Declaration Date	Record Date	Payment Date	Share
January 2017	January 12, 2017	January 31, 2017	February 15, 2017	\$ 0.06
February 2017	January 12, 2017	February 28, 2017	March 15, 2017	\$ 0.06
March 2017	January 12, 2017	March 31, 2017	April 17, 2017	\$ 0.06
April 2017	April 12, 2017	April 28, 2017	May 15, 2017	\$ 0.06
May 2017	April 12, 2017	May 31, 2017	June 15, 2017	\$ 0.06
June 2017	April 12, 2017	June 30, 2017	July 17, 2017	\$ 0.06
July 2017	July 14, 2017	July 31, 2017	August 15, 2017	\$ 0.06
August 2017	July 14, 2017	August 31, 2017	September 15, 2017	\$ 0.06
September 2017	July 14, 2017	September 29, 2017	October 13, 2017	\$ 0.06

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NOTE 7: Equity Compensation Plans

Long Term Incentive Plan

In May 2016, our shareholders approved and our board of directors adopted an amended and restated Long Term Incentive Plan, or the incentive plan, which provides for the grants of awards to our directors, officers and full-time employees, full-time employees of our former advisor and its affiliates, full-time employees of entities that provide services to our former advisor, directors of our former advisor or of entities that provide services to it, certain of our consultants and certain consultants to our former advisor and its affiliates or to entities that provide services to our former advisor. The incentive plan authorizes the grant of restricted or unrestricted shares of our common stock, non-qualified and incentive stock options, restricted stock units, stock appreciation rights, dividend equivalents and other stock- or cash-based awards. In conjunction with the amendment, the number of shares of common stock issuable under the incentive plan was increased to 4,300,000 shares, and the term of the incentive plan was extended to May 12, 2026.

Under the incentive plan or predecessor incentive plans, we granted restricted shares and stock appreciation rights, or SARs, to our employees and employees of our former advisor. These awards generally vested over a three-year period. In addition, we granted unrestricted shares to our directors. These awards generally vested immediately.

On February 28, 2017, our compensation committee awarded 143,180 restricted stock awards, valued at \$9.19 per share, or \$1,316 in the aggregate. The restricted stock awards vest over a three-year period except for 6,585 awards that vested immediately. In addition, our compensation committee awarded performance share units, or PSUs, to eligible officers under a newly adopted 2017 Annual Equity Award Program pursuant to the incentive plan. The number of PSUs awarded will be based on attainment of certain performance criteria over a three-year period, with 226,469 PSUs granted for achieving the maximum performance criteria. The aggregate grant date fair value of the PSUs was \$1,076.

On May 16, 2017, our compensation committee granted stock under the incentive plan such that our independent directors received an aggregate of 24,830 shares of our common stock, valued at \$225 using our closing stock price of \$9.06. These awards vested immediately.

NOTE 8: Related Party Transactions and Arrangements

Fees and Expenses Paid to Our Former Advisor

On December 20, 2016, in connection with our management internalization, we acquired our former advisor and, therefore, fees and expenses to our former advisor are no longer incurred.

For the three months ended June 30, 2017 and 2016, our former advisor earned \$0 and \$1,784 of asset management fees, respectively, and \$0 and \$3,415 for the six months ended June 30, 2017 and 2016, respectively. These fees are included within general and administrative expenses in our consolidated statements of operations.

For the three months ended June 30, 2017 and 2016, our former advisor earned \$0 and \$79 of incentive fees, respectively, and \$0 and \$144 for the six months ended June 30, 2017 and 2016, respectively. These fees are included within general and administrative expenses in our consolidated statements of operations.

For the three months ended June 30, 2017 and 2016, we incurred costs of \$340 and \$0 with respect to our shared services agreement with our former advisor and \$727 and \$0 for the six months ended June 30, 2017 and 2016, respectively. These fees are included within general and administrative expenses in our consolidated statements of operations.

As of June 30, 2017 and December 31, 2016, we had no liabilities payable to our former advisor for asset management fees, incentive fees, or shared service fees.

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Property Management Fees Paid to Our Former Property Manager

On December 20, 2016, in connection with our management internalization, we acquired property management agreements with respect to each of our properties from RAIT Residential, our former property manager, which is wholly owned by RAIT.

For the three months ended June 30, 2017 and 2016, our former property manager earned \$0 and \$1,229, respectively, and \$0 and \$2,491 for the six months ended June 30, 2017 and 2016, respectively, of property management and leasing fees. As of June 30, 2017 and December 31, 2016, we had no liabilities payable to our property manager for property management and leasing fees.

Dividends Paid to Affiliates of Our Former Advisor

On October 5, 2016, we repurchased and retired all 7,269,719 shares of our common stock owned by a subsidiary of RAIT.

Since October 5, 2016, RAIT has not owned any shares of our common stock. For the three months ended June 30, 2017 and 2016, we declared and subsequently paid dividends of \$0 and \$1,308, respectively, and \$0 and \$2,617 for the six months ended June 30, 2017 and 2016, respectively, related to shares of common stock owned by a subsidiary of RAIT.

RAIT Indebtedness

In the second quarter of 2016, we repaid \$38,075 of mortgage indebtedness with proceeds from two property dispositions. This indebtedness was held by RAIT. Total interest expense paid to RAIT for the three and six months ended June 30, 2017 and 2016 was \$0 and \$486, respectively.

