

PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
November 07, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____
Commission File No. 001-34995

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

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

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

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

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

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

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 28, 2016 was 24,697,128.

PART I - FINANCIAL INFORMATION

INDEX

| | Page No. |
|--|----------|
| <u>Financial Statements</u> | |
| <u>Consolidated Balance Sheets (unaudited) – as of September 30, 2016 and December 31, 2015</u> | 1 |
| <u>Consolidated Statements of Operations (unaudited) – Three and Nine Months Ended September 30, 2016 and 2015</u> | 2 |
| <u>Consolidated Statements of Stockholders' Equity (unaudited) – Nine Months Ended September 30, 2016 and 2015</u> | 3 |
| <u>Consolidated Statements of Cash Flows (unaudited) – Nine Months Ended September 30, 2016 and 2015</u> | 4 |
| <u>Notes to Consolidated Financial Statements (unaudited)</u> | 6 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 43 |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 79 |
| <u>Controls and Procedures</u> | 79 |
| <u>PART II - OTHER INFORMATION</u> | |
| <u>Legal Proceedings</u> | 80 |
| <u>Risk Factors</u> | 80 |
| <u>Registered Sales of Equity Securities and Use of Proceeds</u> | 81 |
| <u>Defaults Upon Senior Securities</u> | 81 |
| <u>Mine Safety Disclosures</u> | 81 |
| <u>Other Information</u> | 81 |
| <u>Exhibits</u> | 81 |
| SIGNATURES | 82 |
| <u>EXHIBIT INDEX</u> | 83 |

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

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| Assets | | |
| Real estate | | |
| Land | \$260,222,888 | \$141,729,264 |
| Building and improvements | 1,333,186,314 | 733,417,442 |
| Tenant improvements | 14,132,772 | 5,781,199 |
| Furniture, fixtures, and equipment | 125,292,571 | 86,092,408 |
| Construction in progress | 2,879,528 | 609,400 |
| Gross real estate | 1,735,714,073 | 967,629,713 |
| Less: accumulated depreciation | (87,020,014) | (48,155,874) |
| Net real estate | 1,648,694,059 | 919,473,839 |
| Property held for sale (net of accumulated depreciation of \$0 and \$5,838,792) | — | 33,817,081 |
| Real estate loans, net of deferred fee income | 195,971,159 | 180,688,293 |
| Real estate loans to related parties, net | 109,436,327 | 57,313,465 |
| Total real estate and real estate loans, net | 1,954,101,545 | 1,191,292,678 |
| Cash and cash equivalents | | |
| Restricted cash | 10,462,384 | 2,439,605 |
| Notes receivable | 32,948,161 | 12,539,440 |
| Note receivable and revolving line of credit due from related party | 14,341,875 | 18,489,247 |
| Accrued interest receivable on real estate loans | 20,986,537 | 19,454,486 |
| Acquired intangible assets, net of amortization of \$39,979,097 and \$27,032,157 | 17,669,121 | 14,294,648 |
| Deferred loan costs for revolving line of credit, net of amortization of \$268,801 and \$791,002 | 49,825,572 | 19,381,473 |
| Deferred offering costs | 1,738,508 | 488,770 |
| Tenant receivables (net of allowance of \$466,122 and \$434,773) and other assets | 3,809,014 | 5,834,304 |
| | 17,654,353 | 11,314,382 |
| Total assets | \$2,123,537,070 | \$1,295,529,033 |
| Liabilities and equity | | |
| Liabilities | | |
| Mortgage notes payable, principal amount | \$1,183,335,433 | \$668,836,291 |
| Less: deferred loan costs, net of amortization of \$4,390,077 and \$2,021,696 | (19,317,090) | (8,099,517) |
| Mortgage notes payable, net of unamortized deferred loan costs | 1,164,018,343 | 660,736,774 |
| Mortgage note held for sale | — | 28,109,000 |
| Revolving line of credit | 82,000,000 | 34,500,000 |
| Term note payable | 11,000,000 | — |
| Less: deferred loan costs, net of amortization | (67,032) | — |
| Term note payable, net of unamortized deferred loan costs | 10,932,968 | — |
| Real estate loan participation obligation | 19,638,232 | 13,544,160 |
| Accounts payable and accrued expenses | 25,309,813 | 12,644,818 |
| Accrued interest payable | 3,490,151 | 1,803,389 |
| Dividends and partnership distributions payable | 9,056,611 | 6,647,507 |
| | 19,180,354 | 9,253,450 |

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| | | |
|---|-----------------|-----------------|
| Acquired below market lease intangibles, net of amortization of \$2,933,811 and \$1,578,205 | | |
| Security deposits and other liabilities | 5,161,358 | 2,836,145 |
| Total liabilities | 1,338,787,830 | 770,075,243 |
| Commitments and contingencies (Note 12) | | |
| Equity | | |
| Stockholders' equity | | |
| Series A Redeemable Preferred Stock, \$0.01 par value per share; 1,050,000 shares authorized; 809,460 and 486,182 shares issued; 802,032 and 482,964 shares outstanding at September 30, 2016 and December 31, 2015, respectively | 8,020 | 4,830 |
| Common Stock, \$0.01 par value per share; 400,066,666 shares authorized; 24,658,034 and 22,761,551 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 246,580 | 227,616 |
| Additional paid-in capital | 802,559,257 | 536,450,877 |
| Accumulated deficit | (19,384,106) | (13,698,520) |
| Total stockholders' equity | 783,429,751 | 522,984,803 |
| Non-controlling interest | 1,319,489 | 2,468,987 |
| Total equity | 784,749,240 | 525,453,790 |
| Total liabilities and equity | \$2,123,537,070 | \$1,295,529,033 |

