

PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
November 06, 2017

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

FORM 10-Q

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

For the quarterly period ended September 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 No. 001-34995

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

Maryland 27-1712193
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
3284 Northside Parkway NW, Suite 150, Atlanta, GA 30327
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (770) 818-4100

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

The number of shares outstanding of the registrant's Common Stock, as of October 31, 2017 was 36,692,002.

PART I - FINANCIAL INFORMATION

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

	September 30, 2017	December 31, 2016
Assets		
Real estate		
Land	\$345,110,008	\$299,547,501
Building and improvements	1,802,229,802	1,513,293,760
Tenant improvements	45,208,781	23,642,361
Furniture, fixtures, and equipment	183,879,719	126,357,742
Construction in progress	11,946,666	2,645,634
Gross real estate	2,388,374,976	1,965,486,998
Less: accumulated depreciation	(147,799,077)	(103,814,894)
Net real estate	2,240,575,899	1,861,672,104
Real estate loans, net of deferred fee income	243,974,963	201,855,604
Real estate loans to related parties, net	165,229,952	130,905,464
Total real estate and real estate loan investments, net	2,649,780,814	2,194,433,172
Cash and cash equivalents		
Restricted cash	50,645,432	55,392,984
Notes receivable	18,287,857	15,499,699
Note receivable and revolving line of credit due from related party	24,063,639	22,115,976
Accrued interest receivable on real estate loans	27,726,412	21,894,549
Acquired intangible assets, net of amortization of \$64,043,523 and \$46,396,254	86,295,192	79,156,400
Deferred loan costs on Revolving Line of Credit, net of amortization of \$960,072 and \$422,873	1,548,798	1,768,779
Deferred offering costs	6,025,155	2,677,023
Tenant lease inducements, net of amortization of \$251,941 and \$14,904	11,914,367	261,492
Tenant receivables (net of allowance of \$488,953 and \$663,912) and other assets	34,377,412	15,310,741
Total assets	\$2,927,719,268	\$2,420,832,602
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs of \$26,994,828 and \$22,007,641	\$1,569,569,425	\$1,305,870,471
Revolving line of credit	43,000,000	127,500,000
Term note payable, net of deferred loan costs of \$5,806 and \$40,095	10,994,194	10,959,905
Real estate loan participation obligation	17,877,914	20,761,819
Deferred revenue	23,361,489	—
Accounts payable and accrued expenses	34,298,797	20,814,910
Accrued interest payable	4,099,239	3,541,640
Dividends and partnership distributions payable	13,729,774	10,159,629
Acquired below market lease intangibles, net of amortization of \$6,858,914 and \$3,771,393	31,691,040	29,774,033
Security deposits and other liabilities	8,946,216	6,189,033

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Total liabilities	1,757,568,088	1,535,571,440
Commitments and contingencies (Note 11)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, \$0.01 par value per share; 3,050,000 shares authorized; 1,141,331 and 924,855 shares issued; 1,115,616 and 914,422 shares outstanding at September 30, 2017 and December 31, 2016, respectively	11,156	9,144
Series M Redeemable Preferred Stock, \$0.01 par value per share; 500,000 shares authorized; 12,396 and 0 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	124	—
Common Stock, \$0.01 par value per share; 400,066,666 shares authorized; 35,597,744 and 26,498,192 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	355,977	264,982
Additional paid-in capital	1,157,030,161	906,737,470
Accumulated earnings (deficit)	9,079,810	(23,231,643)
Total stockholders' equity	1,166,477,228	883,779,953
Non-controlling interest	3,673,952	1,481,209
Total equity	1,170,151,180	885,261,162
Total liabilities and equity	\$2,927,719,268	\$2,420,832,602