Related Party Transaction

In June 2017, we acquired South Terrace, a 328-unit property in Durham, NC for \$42,950 from a joint venture, of which a subsidiary of RAIT was a controlling member. For further information, see Note 3 – Investment in Real Estate.

NOTE 9: Earnings (Loss) Per Share

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2017 and 2016:

	For the Three Months		For the Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Net income (loss)	\$19,521	\$30,790	\$23,766	\$30,744
(Income) loss allocated to non-controlling interests	(782)	(1,803)	(950)	(1,832)
Net income (loss) allocable to common shares	18,739	28,987	22,816	28,912
Weighted-average shares outstanding—Basic	68,832,855	47,183,804	68,810,131	47,138,573
Weighted-average shares outstanding—Diluted	68,943,869	47,229,736	69,007,862	47,159,220
Earnings (loss) per share—Basic	\$0.27	\$0.61	\$0.33	\$0.61
Earnings (loss) per share—Diluted	\$0.27	\$0.61	\$0.33	\$0.61

Certain IROP units, stock appreciation rights, or SARs, and unvested shares were excluded from the earnings (loss) per share computation because their effect would have been anti-dilutive, totaling 3,037,496 and 3,035,654 for the three and six months ended June 30, 2017, respectively, and 2,950,816 and 3,111,201 for the three and six months ended June 30, 2016, respectively.

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NOTE 10: Other Disclosures

Litigation

We are subject to various other legal proceedings and claims that arise in the ordinary course of our business operations. Matters which arise out of allegations of bodily injury, property damage, and employment practices are generally covered by insurance. While the resolution of these other matters cannot be predicted with certainty, we currently believe the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or cash flows.

Other Matters

To the extent that a natural disaster or similar event occurs with more than a remote risk of having a material impact on the consolidated financial statements, we will disclose the estimated range of possible outcomes, and, if an outcome is probable, accrue an appropriate liability.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report contains or incorporates by reference such "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act.

Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. As used herein, the terms "we," "our" and "us" refer to Independence Realty Trust, Inc. and, as required by context, Independence Realty Operating Partnership, LP, which we refer to as IROP, and their subsidiaries.

We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this report and they may also be incorporated by reference in this report to other documents filed with the SEC, and include, but are not limited to, statements about future financial and operating results and performance, statements about our plans, objectives, expectations and intentions with respect to future operations, products and services, and other statements that are not historical facts. These forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements.

The risk factors discussed and identified in Item 1A of our 2016 Annual Report on Form 10-K, this Report and in other of our public filings with the SEC, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

Overview

General

We are a Maryland corporation that owns and operates multifamily apartment properties across non-gateway U.S. markets, including Louisville, Memphis, Atlanta, and Raleigh. Our investment strategy is focused on gaining scale within key amenity rich submarkets that offer good school districts, high-quality retail, and major employment centers. We aim to provide stockholders attractive risk-adjusted returns through diligent portfolio management, strong operational performance, and a consistent return of capital through distributions and capital appreciation. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2011.

We seek to acquire and operate apartment properties that:

have stable occupancy;

are located in submarkets that we do not expect will experience substantial new apartment construction in the foreseeable future;

in appropriate circumstances, present opportunities for repositioning or updating through capital expenditures when we see opportunities for increased rents; and

present opportunities to apply tailored marketing and management strategies to attract and retain residents and enable rent increases.

Property Portfolio

As of June 30, 2017, we owned 46 multifamily apartment properties, totaling 12,812 units. Below is a summary of our property portfolio by market.

(Dollars in thousands, except per share data)

Market	As of June 30, 2017			For the Three Months Ended June 30, 2017 Average				
	Units	Gross Real Estate		Effective				
		Assets	Period End	Occupancy	per Unit	Monthly RentNet	Income (a)	% of NOI
Louisville, KY	1,709	\$178,896	96.0	%	\$ 951	\$ 2,921	12.6	%
Memphis, TN	1,383	137,330	94.9	%	1,017	2,419	10.5	%
Atlanta, GA	1,092	136,202	94.0	%	1,087	2,357	10.2	%
Raleigh, NC	1,372	182,271	94.7	%	1,073	2,274	9.8	%
Oklahoma City, OK	1,658	72,764	92.2	%	646	1,718	7.4	%
Dallas, TX	734	85,160	97.0	%	1,117	1,408	6.1	%
Charleston, SC	518	78,948	94.2	%	1,310	1,198	5.2	%
Jackson, MS (b)	602	44,404	92.9	%	912	948	4.1	%
Little Rock, AR	462	53,923	95.0	%	992	911	3.9	%
Orlando, FL	297	47,465	95.3	%	1,362	781	3.4	%
Chicago, IL	370	29,270	94.9	%	1,004	767	3.3	%
Indianapolis, IN	428	41,747	91.6	%	991	759	3.3	%
Greenville, SC	346	48,124	90.2	%	1,119	744	3.2	%
Austin, TX	300	35,387	96.3	%	1,277	669	2.9	%
Charlotte, NC	208	41,736	94.2	%	1,441	661	2.9	%
Asheville, NC	252	28,243	98.0	%	1,039	530	2.3	%
Chattanooga, TN	295	25,885	97.3	%	955	501	2.2	%
Tampa-St. Petersburg, FL	216	29,543	94.0	%	1,207	465	2.0	%
St. Louis, MO	152	32,900	92.1	%	1,579	463	2.0	%
Columbus, OH	240	17,901	95.0	%	877	352	1.5	%
Huntsville, AL	178	16,017	98.3	%	831	261	1.1	%
Total/Weighted Average	12,812	\$1,364,116	94.5	%	\$ 1,010	\$ 23,107	100.0	%

(a) Net operating income for the three months ended June 30, 2017 excludes \$406 primarily related to sold properties.