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

1

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Rental revenues | \$37,319,207 | \$19,442,628 | \$96,541,544 | \$47,304,230 |
| Other property revenues | 5,221,887 | 2,558,185 | 13,290,330 | 6,685,752 |
| Interest income on loans and notes receivable | 7,194,742 | 5,909,907 | 20,984,625 | 16,367,864 |
| Interest income from related parties | 3,801,501 | 2,044,973 | 10,310,563 | 5,031,189 |
| Total revenues | 53,537,337 | 29,955,693 | 141,127,062 | 75,389,035 |
| Operating expenses: | | | | |
| Property operating and maintenance | 5,504,848 | 3,097,080 | 13,883,133 | 7,722,017 |
| Property salary and benefits reimbursement to related party | 2,808,402 | 1,688,347 | 7,688,470 | 4,114,752 |
| Property management fees (including \$1,444,518, \$751,817, \$3,656,209, and \$1,795,435 to related parties) | 1,724,411 | 857,294 | 4,308,841 | 2,082,839 |
| Real estate taxes | 4,789,085 | 2,506,885 | 15,457,134 | 6,911,034 |
| General and administrative | 1,144,256 | 632,164 | 3,255,728 | 1,553,666 |
| Equity compensation to directors, executives and consultants | 638,414 | 593,417 | 1,867,706 | 1,761,268 |
| Depreciation and amortization | 21,664,363 | 10,536,486 | 54,981,064 | 26,409,763 |
| Acquisition and pursuit costs (including \$89,631, \$63,486, \$141,548 and \$148,127 to related party) | 1,036,171 | 1,783,708 | 6,179,442 | 2,876,642 |
| Acquisition fees to related parties | 321,366 | 1,541,250 | 706,422 | 3,400,021 |
| Asset management fees to related party | 3,759,084 | 1,908,742 | 9,484,161 | 4,830,588 |
| Insurance, professional fees and other expenses | 1,338,343 | 1,062,687 | 4,216,838 | 2,412,441 |
| Total operating expenses | 44,728,743 | 26,208,060 | 122,028,939 | 64,075,031 |
| Contingent asset management and general and administrative expense fees | (736,960) | (373,360) | (1,458,245) | (1,528,479) |
| Net operating expenses | 43,991,783 | 25,834,700 | 120,570,694 | 62,546,552 |
| Operating income | 9,545,554 | 4,120,993 | 20,556,368 | 12,842,483 |
| Interest expense | 12,234,174 | 5,818,760 | 30,688,505 | 14,884,343 |
| Net loss before gain on sale of real estate | (2,688,620) | (1,697,767) | (10,132,137) | (2,041,860) |
| Gain on sale of real estate, net of disposition expenses | — | — | 4,271,506 | — |
| Net loss | (2,688,620) | (1,697,767) | (5,860,631) | (2,041,860) |
| Consolidated net loss attributable to non-controlling interests | 86,484 | 15,289 | 175,045 | 20,712 |

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| | | | | |
|--|----------------|---------------|----------------|----------------|
| Net loss attributable to the Company | (2,602,136) | (1,682,478) | (5,685,586) | (2,021,148) |
| Dividends declared to Series A preferred stockholders | (11,015,706) | (5,114,126) | (28,341,723) | (12,377,580) |
| Earnings attributable to unvested restricted stock | (6,159) | (4,068) | (12,434) | (16,355) |
| Net loss attributable to common stockholders | \$(13,624,001) | \$(6,800,672) | \$(34,039,743) | \$(14,415,083) |
| Net loss per share of Common Stock available to common stockholders, basic and diluted | \$(0.56) | \$(0.31) | \$(1.45) | \$(0.65) |
| Dividends per share declared on Common Stock | \$0.2025 | \$0.18 | \$0.5975 | \$0.535 |
| Weighted average number of shares of Common Stock outstanding, basic and diluted | 24,340,791 | 22,292,217 | 23,552,951 | 22,109,036 |

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

2

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Preferred Apartment Communities, Inc.
 Consolidated Statements of Stockholders' Equity
 For the nine months ended September 30, 2016 and 2015
 (Unaudited)

| | Series A Redeemable Preferred Stock | Common Stock | Additional Paid in Capital | Accumulated (Deficit) | Total Stockholders' Equity | Non-Controlling Interest | Total Equity |
|---|--|-----------------|-------------------------------|--------------------------|----------------------------------|-----------------------------|----------------|
| Balance at January 1, 2015 | \$ 1,928 | \$ 214,039 | \$ 300,576,349 | \$(11,297,852) | \$ 289,494,464 | \$ 2,087,410 | \$ 291,581,874 |
| Issuance of Units | 1,936 | — | 193,447,355 | — | 193,449,291 | — | 193,449,291 |
| Redemptions of Series A Preferred Stock | (23) | 599 | (1,505,907) | — | (1,505,331) | — | (1,505,331) |
| Issuance of Common Stock | — | 5,479 | 5,487,829 | — | 5,493,308 | — | 5,493,308 |
| Exercises of warrants | — | 1,307 | 1,241,956 | — | 1,243,263 | — | 1,243,263 |
| Syndication and offering costs | — | — | (22,027,008) | — | (22,027,008) | — | (22,027,008) |
| Equity compensation to executives and directors | — | 40 | 282,532 | — | 282,572 | — | 282,572 |
| Vesting of restricted stock | — | 468 | (468) | — | — | — | — |
| Conversion of Class A Units to Common Stock | — | 1,080 | 717,583 | — | 718,663 | (718,663) | — |
| Current period amortization of Class B Units | — | — | — | — | — | 1,478,696 | 1,478,696 |
| Net loss | — | — | — | (2,021,148) | (2,021,148) | (20,712) | (2,041,860) |
| Reallocation adjustment to non-controlling interests | — | — | 508,937 | — | 508,937 | (508,937) | — |
| Distributions to non-controlling interests | — | — | — | — | — | (149,307) | (149,307) |
| Dividends to series A preferred stockholders (\$5.00 per share per month) | — | — | (12,377,579) | — | (12,377,579) | — | (12,377,579) |
| Dividends to common stockholders | — | — | (11,881,325) | — | (11,881,325) | — | (11,881,325) |