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	\$50,072,135	\$37,319,207	\$143,676,962	\$96,541,544
Other property revenues	9,334,939	5,221,887	26,592,295	13,290,330
Interest income on loans and notes receivable	9,673,536	7,194,742	26,111,674	20,984,625
Interest income from related parties	5,819,589	3,801,501	15,971,516	10,310,563
Total revenues	74,900,199	53,537,337	212,352,447	141,127,062
Operating expenses:				
Property operating and maintenance	7,900,753	5,504,848	21,637,551	13,883,133
Property salary and benefits (including reimbursements of \$3,199,836, \$2,790,335, \$8,995,087 and \$7,670,403 to related party)	3,402,623	2,808,402	9,649,843	7,688,470
Property management fees (including \$1,576,118, \$1,444,518, \$4,582,037, and \$3,656,209 to related parties)	2,053,446	1,724,411	6,016,003	4,308,841
Real estate taxes	7,705,706	4,789,085	23,289,784	15,457,134
General and administrative	1,701,574	1,144,256	4,861,083	3,255,728
Equity compensation to directors and executives	863,412	638,414	2,607,667	1,867,706
Depreciation and amortization	28,903,770	21,664,363	82,186,960	54,981,064
Acquisition and pursuit costs (including \$0, \$89,631, \$0 and \$141,548 to related party)	—	1,357,537	14,002	6,885,864
Asset management fees to related party	5,147,606	3,759,084	14,524,517	9,484,161
Insurance, professional fees and other expenses	1,156,056	1,338,343	3,820,010	4,216,838
Total operating expenses	58,834,946	44,728,743	168,607,420	122,028,939
Contingent asset management and general and administrative expense fees	(655,944)	(736,960)	(1,001,864)	(1,458,245)
Net operating expenses	58,179,002	43,991,783	167,605,556	120,570,694
Operating income	16,721,197	9,545,554	44,746,891	20,556,368
Interest expense	16,678,418	12,234,174	48,085,016	30,688,505
Loss on extinguishment of debt	—	—	888,428	—
Net income (loss) before gain on sale of real estate	42,779	(2,688,620)	(4,226,553)	(10,132,137)
Gain on sale of real estate, net of disposition expenses	—	—	37,635,014	4,271,506
Net income (loss)	42,779	(2,688,620)	33,408,461	(5,860,631)
Consolidated net (income) loss attributable to non-controlling interests	(1,119)	86,484	(1,097,008)	175,045

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Net income (loss) attributable to the Company	41,660	(2,602,136)	32,311,453	(5,685,586)
Dividends declared to preferred stockholders	(16,420,996)	(11,015,706)	(46,042,181)	(28,341,723)
Earnings attributable to unvested restricted stock	(4,302)	(6,159)	(11,743)	(12,434)
Net loss attributable to common stockholders	\$ (16,383,638)	\$ (13,624,001)	\$ (13,742,471)	\$ (34,039,743)
Net loss per share of Common Stock available to common stockholders, basic and diluted	\$ (0.49)	\$ (0.56)	\$ (0.46)	\$ (1.45)
Dividends per share declared on Common Stock	\$ 0.235	\$ 0.2025	\$ 0.69	\$ 0.5975
Weighted average number of shares of Common Stock outstanding,				
Basic and diluted	33,539,920	24,340,791	30,147,497	23,552,951

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

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Preferred Apartment Communities, Inc.
 Consolidated Statements of Stockholders' Equity, continued
 For the nine-month periods ended September 30, 2017 and 2016
 (Unaudited)

	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings(Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	\$9,144	\$264,982	\$906,737,470	\$(23,231,643)	\$883,779,953	\$1,481,209	\$885,261,162
Issuance of Units	2,289	—	228,248,476	—	228,250,765	—	228,250,765
Redemptions of Series A Preferred Stock	(153)	5,922	(4,506,174)	—	(4,500,405)	—	(4,500,405)
Issuance of Common Stock	—	49,067	76,755,412	—	76,804,479	—	76,804,479
Exercises of warrants	—	33,875	43,343,382	—	43,377,257	—	43,377,257
Syndication and offering costs Equity compensation to executives and directors	—	—	(26,725,432)	—	(26,725,432)	—	(26,725,432)
Vesting of restricted stock	—	216	(216)	—	—	—	—
Conversion of Class A Units to Common Stock	—	1,915	1,676,579	—	1,678,494	(1,678,494)	—
Current period amortization of Class B Units	—	—	—	—	—	2,250,367	2,250,367
Net income	—	—	—	32,311,453	32,311,453	1,097,008	33,408,461
Reallocation adjustment to non-controlling interests	—	—	(1,146,165)	—	(1,146,165)	1,146,165	—
Distributions to non-controlling interests	—	—	—	—	—	(622,303)	(622,303)
Dividends to series A preferred	—	—	—	—	—	—	—

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stockholders (\$5.00 per share per month)	—	—	(45,791,950)	—	(45,791,950)	—	(45,791,950)
Dividends to mShares preferred stockholders	—	—	(250,231)	—	(250,231)	—	(250,231)
Dividends to common stockholders (\$0.69 per share)	—	—	(21,668,290)	—	(21,668,290)	—	(21,668,290)
Balance at September 30, 2017	\$11,280	\$355,977	\$1,157,030,161	\$9,079,810	\$1,166,477,228	\$3,673,952	\$1,170,151,180

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

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Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity
For the nine-month periods ended September 30,
2017 and 2016
(Unaudited)

Series A Redeemable Preferred Stock	Common Stock	Additional Paid in Capital
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