(b) Includes \$ 23,544 of properties classified as held-for-sale.

As of June 30, 2017, our same-store portfolio consisted of 42 multifamily apartment properties, totaling 11,676 units. See “Non-GAAP Financial Measures – Same Store Portfolio Net Operating Income” below for our definition of same store and definitions and reconciliations related to our net operating income margin.

During the three months ended June 30, 2017, we continued our capital recycling strategy as we seek to shift our portfolio out of our class “C” properties and into higher-quality assets located primarily in non-gateway markets, which we believe have compelling growth fundamentals. During the second quarter of 2017, we sold three class “C” properties for an aggregate sales price of \$59.6 million and recognized an aggregate gain on sale of \$16.1 million, and purchased two class “B” properties for an aggregate purchase price of \$57.2 million.

Property Operations

During the three months ended June 30, 2017, we saw strong operational results. On a same-store basis, our total revenues were up 4.3% as compared to the second quarter of 2016 driven by higher average effective monthly rents and higher average occupancy. Revenue growth was especially strong in the Memphis, TN and Atlanta, GA markets driven by steady occupancy and higher average effective rent per unit in the second quarter of 2017 as compared to the second quarter of 2016.

Same-store net operating income increased 5.6% during the second quarter of 2017 as compared to the same period in the prior year drive by the higher revenues and operating expenses that increased just 2.2% as we continued to focus on expense management. For the six months ended June 30, 2017, our same-store total revenues are 4.5% higher and our same-store net operating income 5.4% higher than the six months ended June 30, 2016.

Other Matters

On June 20, 2017, we completed our use of shared services previously provided by RAIT and fully completed our previously disclosed management internalization. The shared services previously provided included certain transitional services such as information technology, human resources, insurance, investor relations, legal, tax and accounting.

On July 31, 2017, we transferred the listing of our common stock to the New York Stock Exchange (“NYSE”) from the NYSE MKT. Our common stock will continue to trade under the ticker symbol “IRT”.

Results of Operations

Three Months Ended June 30, 2017 compared to the Three Months Ended June 30, 2016

(Dollars in thousands)	SAME STORE PROPERTIES				NON SAME STORE PROPERTIES				CONSOLIDATED			
	Three Months Ended June 30,		Increase %		Three Months Ended June 30,		Increase %		Three Months Ended June 30,		Increase %	
	2017	2016	(Decrease) Change	%	2017	2016	(Decrease) Change	%	2017	2016	(Decrease) Change	%
Revenue:												
Rental income	\$32,342	\$31,135	\$1,207	3.9%	\$2,834	\$3,050	\$(216)	-7.1%	\$35,176	\$34,185	\$991	2.9%
Reimbursement and other income	3,881	3,610	271	7.5%	374	532	(158)	-29.7%	4,255	4,142	113	2.7%
Total revenue	36,223	34,745	1,478	4.3%	3,208	3,582	(374)	-10.4%	39,431	38,327	1,104	2.9%
Expenses:												
Real estate operating expenses	14,280	13,966	314	2.2%	1,638	1,657	(19)	-1.1%	15,918	15,623	295	1.9%
Net Operating Income	\$21,943	\$20,779	\$1,164	5.6%	\$1,570	\$1,925	\$(355)	-18.4%	\$23,513	\$22,704	\$809	3.6%
Other Income:												
Property management									130	-	130	-
Total other income									130	-	130	-
Corporate and other expenses:									1,444	1,229	215	17.5%

Property management expenses					
General and administrative expenses	2,706	2,787	(81)	-2.9	%
Acquisition and integration expenses	265	8	257	3212.5	%
Depreciation and amortization expense	8,011	7,635	376	4.9	%
Total corporate and other expenses	12,426	11,659	767	6.6	%
Operating Income (loss)	11,217	11,045	172	1.6	%
Interest expense	(7,162)	(9,018)	1,856	20.6	%
Hedge ineffectiveness	(12)	-	(12)	N/M	
Net gains (losses) on sale of assets	16,050	29,321	(13,271)	-45.3	%
Gains (losses) on extinguishment of debt	(572)	(558)	(14)	2.5	%
Net income (loss)	19,521	30,790	(11,269)	-36.60	%
(Income) loss allocated to noncontrolling interests	(782)	(1,803)	1,021	56.6	%
Net income (loss) available to common shares	\$18,739	\$28,987	\$(10,248)	-35.35	%
Revenue					

Rental income. Rental revenue increased \$1.0 million to \$35.2 million for the three months ended June 30, 2017 from \$34.2 million for the three months ended June 30, 2016. The increase was primarily attributable to a \$1.2 million increase in same store rental income driven by higher average effective monthly rents and higher occupancy than the prior year period.

Reimbursement and other income. Reimbursement and other income increased \$0.1 million to \$4.2 million for the three months ended June 30, 2017 from \$4.1 million for the three months ended June 30, 2016. The increase was primarily due to a \$0.3 million increase in same store reimbursement and other income attributable to our continued focus on driving non-rental revenue and fee income.