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(\$0.535 per share)

| | | | | | | | |
|---|----------|------------|----------------|----------------|----------------|--------------|----------------|
| Balance at September 30, 2015 | \$ 3,841 | \$ 223,012 | \$ 454,470,254 | \$(13,319,000) | \$ 441,378,107 | \$ 2,168,487 | \$ 443,546,594 |
| Balance at January 1, 2016 | \$ 4,830 | \$ 227,616 | \$ 536,450,877 | \$(13,698,520) | \$ 522,984,803 | \$ 2,468,987 | \$ 525,453,790 |
| Issuance of Units | 3,233 | — | 322,937,157 | — | 322,940,390 | — | 322,940,390 |
| Redemptions of Series A Preferred Stock | (43) | 588 | (3,020,673) | — | (3,020,128) | — | (3,020,128) |
| Issuance of Common Stock | — | 1,973 | 2,858,311 | — | 2,860,284 | — | 2,860,284 |
| Exercises of warrants | — | 15,163 | 16,181,146 | — | 16,196,309 | — | 16,196,309 |
| Syndication and offering costs | — | — | (38,220,013) | — | (38,220,013) | — | (38,220,013) |
| Equity compensation to executives, directors and consultants | — | 56 | 352,472 | — | 352,528 | — | 352,528 |
| Vesting of restricted stock | — | 228 | (228) | — | — | — | — |
| Conversion of Class A Units to Common Stock | — | 956 | 647,642 | — | 648,598 | (648,598) | — |
| Current period amortization of Class B Units | — | — | — | — | — | 1,542,182 | 1,542,182 |
| Net loss | — | — | — | (5,685,586) | (5,685,586) | (175,045) | (5,860,631) |
| Class A Units issued for property acquisition | — | — | — | — | — | 5,072,659 | 5,072,659 |
| Minority interest in joint venture | — | — | — | — | — | 450,000 | 450,000 |
| Reallocation adjustment to non-controlling interests | — | — | 6,914,403 | — | 6,914,403 | (6,914,403) | — |
| Distributions to non-controlling interests | — | — | — | — | — | (476,293) | (476,293) |
| Dividends to series A preferred stockholders (\$5.00 per share per month) | — | — | (28,341,723) | — | (28,341,723) | — | (28,341,723) |
| Dividends to common | — | — | (14,200,114) | — | (14,200,114) | — | (14,200,114) |

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stockholders
(\$0.5975 per
share)

Balance at

| | | | | | | | |
|-----------------------|----------|------------|----------------|----------------|----------------|--------------|----------------|
| September 30, 2016 | \$ 8,020 | \$ 246,580 | \$ 802,559,257 | \$(19,384,106) | \$ 783,429,751 | \$ 1,319,489 | \$ 784,749,240 |
|-----------------------|----------|------------|----------------|----------------|----------------|--------------|----------------|

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

3

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

| | Nine months ended September 30, | |
|--|------------------------------------|---------------|
| | 2016 | 2015 |
| Operating activities: | | |
| Net loss | \$(5,860,631) | \$(2,041,860) |
| Reconciliation of net loss to net cash provided by operating activities: | | |
| Depreciation expense | 39,387,351 | 19,052,639 |
| Amortization expense | 15,593,713 | 7,357,124 |
| Amortization of above and below market leases | (1,118,329) | (566,260) |
| Deferred fee income amortization | (725,913) | (580,996) |
| Deferred loan cost amortization | 2,431,809 | 1,069,961 |
| (Increase) in accrued interest income on real estate loans | (3,374,473) | (3,188,828) |
| Equity compensation to executives, directors and consultants | 1,867,706 | 1,761,268 |
| Gain on sale of real estate | (4,271,506) | — |
| Other | 56,582 | (14,807) |
| Changes in operating assets and liabilities: | | |
| (Increase) in tenant receivables and other assets | (1,230,183) | (539,565) |
| Increase in accounts payable and accrued expenses | 8,843,052 | 5,069,158 |
| Increase in accrued interest payable | 1,740,420 | 427,750 |
| Increase in prepaid rents | 235,035 | 237,613 |
| Increase in security deposits and other liabilities | 282,738 | 144,931 |
| Net cash provided by operating activities | 53,857,371 | 28,188,128 |
| Investing activities: | | |
| Investments in real estate loans | (123,427,150) | (83,800,145) |
| Repayments of real estate loans | 36,672,482 | 18,772,024 |
| Notes receivable issued | (8,730,166) | (5,805,972) |
| Notes receivable repaid | 12,895,101 | 9,897,319 |
| Note receivable issued to and draws on line of credit by related party | (25,821,121) | (12,869,093) |
| Repayments of line of credit by related party | 23,791,676 | 8,514,582 |
| Acquisition fees received on real estate loans | 2,695,961 | 2,126,913 |
| Acquisition fees paid on real estate loans | (1,374,828) | (1,063,456) |
| Acquisition fees paid to real estate loan participants | — | (24,665) |
| Acquisition of properties | (740,597,973) | (311,936,810) |
| Disposition of properties | 10,606,386 | — |
| Additions to real estate assets - improvements | (7,613,065) | (3,007,537) |
| Proceeds from sale of fixed assets | 10,000 | — |
| Payment of deposits for property acquisitions | (3,128,370) | (1,519,269) |
| Decrease in restricted cash | (9,070,073) | (4,998,076) |
| Net cash used in investing activities | (833,091,140) | (385,714,185) |
| Financing activities: | | |
| Proceeds from mortgage notes payable | 479,494,000 | 204,555,500 |
| Payments for mortgage notes payable | (7,748,011) | (2,553,190) |
| Payments for deposits and other mortgage loan costs | (15,400,974) | (3,240,080) |
| Proceeds from real estate loan participants | 5,575,484 | 4,134,882 |