Property management income. Property management income was \$0.1 million for the three months ended June 30, 2017 compared to \$0.0 million for the three months ended June 30, 2016. This is due to third party property management income that we receive for managing properties on behalf of third parties. This service did not exist prior to our management internalization in December 2016.

Expenses

Real estate operating expenses. Property operating expenses increased \$0.3 million to \$15.9 million for the three months ended June 30, 2017 from \$15.6 million for the three months ended June 30, 2016. The increase was due to higher personnel and real estate tax expenses, which drove a \$0.3 million increase in real estate operating expenses at our same store properties.

Property management expenses: Property management expenses increased \$0.2 million to \$1.4 million for the three months ended June 30, 2017 from \$1.2 million for the three months ended June 30, 2016. This increase coincides with the above-mentioned increase in property management income driven by our internalization. After our management internalization, property management expenses include costs incurred to directly support on-site management. Prior to this, property management expenses included property and construction management fees paid to our former property manager.

General and administrative expenses. General and administrative expenses decreased \$0.1 million to \$2.7 million for the three months ended June 30, 2017 from \$2.8 million for the three months ended June 30, 2016. The decrease is due to cost savings from our management internalization.

Depreciation and amortization expense. Depreciation and amortization expense increased \$0.4 million to \$8.0 million for the three months ended June 30, 2017 from \$7.6 million for the three months ended June 30, 2016. The increase is primarily attributable to \$0.2 million of in-place lease intangible amortization recognized during the three months ended June 30, 2017 related to 2017 property acquisitions.

Interest expense. Interest expense decreased \$1.8 million to \$7.2 million for the three months ended June 30, 2017 from \$9.0 million for the three months ended June 30, 2016. The decrease is due to debt reductions during 2016 when our term loan was fully repaid and our credit facility balance decreased by \$121.5 million.

Net gains (losses) on sale of asset. Net gains on sale of assets decreased \$13.2 million to \$16.1 million for the three months ended June 30, 2017 from \$29.3 million for the three months ended June 30, 2016. The 2017 net gains were driven primarily by a \$15.7 million gain on the sale of Copper Mill, a 320-unit apartment property in Austin, TX. The 2016 net gains were driven primarily by gains of \$15.1 million and \$14.2 million realized upon the sales of Tresa at Arrowhead and Belle Creek.

Six Months Ended June 30, 2017 compared to the Six Months Ended June 30, 2016

(Dollars in thousands)	SAME STORE PROPERTIES				NON SAME STORE PROPERTIES				CONSOLIDATED			
	Six Months Ended June 30,		Increase %		Six Months Ended June 30,		Increase %		Six Months Ended June 30,		Increase %	
	2017	2016	(Decrease) Change	%	2017	2016	(Decrease) Change	%	2017	2016	(Decrease) Change	%
Revenue:												
Rental income	\$64,104	\$61,615	\$2,489	4.0%	\$5,809	\$7,323	\$(1,514)	-20.7%	\$69,913	\$68,938	\$975	1.4%
Reimbursement and other income	7,600	6,995	605	8.6%	813	1,060	(247)	-23.3%	8,413	8,055	358	4.4%
Total revenue	71,704	68,610	3,094	4.5%	6,622	8,383	(1,761)	-21.0%	78,326	76,993	1,333	1.7%
Expenses:												
Real estate operating expenses	28,553	27,679	874	3.2%	3,357	3,802	(445)	-11.7%	31,910	31,481	429	1.4%
	\$43,151	\$40,931	\$2,220	5.4%	\$3,265	\$4,581	\$(1,316)	-28.7%	\$46,416	\$45,512	\$904	2.0%

Net Operating
Income

Other Income:

Property management	377	-	377	-
Total other income	377	-	377	-
Corporate and other expenses:				
Property management expenses	2,982	2,491	491	19.7 %
General and administrative expenses	4,806	5,409	(603)	-11.1 %
Acquisition and integration expenses	387	18	369	2050.0 %
Depreciation and amortization expense	15,618	19,162	(3,544)	-18.5 %
Total corporate and other expenses	23,793	27,080	(3,287)	-12.1 %
Operating Income (loss)	23,000	18,432	4,568	24.8 %
Interest expense	(14,610)	(18,995)	4,385	23.1 %
Hedge ineffectiveness	(12)	-	(12)	N/M
Other income (expense)	(5)	-	(5)	N/M
Net gains (losses) on sale of assets	15,965	31,774	(15,809)	-49.8 %
Gains (losses) on extinguishment of debt	(572)	(558)	(14)	2.5 %
Gains (losses) on TSRE merger and property acquisitions	-	91	(91)	N/M
Net income (loss)	23,766	30,744	(6,978)	-22.70 %
(Income) loss allocated to noncontrolling interests	(950)	(1,832)	882	48.1 %
Net income (loss) available to common shares	\$22,816	\$28,912	\$(6,096)	-21.08 %
Revenue				

Rental income. Rental revenue increased \$1.0 million to \$69.9 million for the six months ended June 30, 2017 from \$68.9 million for the six months ended June 30, 2016. The increase was primarily attributable to a \$2.5 million increase in same store rental income driven by higher average effective monthly rents and higher occupancy than the year-ago period. This increase was partially offset by a \$1.5 million decrease in non-same store rental income due to the disposition of non-core properties.