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| | | |
|---|---------------|---------------|
| Proceeds from lines of credit | 357,136,020 | 165,900,000 |
| Payments on lines of credit | (309,636,020) | (161,700,000) |
| Proceeds from Term Loan | 46,000,000 | 32,000,000 |
| Repayment of the Term Loan | (35,000,000) | (32,000,000) |
| Proceeds from sales of Units, net of offering costs and redemptions | 287,830,612 | 173,466,135 |
| Proceeds from sales of Common Stock | 2,810,156 | 5,381,848 |
| Proceeds from exercises of warrants | 19,831,294 | 1,236,437 |
| Common Stock dividends paid | (13,523,075) | (11,560,512) |
| Series A Preferred Stock dividends paid | (26,735,870) | (11,453,618) |
| Distributions to non-controlling interests | (350,079) | (124,905) |
| Payments for deferred offering costs | (3,476,989) | (1,582,886) |
| Contribution from non-controlling interests | 450,000 | — |
| Net cash provided by financing activities | 787,256,548 | 362,459,611 |
| | | |
| Net increase in cash and cash equivalents | 8,022,779 | 4,933,554 |
| Cash and cash equivalents, beginning of period | 2,439,605 | 3,113,270 |
| Cash and cash equivalents, end of period | \$10,462,384 | \$8,046,824 |

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

4

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

| | Nine months ended September 30, | |
|---|------------------------------------|--------------|
| | 2016 | 2015 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$26,569,933 | \$13,386,632 |
| Supplemental disclosure of non-cash activities: | | |
| Accrued capital expenditures | \$1,125,774 | \$641,627 |
| Writeoff of fully depreciated or amortized assets and liabilities | \$149,288 | \$290,009 |
| Writeoff of fully amortized deferred loan costs | \$826,359 | \$— |
| Dividends payable - Common Stock | \$4,992,038 | \$4,018,249 |
| Dividends payable - Series A Preferred Stock | \$3,885,123 | \$1,824,395 |
| Partnership distributions payable to non-controlling interests | \$179,449 | \$49,781 |
| Accrued and payable deferred offering costs | \$690,643 | \$665,756 |
| Reclass of offering costs from deferred asset to equity | \$6,080,235 | \$2,584,073 |
| Bridge loans converted to mezzanine loans | \$— | \$29,158,371 |
| Fair value of OP Units issued for property | \$5,072,659 | \$— |
| Mezzanine loan balance applied to purchase of property | \$12,500,000 | \$10,000,000 |
| Fair value issuances of equity compensation | \$3,152,312 | \$2,309,569 |
| Offering cost reimbursement to related party | \$482,871 | \$670,579 |
| Assumed mortgage debt | \$43,103,275 | \$41,625,000 |

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements
September 30, 2016

1. Organization and Basis of Presentation

Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009, and elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, effective with its tax year ended December 31, 2011. Unless the context otherwise requires, references to the "Company", "we", "us", or "our" refer to Preferred Apartment Communities, Inc., together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. The Company was formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of its business strategy, the Company may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, the Company also may acquire or originate senior mortgage loans, subordinate loans or real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 20% of its assets, subject to any temporary increase unanimously approved by its board of directors, in other real estate related investments such as grocery-anchored shopping centers, as determined by its Manager (as defined below) as appropriate for the Company. The Company is externally managed and advised by Preferred Apartment Advisors, LLC, or its Manager, a Delaware limited liability company and related party (see Note 7).

As of September 30, 2016, the Company had 24,658,034 shares of common stock, par value \$0.01 per share, or Common Stock, issued and outstanding and was the approximate 96.5% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 886,168 at September 30, 2016 and represented Class A OP Units of the Operating Partnership, or Class A OP Units. The Class A OP Units are convertible at any time at the option of the holder into the Company's choice of either cash or Common Stock. In the case of cash, the value is determined based upon the trailing 20-day volume weighted average price of the Company's Common Stock.

The Company controls the Operating Partnership through its sole general partner interest and conducts substantially all of its business through the Operating Partnership. The Company has determined the Operating Partnership is a variable interest entity, or VIE, of which the Company is the primary beneficiary. Substantially all of the Company's assets and liabilities are held by the Operating Partnership. New Market Properties, LLC, a wholly-owned subsidiary of the Operating Partnership, owns and conducts the business of the Company's grocery-anchored shopping centers.

Basis of Presentation

These unaudited consolidated financial statements include all of the accounts of the Company and the Operating Partnership presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. All significant intercompany transactions have been eliminated in consolidation. Certain adjustments have been made consisting of normal recurring accruals, which, in the opinion of management, are necessary for the fair statement of the Company's financial condition. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The year end condensed balance sheet data was derived from audited financial statements, but does not include all the disclosures required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto

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included in the Company's 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 14, 2016.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

The Company records its initial investments in income-producing real estate at fair value at the acquisition date in accordance with ASC 805-10, Business Combinations, which requires that all consideration transferred be measured at its acquisition-date fair value. The aggregate purchase price of acquired properties is apportioned to the tangible and identifiable intangible assets and liabilities acquired at their estimated fair values. The value of acquired land, buildings and improvements is estimated by formal appraisals, observed comparable sales transactions, and information gathered during pre-acquisition due diligence activities and the valuation approach considers the value of the property as if it were vacant. The values of furniture, fixtures, and equipment are estimated by calculating their replacement cost and reducing that value by factors based upon estimates of their remaining useful lives. Intangible assets and liabilities for multifamily communities include the values of in-place leases and above-market or below-market leases. Additional intangible assets for retail properties also include costs to initiate leases such as commissions and legal costs.

In-place lease values for multifamily communities are estimated by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level (estimated to be 92% occupancy) based on historical observed move-in rates for each property, and which approximate market rates. Carrying costs during these hypothetical expected lease-up periods are estimated, considering current market conditions and include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates. The intangible assets are calculated by estimating the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. The acquired in-place lease values are amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases. The amounts of above-market or below-market lease values are developed by comparing the Company's estimate of the average market rent to the average contract rent of the leases in place at the property acquisition date. This ratio is applied on a lease by lease basis to derive a total asset or liability amount for the property. The above-market or below-market lease values are recorded as a reduction or increase, respectively, to rental revenue over the remaining average non-cancelable term of the respective leases, plus any below market probable renewal options.