Reimbursement and other income. Reimbursement and other income increased \$0.4 million to \$8.4 million for the six months ended June 30, 2017 from \$8.0 million for the six months ended June 30, 2016. The increase was primarily due to a \$0.6 million increase in same store reimbursement and other income attributable to our continued focus on driving non-rental revenue and fee income.

Property management income. Property management income was \$0.4 million for the six months ended June 30, 2017 compared to \$0.0 million for the six months ended June 30, 2016. This is due to third party property management income that we receive for managing properties on behalf of third parties. This service did not exist prior to our management internalization in December 2016.

Expenses

Real estate operating expenses. Property operating expenses increased \$0.4 million to \$31.9 million for the six months ended June 30, 2017 from \$31.5 million for the six months ended June 30, 2016. The increase was due to higher personnel and real estate tax expenses, which drove a \$0.9 million increase in real estate operating expenses at our same store properties partially offset by lower non-same store real estate operating expenses due to sold properties.

Property management expenses: Property management expenses increased \$0.5 million to \$3.0 million for the six months ended June 30, 2017 from \$2.5 million for the six months ended June 30, 2016. This increase coincides with the above-mentioned increase in property management income driven by our internalization. After our management internalization, property management expenses include costs incurred to directly support on-site management. Prior to this, property management expenses included property and construction management fees paid to our former property manager.

General and administrative expenses. General and administrative expenses decreased \$0.6 million to \$4.8 million for the six months ended June 30, 2017 from \$5.4 million for the six months ended June 30, 2016. The decrease is due to cost savings from our management internalization.

Depreciation and amortization expense. Depreciation and amortization expense decreased \$3.6 million to \$15.6 million for the six months ended June 30, 2017 from \$19.2 million for the six months ended June 30, 2016. The decrease is primarily due to \$3.7 million decrease in amortization of in-place leases as they were fully amortized during 2016.

Interest expense. Interest expense decreased \$4.4 million to \$14.6 million for the six months ended June 30, 2017 from \$19.0 million for the six months ended June 30, 2016. The decrease is due to debt reductions during 2016 when our term loan was fully repaid and our credit facility balance decreased by \$121.5 million.

Net gains (losses) on sale of asset. Net gains on sale of assets decreased \$15.8 million to \$16.0 million for the three months ended June 30, 2017 from \$31.8 million for the three months ended June 30, 2016. The 2017 net gains were driven primarily by a \$15.7 million gain on the sale of Copper Mill, a 320-unit apartment property in Austin, TX. The 2016 net gains were driven primarily by gains of \$15.1 million and \$14.2 million realized upon the sales of Tresa at Arrowhead and Belle Creek.

Non-GAAP Financial Measures

Funds from Operations (FFO) and Core Funds from Operations (CFFO)

We believe that FFO and CFFO, each of which is a non-GAAP measure, are additional appropriate measures of the operating performance of a REIT and IRT in particular. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT, as net income or loss (computed in accordance with GAAP), excluding real estate-related depreciation and amortization expense, gains or losses on sales of real estate and the cumulative effect of changes in accounting principles.

CFFO is a computation made by analysts and investors to measure a real estate company's operating performance by removing the effect of items that do not reflect ongoing property operations, including stock compensation expense, depreciation and amortization of other items not included in FFO, amortization of deferred financing costs, acquisition and integration expenses, and other non-operating gains or losses related to items such as hedge ineffectiveness, defeasance costs we incur when we sell a property subject to secured debt, asset sales, debt extinguishments, gains on the TSRE merger, and management internalization expenses, from the determination of FFO. IRT incurs acquisition expenses in connection with acquisitions of real estate properties and expenses those costs when incurred in accordance with U.S. GAAP. As these expenses are one-time and reflective of investing activities rather than operating performance, IRT adds back these costs to FFO in determining CFFO.

Our calculation of CFFO differs from the methodology used for calculating CFFO by certain other REITs and, accordingly, our CFFO may not be comparable to CFFO reported by other REITs. Our management utilizes FFO and CFFO as measures of our operating performance, and believe they are also useful to investors, because they facilitate an understanding of IRT's operating performance after adjustment for certain non-cash or non-recurring items that are required by GAAP to be expensed but may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. Furthermore, although FFO, CFFO and other supplemental performance measures are defined in various ways throughout the REIT industry, we believe that FFO and CFFO may provide us and our investors with an additional useful measure to compare our financial performance to certain other REITs. Neither FFO nor CFFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore, FFO and CFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor CFFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

Set forth below is a reconciliation of net income (loss) to FFO and CFFO for the three and six months ended June 30, 2017 and 2016 (in thousands, except share and per share information):

	For the Three Months Ended June 30, 2017		For the Three Months Ended June 30, 2016	
	Amount	Per Share (1)	Amount	Per Share (2)
Funds From Operations (FFO):				
Net income (loss)	\$19,521	\$0.27	\$30,790	\$0.61
Adjustments:				
Real estate depreciation and amortization	7,987	0.11	7,635	0.15
Net (gains) losses on sale of assets excluding defeasance costs	(18,798)	(0.26)	(29,321)	(0.58)
Funds From Operations (FFO)	\$8,710	\$0.12	\$9,104	\$0.18
Core Funds From Operations (CFFO):				
Funds From Operations (FFO)	\$8,710	\$0.12	\$9,104	\$0.18
Adjustments:				
Stock compensation expense	738	0.01	380	0.01
Amortization of deferred financing costs	359	0.01	749	0.02
Acquisition and integration expenses	265	-	8	-
Other depreciation and amortization	24	-	-	-
Hedge ineffectiveness	12	-	-	-
Defeasance costs included in net gains (losses) on sale of assets	2,748	0.04	-	-
(Gains) losses on extinguishment of debt	572	0.01	558	0.01
Core Funds From Operations (CFFO)	\$13,428	\$0.19	\$10,799	\$0.22