The fair values of in-place leases for retail shopping centers and office buildings represent the value of direct costs associated with leasing, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases. Direct costs associated with obtaining a new tenant include commissions, legal and marketing costs, incentives such as tenant improvement allowances and other direct costs. Such direct costs are estimated based on our consideration of current market costs to execute a similar lease. The value of opportunity costs is estimated using the estimated market lease rates and the estimated absorption period of the space. These direct costs and opportunity costs are included in the accompanying consolidated balance sheets as acquired intangible assets and are amortized to expense over the remaining term of the respective leases. The fair values of above-market and below-market in-place leases for retail shopping centers and office buildings are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the leases, taking into consideration the probability of renewals for any below-market leases. The capitalized above-market leases and in place leases are included in the acquired intangible assets line of the consolidated balance sheets. Both above-market and below-market lease values are amortized as adjustments to rental revenue over the remaining term of the respective leases for office buildings.

The amortization period for retail shopping center leases is the remaining lease term plus any below market probable renewal options.

Estimating the fair values of the tangible and intangible assets requires us to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount and capitalization rates, market absorption periods, and the number of years the property is held for investment. The use of unreasonable estimates would result in an incorrect assessment of our purchase price allocations, which would impact the amount of our reported net income. Acquired intangible assets and liabilities have no residual value.

The Company evaluates its tangible and identifiable intangible real estate assets for impairment when events such as declines in a property's operating performance, deteriorating market conditions, or environmental or legal concerns bring recoverability of the carrying value of one or more assets into question. The total undiscounted cash flows of the asset group, including proceeds from disposition, are compared to the net book value of the asset group. If this test indicates that impairment exists, an impairment loss is recorded in earnings equal to the shortage of the book value to the discounted net cash flows of the asset group.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

Loan Coordination Fees

Amendment Number One to the Fifth Amended and Restated Management Agreement, which was effective January 1, 2016, replaced the acquisition fees which were paid to the Manager upon the closing of the acquisition of a property with loan coordination fees, which are intended to reimburse the Manager for costs incurred related to negotiating and securing mortgage debt financing on acquired properties. Acquisition fees were recognized in full at the date of acquisition. In accordance with guidance provided by ASC 310-20-25, the portion of loan coordination fees to secure financing are recognized over the term of the associated loan using the effective interest method in cases where mortgage financing is obtained at the closing date of the property acquisition. The remaining portion of loan coordination fees are accounted for as acquisition costs and are expensed as incurred. If no debt financing is utilized in conjunction with a property acquisition, the loan coordination fee is recognized in full at the date of property acquisition in the acquisition fees to related parties line in the Consolidated Statements of Operations. If debt financing is obtained subsequent to the acquisition, any incremental deferred loan coordination fee earned is recognized over the term of the associated loan using the effective interest method.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with guidance provided by ASC 505-50, Equity-Based Payments to Non-Employees and ASC 718, Stock Compensation. We calculate the fair value of equity compensation instruments at the date of grant based upon estimates of their expected term, the expected volatility of and dividend yield on our Common Stock over this expected term period and the market risk-free rate of return. We also estimate forfeitures of these instruments and accrue the compensation expense, net of estimated forfeitures, over the vesting period(s). We record the fair value of restricted stock awards based upon the closing stock price on the trading day immediately preceding the date of grant. For awards of equity compensation which have market performance vesting conditions in addition to multiple tranches of service period requirements, the Company utilizes the straight-line expense attribution method.

Non-controlling interests

As of each reporting date, the outstanding Class A Units in the Operating Partnership and the proportionate amount of amortized but unvested Class B Units in the Operating Partnership are apportioned a pro-rata amount of the Company's equity attributable to Common Stockholders and Unitholders according to the period-end percentage of Class A Units to shares of Common Stock issued and outstanding. This equity allocation is adjusted for periodic consolidated net income/loss attributable to non-controlling interests and periodic amortization of unvested Class B Unit awards.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. ASU 2014-09 is effective for interim and annual periods beginning after

December 15, 2017. ASU 2014-09 may be applied using either a full retrospective or a modified approach upon adoption. The Company is currently evaluating the impact this standard may have on its financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15 ("ASU 2014-15"), Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This new guidance establishes a requirement that management evaluate the entity's ability to continue as a going concern and requires certain disclosures should substantial doubt exist about the entity's future viability. ASU 2014-15 is effective on January 1, 2017 and the Company expects to adopt the new guidance on that date. The Company does not expect the adoption of ASU 2014-15 to materially impact its consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update 2015-02 ("ASU 2015-02"), Consolidation (Topic 810): Amendments to the Consolidation Analysis. This new guidance specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will be required to consolidate the limited partnership.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

ASU 2015-02 is effective on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The Company's adoption of ASU 2015-02 had no impact on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-01 ("ASU 2016-01"), Financial Instruments—Overall (Subtopic 825-10): Recognition and measurement of Financial Assets and Liabilities. The new standard's applicable provisions to the Company include an elimination of the disclosure requirement of the significant inputs and assumptions underlying the fair value calculations of its financial instruments which are carried at amortized cost. The standard is effective on January 1, 2018, and early adoption is not permitted for the applicable provision. The Company does not expect the adoption of ASU 2016-01 to materially impact the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance but does not expect its adoption to materially impact the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09 ("ASU 2016-09"), Compensation—Stock Compensation (Topic 178): Improvements to Employee Share-Based Payment Accounting. The new standard's provisions applicable to the Company include allowing the entity to make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures of equity compensation awards when they occur. Previous guidance required entities to estimate the number of awards that are expected to vest. The standard is effective on January 1, 2017, and the Company adopted ASU 2016-09 on January 1, 2016 pursuant to the allowed early adoption provision. The Company does not expect the adoption of ASU 2016-09 to materially impact the Company's consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13 ("ASU 2016-13"), Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial instruments carried at amortized cost to be presented at the net amount expected to be collected, utilizing a valuation account which reflects the cumulative net adjustments from the gross amortized cost value. Under existing GAAP, entities would not record a valuation allowance until a loss was probable of occurring. The standard is effective for the Company on January 1, 2020. The Company is presently evaluating the impact the adoption of ASU 2016-13 will have on the Company's consolidated financial statements.

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

materially impact the Company's consolidated financial statements.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

3. Real Estate Assets

The Company's real estate assets consisted of:

| | As of: | |
|--|-----------|------------|
| | 9/30/2016 | 12/31/2015 |
| Multifamily communities ⁽¹⁾ | 25 | 19 |
| Multifamily units | 8,268 | 6,136 |
| Retail shopping centers | 30 | 14 |
| Approximate square feet of retail gross leasable area ⁽²⁾ | 2,913,000 | 1,279,000 |
| Class A office building | 1 | — |

⁽¹⁾ The acquired second phase of the Summit Crossing community is managed in combination with the initial phase of this community and the two are therefore considered a single property, as are the three assets that comprise the Lenox Portfolio. Includes one student housing community as of September 30, 2016.

⁽²⁾ The Company also owns approximately 47,600 square feet of gross leasable area of ground floor retail space which is embedded within the Lenox Portfolio and not included in the totals above.

On September 8, 2015, pursuant to a recommendation by the Company's investment committee, the Company took action to market for sale both phases of its Trail Creek multifamily community located in Hampton, Virginia. On February 24, 2016, the Company reclassified the following real estate assets and the mortgage note payable for Trail Creek from its held and used multifamily segment to property held for sale on its consolidated balance sheets. On May 19, 2016, the Company closed on the sale of Trail Creek to an unrelated third party. The purchaser will not be considered a related party to the Company on an ongoing basis by virtue of its acquisition of Trail Creek. The carrying values of the significant assets and liabilities of Trail Creek reclassified at December 31, 2015 and at the date of disposition were:

| | 5/19/2016 | 12/31/2015 |
|-----------------------------------|--------------|--------------|
| Real estate assets: | | |
| Land | \$4,200,000 | \$4,200,000 |
| Building and improvements | 30,892,259 | 30,881,025 |
| Furniture, fixtures and equipment | 4,647,117 | 4,574,848 |
| Accumulated depreciation | (6,034,171) | (5,838,792) |
| Property held for sale | \$33,705,205 | \$33,817,081 |
| Liabilities: | | |
| Mortgage note payable | \$28,109,000 | \$28,109,000 |

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

The Company acquired the following multifamily communities during the nine months ended September 30, 2016 and 2015:

| Acquisition date | Property | Location | Approximate purchase price (millions) ⁽¹⁾ | Units |
|------------------|-----------------------------------|---|--|-------|
| 1/5/2016 | Baldwin Park | Orlando, Florida | \$ 110.8 | 528 |
| 1/15/2016 | Crosstown Walk | Tampa, Florida | \$ 45.8 | 342 |
| 2/1/2016 | Overton Rise | Atlanta, Georgia | \$ 61.1 | 294 |
| 5/31/2016 | Avalon Park | Orlando, Florida | \$ 92.5 | 487 |
| 6/1/2016 | North by Northwest ⁽²⁾ | Tallahassee, Florida | \$ 46.1 | 219 |
| 7/1/2016 | City Vista | Pittsburgh, Pennsylvania ⁽³⁾ |) | 272 |
| 8/24/2016 | Sorrel | Jacksonville, Florida | \$ 48.1 | 290 |
| | | | | 2,432 |
| 2/13/2015 | Avenues at Cypress | Houston, Texas | ⁽⁴⁾ | 240 |
| 2/13/2015 | Avenues at Northpointe | Houston, Texas | ⁽⁴⁾ | 280 |
| 5/21/2015 | Venue at Lakewood Ranch | Sarasota, Florida | \$ 47.4 | 237 |
| 6/24/2015 | Aster at Lely | Naples, Florida | \$ 52.5 | 308 |
| 6/30/2015 | CityPark View | Charlotte, North Carolina | \$ 32.7 | 284 |
| 7/31/2015 | Avenues at Creekside | San Antonio, Texas | \$ 56.2 | 395 |
| 9/3/2015 | Citi Lakes | Orlando, Florida | \$ 63.4 | 346 |
| | | | | 2,090 |

⁽¹⁾ Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, and other miscellaneous assets and assumed liabilities.

⁽²⁾ A 679-bed student housing community located adjacent to the campus of Florida State University in Tallahassee, Florida.

⁽³⁾ The Company converted \$12,500,000 of its City Vista real estate loan into an approximate 96% ownership interest in a joint venture which owns the underlying property.

⁽⁴⁾ Avenues at Cypress and Avenues at Northpointe are referred to collectively as the Houston Portfolio, which was acquired for approximately \$76.0 million.

The purchase prices approximated the fair value of the acquired assets and assumed liabilities. The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. These purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but are preliminary and are subject to refinement for a period of up to one year from the closing date of each transaction.

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Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 September 30, 2016

| | 2016 | | | |
|---|-----------------------|----------------|----------------|----------------|
| | North by Northwest | Avalon Park | Overton Rise | Baldwin Park |
| Land | \$8,281,054 | \$7,410,048 | \$8,511,370 | \$17,402,882 |
| Buildings and improvements | 34,355,922 | 80,558,636 | 44,710,034 | 87,105,757 |
| Furniture, fixtures and equipment | 2,623,916 | 1,790,256 | 6,286,105 | 3,358,589 |
| Lease intangibles | 799,109 | 2,741,060 | 1,611,314 | 2,882,772 |
| Prepays & other assets | 79,626 | 99,297 | 73,754 | 229,972 |
| Escrows | 1,026,419 | 3,477,157 | 354,640 | 2,555,753 |
| Accrued taxes | (321,437) | (394,731) | (66,422) | (17,421) |
| Security deposits, prepaid rents, and other liabilities | (159,462) | (207,623) | (90,213) | (226,160) |
| Net assets acquired | \$46,685,147 | \$95,474,100 | \$61,390,582 | \$113,292,144 |
| Cash paid | \$12,831,872 | \$30,474,100 | \$20,090,582 | \$35,492,144 |
| Mortgage debt | 33,853,275 | 65,000,000 | 41,300,000 | 77,800,000 |
| Total consideration | \$46,685,147 | \$95,474,100 | \$61,390,582 | \$113,292,144 |
| Three months ended September 30, 2016: | | | | |
| Revenue | \$1,480,000 | \$2,059,000 | \$1,328,000 | \$2,288,000 |
| Net loss | \$(601,000) | \$(1,094,000) | \$(593,000) | \$(1,442,000) |
| Nine months ended September 30, 2016: | | | | |
| Revenue | \$1,950,000 | \$2,723,000 | \$3,631,000 | \$7,044,000 |
| Net loss | \$(608,000) | \$(1,750,000) | \$(1,425,000) | \$(4,180,000) |
| Cumulative acquisition costs incurred by the Company | \$402,000 | \$1,314,000 | \$116,000 | \$1,847,000 |
| Remaining amortization period of intangible assets and liabilities (months) | 3 | 8 | 2 | 0 |