	For the Six Months Ended		For the Six Months Ended	
	June 30, 2017		June 30, 2016	
	Amount	Per Share (1)	Amount	Per Share (2)
Funds From Operations (FFO):				
Net income (loss)	\$23,766	\$0.33	\$30,744	\$0.61
Adjustments:				
Real estate depreciation and amortization	15,582	0.22	19,162	0.38
Net (gains) losses on sale of assets excluding defeasance costs	(18,713)	(0.26)	(33,170)	(0.66)
Funds From Operations (FFO)	\$20,635	\$0.29	\$16,736	\$0.33
Core Funds From Operations (CFFO):				
Funds From Operations (FFO)	\$20,635	\$0.29	\$16,736	\$0.33
Adjustments:				
Stock compensation expense	1,126	0.02	585	0.01
Amortization of deferred financing costs	878	0.01	1,946	0.05
Acquisition and integration expenses	387	-	18	-
Other depreciation and amortization	36	-	-	-
Hedge ineffectiveness	12	-	-	-
Defeasance costs included in net gains (losses) on sale of assets	2,748	0.04	1,396	0.03
(Gains) losses on extinguishment of debt	572	0.01	558	0.01
(Gains) losses on TSRE merger and property acquisitions	-	-	(91)	(0.01)
Core Funds From Operations (CFFO)	\$26,394	\$0.37	\$21,148	\$0.42

(1) Based on 71,703,735 and 71,680,542 weighted-average shares and units outstanding for the three and six months ended June 30, 2017, respectively.

(2) Based on 50,134,620 and 50,089,389 weighted-average shares and units outstanding for the three and six months ended June 30, 2016, respectively.

Same Store Portfolio Net Operating Income

We believe that Net Operating Income (“NOI”), a non-GAAP measure, is a useful measure of our operating performance. We define NOI as total property revenues less total property operating expenses, excluding depreciation and amortization, asset management fees, property management fees, acquisition expenses, and general and administrative expenses. In connection with our management internalization which was completed in the fourth quarter of 2016, we modified our calculation of NOI to exclude property management expenses. We retrospectively adjusted previously reported NOI to conform to this change. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs. We believe that this measure provides an operating perspective not immediately apparent from GAAP operating income or net income. We use NOI to evaluate our performance on a same store and non-same store basis because NOI measures the core operations of property performance by excluding corporate level expenses and other items not related to property operating performance and captures trends in rental housing and property operating expenses. However, NOI should only be used as an alternative measure of our financial performance.

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We review our same store properties or portfolio at the beginning of each calendar year. Properties are added into the same store portfolio if they were owned at the beginning of the previous year. Properties that have been sold or are classified as held for sale are excluded from the same store portfolio.

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30, (a)		
	(a)		% change			% change
	2017	2016		2017	2016	
Revenue:						
Rental income	\$32,342	\$31,135	3.9 %	\$64,104	\$61,615	4.0 %
Reimbursement and other income	3,881	3,610	7.5 %	7,600	6,995	8.6 %
Total revenue	36,223	34,745	4.3 %	71,704	68,610	4.5 %
Operating Expenses						
Real estate taxes	4,384	4,277	2.5 %	8,765	8,565	2.3 %
Property insurance	781	764	2.2 %	1,601	1,506	6.3 %
Personnel expenses	3,483	3,296	5.7 %	6,883	6,589	4.5 %
Utilities	2,123	2,061	3.0 %	4,346	4,260	2.0 %
Repairs and maintenance	1,334	1,339	-0.4%	2,567	2,356	9.0 %
Contract services	1,090	1,105	-1.4%	2,133	2,194	-2.8 %
Advertising expenses	382	403	-5.2%	764	799	-4.4 %
Other expenses	703	721	-2.5%	1,494	1,410	6.0 %
Total operating expenses	14,280	13,966	2.2 %	28,553	27,679	3.2 %
Net operating income	\$21,943	\$20,779	5.6 %	\$43,151	\$40,931	5.4 %
NOI Margin	60.6 %	59.8 %	0.8 %	60.2 %	59.7 %	0.5 %
Average Occupancy	95.0 %	94.4 %	0.6 %	94.4 %	93.4 %	1.0 %
Average effective monthly rent, per unit	\$1,013	\$981	3.3 %	\$1,010	\$976	3.5 %
Reconciliation of Same-Store Net Operating Income to Net Income (Loss)						
Same-store portfolio net operating income (a)	\$21,943	\$20,779		\$43,151	\$40,931	
Non same-store net operating income	1,570	1,925		3,265	4,581	
Property management income	130	-		377	-	
Property management expenses	(1,444)	(1,229)		(2,982)	(2,491)	
General and administrative expenses	(2,706)	(2,787)		(4,806)	(5,409)	
Acquisition and integration expenses	(265)	(8)		(387)	(18)	
Depreciation and amortization	(8,011)	(7,635)		(15,618)	(19,162)	
Interest expense	(7,162)	(9,018)		(14,610)	(18,995)	
Hedge ineffectiveness	(12)	-		(12)	-	
Other income (expense)	-	-		(5)	-	
Net gains (losses) on sale of assets	16,050	29,321		15,965	31,774	
Gains (losses) on extinguishment of debt	(572)	(558)		(572)	(558)	
Net income (loss) available to common shares	\$19,521	\$30,790		\$23,766	\$30,653	

(a) Same store portfolio for the three and six months ended June 30, 2017 and 2016 includes 42 properties containing 11,676 units.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay distributions and other general business needs. We believe our available cash balances, financing arrangements and cash flows from operations will be sufficient to fund our liquidity requirements with respect to our existing portfolio for the next 12 months and the foreseeable future.