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

| | 2016 | | |
|---|-------------------|--------------|--------------|
| | Crosstown Walk | City Vista | Sorrel |
| Land | \$5,178,375 | \$4,081,683 | \$4,412,164 |
| Buildings and improvements | 33,605,831 | 36,084,007 | 35,512,257 |
| Furniture, fixtures and equipment | 5,726,583 | 5,402,228 | 6,705,040 |
| Lease intangibles | 1,323,511 | 2,100,866 | 1,495,539 |
| Prepays & other assets | 125,706 | 167,797 | — |
| Escrows | 291,868 | 599,983 | 623,791 |
| Accrued taxes | (25,983) | (245,326) | (437,510) |
| Security deposits, prepaid rents, and other liabilities | (53,861) | (141,238) | (68,828) |
| Net assets acquired | \$46,172,030 | \$48,050,000 | \$48,242,453 |
| Cash paid | \$13,632,030 | — | \$14,642,453 |
| Real estate loan settled | — | 12,500,000 | — |
| Joint venture partner | — | (450,000) | — |
| Mortgage debt | 32,540,000 | 36,000,000 | 33,600,000 |
| Total consideration | \$46,172,030 | \$48,050,000 | \$48,242,453 |
| Three months ended September 30, 2016: | | | |
| Revenue | \$1,286,000 | \$1,202,000 | \$478,000 |
| Net loss | \$(461,000) | \$(692,000) | \$(294,000) |
| Nine months ended September 30, 2016: | | | |
| Revenue | \$3,625,000 | \$1,202,000 | \$478,000 |
| Net loss | \$(1,429,000) | \$(692,000) | \$(294,000) |
| Cumulative acquisition costs incurred by the Company | \$320,000 | \$18,000 | \$529,000 |
| Remaining amortization period of intangible assets and liabilities (months) | 1 | 7 | 11 |

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

| | 2015 | | | | | |
|---|------------------|------------------|-------------------------------|----------------------|-------------------------|------------------|
| | CityPark View | Aster at Lely | Venue at Lakewood Ranch | Houston Portfolio | Avenues at Creekside | Citi Lakes |
| Land | \$3,558,793 | \$7,675,409 | \$3,791,050 | \$7,162,226 | \$5,983,724 | \$5,558,033 |
| Buildings and improvements | 23,797,764 | 37,661,901 | 37,574,391 | 54,217,075 | 42,050,104 | 49,416,492 |
| Furniture, fixtures and equipment | 4,562,148 | 6,132,384 | 5,375,690 | 13,078,872 | 6,939,014 | 7,411,367 |
| Lease intangibles | 737,790 | 1,030,306 | 669,369 | 1,571,827 | 1,227,158 | 964,108 |
| Prepays & other assets | 99,124 | 106,717 | 80,201 | 150,326 | 89,582 | 40,032 |
| Escrows | 211,428 | — | 401,294 | 362,332 | 1,058,468 | 280,863 |
| Accrued taxes | (105,756) | (23,413) | (216,252) | (212,601) | (440,660) | (187,792) |
| Security deposits, prepaid rents, and other liabilities | (40,152) | (64,689) | (35,157) | (99,181) | (218,438) | (80,629) |
| Net assets acquired | \$32,821,139 | \$52,518,615 | \$47,640,586 | \$76,230,876 | \$56,688,952 | \$63,402,474 |
| Cash paid | \$721,139 | \$18,518,615 | \$16,830,586 | \$25,452,876 | \$15,063,952 | \$18,952,474 |
| Real estate loan settled | 10,000,000 | — | — | — | — | — |
| Mortgage debt | 22,100,000 | 34,000,000 | 30,810,000 | 50,778,000 | 41,625,000 | 44,450,000 |
| Total consideration | \$32,821,139 | \$52,518,615 | \$47,640,586 | \$76,230,876 | \$56,688,952 | \$63,402,474 |
| Three months ended September 30, 2016: | | | | | | |
| Revenue | \$971,000 | \$1,311,000 | \$1,170,000 | \$2,185,000 | \$1,435,000 | \$1,398,000 |
| Net income (loss) | \$58,000 | \$(1,000) | \$123,000 | \$(246,000) | \$137,000 | \$(143,000) |
| Nine months ended September 30, 2016: | | | | | | |
| Revenue | \$2,797,000 | \$3,954,000 | \$3,499,000 | \$6,526,000 | \$4,223,000 | \$4,126,000 |
| Net income (loss) | \$61,000 | \$(74,000) | \$27,000 | \$(864,000) | \$(157,000) | \$(1,213,000) |
| Cumulative acquisition costs incurred by the Company | \$276,000 | \$438,000 | \$889,000 | \$1,142,000 | \$852,000 | \$1,620,000 |
| Remaining amortization period of intangible assets and liabilities (months) | 0 | 0 | 0 | 0 | 0 | 0 |

The Company acquired the following grocery-anchored shopping centers during the nine months ended September 30, 2016:

| Acquisition date | Property | Location | Approximate Gross purchase price (millions) ⁽²⁾ | Gross leasable area (square |
|------------------|----------|----------|--|--------------------------------------|
|------------------|----------|----------|--|--------------------------------------|