Our primary cash requirements are to:

- make investments and fund the associated costs;
- repay our indebtedness;

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pay our operating expenses; and
 distribute a minimum of 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gain) and to make investments in a manner that enables us to maintain our qualification as a REIT.

We intend to meet these liquidity requirements primarily through:

- the use of our cash and cash equivalent balance of \$6.3 million as of June 30, 2017;
- existing and future financing secured directly or indirectly by the apartment properties in our portfolio;
- cash generated from operating activities;
- net cash proceeds from property sales implementing our capital recycling strategy and other sales;
- proceeds from the sale of our common stock; and
- if required, proceeds from future borrowings and offerings.

On May 1, 2017, we closed on a new \$300.0 million unsecured credit facility refinancing and terminated the previous secured credit facility. The new facility is comprised of a \$50.0 million term loan and a revolving commitment of up to \$250.0 million. The maturity date on the new term loan is May 1, 2022, and the maturity date on borrowings outstanding under the revolving commitment is May 1, 2021, extending the September 17, 2018 maturity of the previous secured credit facility. Based on our current leverage levels, our annual interest cost is LIBOR plus 145 basis points under the term loan and LIBOR plus 150 basis points for borrowings outstanding under the revolving commitments, an annual savings of approximately 35 to 40 basis points from our previous secured credit facility.

Cash Flows

As of June 30, 2017 and 2016, we maintained cash and cash equivalents of approximately \$6.3 million and \$28.1 million, respectively. Our cash and cash equivalents were generated from the following activities (dollars in thousands):

	For the Six Months Ended June 30,	
	2017	2016
Cash flow from operating activities	\$28,033	\$18,847
Cash flow from investing activities	(55,706)	32,987
Cash flow from financing activities	13,052	(62,084)
Net change in cash and cash equivalents	(14,621)	(10,250)
Cash and cash equivalents at beginning of period	20,892	38,301
Cash and cash equivalents at end of period	\$6,271	\$28,051

The increase in our cash flow from operating activities between the six months ended June 30, 2017 and 2016 is primarily driven by the increased performance of our property portfolio.

Our cash outflow from investing activities during the six months ended June 30, 2017 is primarily due to three property acquisitions partially offset by three property dispositions. Our cash inflow from investing activities during the six months ended June 30, 2016 is primarily due to the disposition of three properties.

Our cash inflow from financing activities during the six months ended June 30, 2017 was primarily due to draws on our senior credit facility related to the acquisitions of three properties. Our cash outflow from financing activities during the six months ended June 30, 2016 was primarily due to repayments of mortgage indebtedness and the interim facility with proceeds from the three property dispositions

As a REIT, we evaluate our dividend coverage based on our cash flow from operating activities, excluding acquisition and integration expenses and changes in other assets and liabilities. During the six months ended June 30, 2017, we paid distributions to our common stockholders and noncontrolling interests of \$25.9 million and generated cash flow from operating activities excluding acquisition and integration expenses and changes in other assets and liabilities of \$26.3 million.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the six months ended June 30, 2017 that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our interests.

Critical Accounting Estimates and Policies

Our 2016 Annual Report on Form 10-K contains a discussion of our critical accounting policies. On January 1, 2016, we adopted three new accounting pronouncements and revised our accounting policies as described in Note 2 to the Consolidated Financial Statements included in Part I, Item 1 of this report. Management discusses our critical accounting policies and management's judgments and estimates with the audit committee of our board of trustees.

Item 3. Qualitative and Quantitative Disclosure About Market Risk.

Market risk is the adverse effect on the value of a financial instruments that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. With regard to variable rate financing, we assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy is designed to minimize the impact on our net income and funds from operations of changes in interest rates, the overall returns on any investment in our securities may be reduced. We currently have limited exposure to financial market risks.

We may also be exposed to credit risk in derivative contracts we may use. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty will owe us, which creates credit risk for us. If the fair value of a derivative contract is negative, we will owe the counterparty and, therefore, do not have credit risk. We seek to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

There have been no material changes in quantitative and qualitative market risks during the six months ended June 30, 2017 from the disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed,

summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our chief executive officer and chief financial officer and with the participation of our disclosure committee, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting or in other factors during the quarter ended June 30, 2017, that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to various legal proceedings and claims that arise in the ordinary course of our business operations. Matters which arise out of allegations of bodily injury, property damage, and employment practices are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, we currently believe the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There have not been any material changes from the risk factors previously disclosed in Item 1A—“Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We have previously disclosed four “UPREIT” transactions completed in May 2014, August 2014, November 2014 and December 2014 wherein IROP issued, in the aggregate, 1,282,449 common units, or units, to unaffiliated entities or persons in order to acquire properties. In addition, we have previously disclosed that in September 2015, IROP issued 1,925,419 units, plus cash in lieu of fractional TSR OP units, in a transaction related to the TSRE acquisition. In June 2017, IROP issued 166,604 units in connection with our acquisition of South Terrace. All such issuances were exempt from registration pursuant to Section 4(a)(2) of the Securities Act. As previously disclosed, these units are subject to exchange agreements containing the terms and conditions under which the units could be exchanged for cash in an amount equal to the value of an equivalent number of shares of our common stock as of the date IROP receives the holder’s notice of its desire to exchange the units for cash or, at IROP’s option, for the equivalent number of shares of our common stock. During the first half of 2017, IROP exchanged 39,899 units for 39,899 shares of our common stock (with fractional units being settled in cash). At June 30, 2017, there were 3,035,654 units held by unaffiliated third parties outstanding. The issuance of the shares of our common stock in these exchanges was exempt from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D; all the persons receiving such shares were accredited investors.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

On August 4, 2017, we and our subsidiary, IROP, entered into an At-the-Market Issuance Sales Agreement (the “Sales Agreement”) with Citigroup Global Markets Inc., Capital One Securities, Inc., KeyBanc Capital Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Robert W. Baird & Co. Incorporated and Stifel, Nicolaus & Company, Incorporated (collectively, the “Sales Agents”). Pursuant to the Sales Agreement, we may offer and sell shares of our common stock, \$0.01 par value per share, having an aggregate offering price of up to \$150 million (the “Shares”), from time to time through the Sales Agents. The Sales Agents are entitled to compensation in an agreed amount not to exceed 2.0% of the gross sales price per share for any Shares sold from time to time under the Sales Agreement. We also agreed to provide each Sales Agent with customary indemnification rights under the Sales Agreement. Sales of the Shares, if any, under the program will depend upon market conditions and other factors to be determined by us. Any such sales of the Shares will be made by means of transactions that are deemed to be “at-the-market offerings” as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), including by sales made directly on or through the New York Stock Exchange or another market for our common stock, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions at market prices prevailing at the time of sale or at negotiated prices, or as otherwise agreed with the applicable Sales Agent. We have no obligation to sell any of the Shares under the Sales Agreement and may at any time suspend solicitations and offers under the Sales Agreement. No Sales Agent is required to sell any specific number or dollar amount of Shares.

The Shares sold under the Sales Agreement will be issued pursuant to our registration statement on Form S-3 (File No. 333-218130), which became effective under the Securities Act, on June 16, 2017. We will file a prospectus supplement with the Securities and Exchange Commission in connection with the offer and sale of the Shares.

The foregoing description of the Sales Agreement is not complete and is qualified in its entirety by reference to the full text of the Sales Agreement, which is filed as Exhibit 1.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

This Quarterly Report on Form 10-Q does not constitute an offer to sell or a solicitation of an offer to buy the Shares, and there shall not be any sale of the Shares in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The sale of the Shares is being made only by means of a prospectus and related prospectus supplement.

Item 6. Exhibits.

The exhibits listed on the Exhibit Index (following the signatures section of this Quarterly Report on Form 10-Q) are included herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Independence Realty Trust, Inc.

Date: August 4, 2017 By: /s/ Scott f. Schaeffer
Scott F. Schaeffer
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2017 By: /s/ James J. Sebra
James J. Sebra
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Description

- 1.1 At-the-Market Issuance Agreement dated August 4, 2017, among Independence Realty Trust, Inc., Independence Realty Operating Partnership, LP, Citigroup Global Markets Inc., Robert W. Baird & Co. Incorporated, Capital One Securities, Inc., KeyBanc Capital Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Stifel, Nicolaus & Company, Incorporated, filed herewith.

- 10.1 Credit Agreement dated as of May 1, 2017 by and among Independence Realty Operating Partnership, LP and the subsidiary borrowers named therein, collectively, as borrower, Citibank, N.A. and KeyBank National Association, as the initial lenders, issuing lenders and swing loan lenders, the other lenders party thereto, KeyBank National Association, as administrative agent, Citigroup Global Markets Inc. and The Huntington National Bank, as co-syndication agents, and Bank of America, N.A., Capital One, National Association, Citizens Bank, N.A., Comerica Bank and Regions Bank, as co-documentation agents, Citigroup Global Markets Inc. and KeyBank Capital Markets, as joint bookrunners and Citigroup Global Markets Inc., KeyBank Capital Markets and The Huntington National Bank, as joint lead arrangers, incorporated by reference to Exhibit 10.22.1 to IRT's Current Report on Form 8-K filed on May 4, 2017.

- 10.2 Amendment No. 1 dated as of May 2, 2017 to the IRT Long Term Incentive Plan, incorporated by reference to Exhibit 10.9 to IRT's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

- 10.3 Notice of Amendment of Outstanding Awards as of May 2, 2017, incorporated by reference to Exhibit 10.10 to IRT's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

- 12.1 Statements regarding computation of ratios as of June 30, 2017, filed herewith.

- 31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

- 31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

- 101 XBRL (eXtensible Business Reporting Language). The following materials, formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016, (iii) Consolidated Statement of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016, (iv) Consolidated Statements of Changes in Equity for the six months ended June 30, 2017, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 and (vi) notes to the consolidated financial statements as of June 30, 2017.