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| | | | | |
|-----------|-----------------------------------|--|---------|-----------|
| | | | | feet) |
| 2/29/2016 | Wade Green Village ⁽¹⁾ | Atlanta, Georgia | \$ 11.0 | 74,978 |
| 4/29/2016 | Anderson Central | Greenville-Anderson, South Carolina MSA ⁽³⁾ | | 223,211 |
| 4/29/2016 | East Gate Shopping Center | Augusta, Georgia MSA ⁽³⁾ | | 75,716 |
| 4/29/2016 | Fairview Market | Greenville, South Carolina ⁽³⁾ | | 53,888 |
| 4/29/2016 | Fury's Ferry | Augusta, Georgia ⁽³⁾ | | 70,458 |
| 4/29/2016 | Rosewood Shopping Center | Columbia, South Carolina ⁽³⁾ | | 36,887 |
| 4/29/2016 | Southgate Village | Birmingham, Alabama ⁽³⁾ | | 75,092 |
| 5/16/2016 | The Market at Victory Village | Nashville, Tennessee | \$ 15.6 | 71,300 |
| 7/15/2016 | Lakeland Plaza | Atlanta, Georgia | \$ 45.3 | 301,711 |
| 8/8/2016 | Thompson Bridge Commons | Atlanta, Georgia ⁽⁴⁾ | | 92,587 |
| 8/8/2016 | Cherokee Plaza | Atlanta, Georgia ⁽⁴⁾ | | 102,864 |
| 8/8/2016 | Sandy Plains Exchange | Atlanta, Georgia ⁽⁴⁾ | | 72,784 |
| 8/8/2016 | Shoppes of Parkland | Miami, Florida ⁽⁴⁾ | | 145,720 |
| 8/8/2016 | University Palms | Orlando, Florida ⁽⁴⁾ | | 99,172 |
| 8/8/2016 | Heritage Station | Raleigh, North Carolina ⁽⁴⁾ | | 72,946 |
| 8/8/2016 | Oak Park Village | San Antonio, Texas ⁽⁴⁾ | | 64,287 |
| | | | | 1,633,601 |

⁽¹⁾ See Note 7 - Related Party Transactions.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

(2) Purchase price shown is exclusive of acquired escrows, security deposits, prepaids, and other miscellaneous assets and assumed liabilities.

(3) The six grocery-anchored shopping centers are referred to collectively as the Southeastern Six Portfolio, which was acquired for approximately \$68.7 million.

(4) The seven grocery-anchored shopping centers are referred to collectively as the Sunbelt Seven Portfolio, which was acquired for approximately \$158.0 million.

The purchase prices approximated the fair value of the acquired assets and assumed liabilities. The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. These purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but are preliminary and are subject to refinement for a period of up to one year from the closing date of each transaction.

| | Market at Victory Village | Southeastern Six Portfolio | Wade Green Village | Lakeland Plaza | Sunbelt 7 Portfolio |
|--|---------------------------------|-------------------------------|-----------------------|-----------------------------|------------------------|
| Land | \$2,271,224 | \$14,081,647 | \$1,840,284 | \$7,079,408 | \$36,198,658 |
| Buildings and improvements | 11,872,222 | 48,598,731 | 8,159,147 | 32,258,335 | 109,504,038 |
| Tenant improvements | 402,973 | 993,530 | 251,250 | 828,966 | 2,143,404 |
| In-place leases | 847,939 | 4,906,398 | 841,785 | 2,947,175 | 11,005,662 |
| Above-market leases | 100,216 | 86,234 | 107,074 | 1,349,624 | 458,353 |
| Leasing costs | 253,640 | 992,143 | 167,541 | 1,287,825 | 4,116,560 |
| Below-market leases | (198,214) | (1,069,877) | — | (797,729) | (7,617,485) |
| Other assets | 157,775 | 600,069 | 10,525 | — | 3,409,838 |
| Other liabilities | (179,546) | (437,008) | (59,264) | (180,331) | (1,196,579) |
| Net assets acquired | \$15,528,229 | \$68,751,867 | \$11,318,342 | \$44,773,273 | \$158,022,449 |
| Cash paid | \$6,278,229 | \$43,751,867 | \$6,245,683 | ⁽¹⁾ \$14,773,273 | \$60,368,449 |
| Class A OP Units granted | — | — | 5,072,659 | ⁽²⁾ — | — |
| Mortgage debt | 9,250,000 | ⁽³⁾ 25,000,000 | — | ⁽⁴⁾ 30,000,000 | 97,654,000 |
| Total consideration | \$15,528,229 | \$68,751,867 | \$11,318,342 | \$44,773,273 | \$158,022,449 |
| Three months ended September 30, 2016: | | | | | |
| Revenue | \$331,000 | \$1,569,000 | \$297,000 | \$728,000 | \$1,787,000 |
| Net loss | \$(38,000) | \$(105,000) | \$(103,000) | \$(134,000) | \$(164,000) |
| Nine months ended September 30, 2016: | | | | | |
| Revenue | \$491,000 | \$2,660,000 | \$634,000 | \$728,000 | \$1,787,000 |
| Net loss | \$(56,000) | \$(334,000) | \$(255,000) | \$(134,000) | \$(164,000) |
| Cumulative acquisition costs incurred by the Company | \$112,000 | \$639,000 | \$295,000 | \$200,000 | \$614,000 |

Remaining amortization period of
intangible

| | | | | | |
|--------------------------------|-----|-----|-----|-----|-----|
| assets and liabilities (years) | 8.0 | 4.3 | 2.5 | 7.5 | 9.2 |
|--------------------------------|-----|-----|-----|-----|-----|

(1) The contributor had an outstanding \$6.25 million bridge loan secured by the property issued by Madison Wade Green Lending, LLC, an indirect wholly owned entity of the Company. Upon contribution of the property, the Company assumed the loan and concurrently extinguished the obligation.

(2) As partial consideration for the property contribution, the Company granted 419,228 Class A OP Units to the contributor, net of contribution adjustments at closing. The value and number of Class A OP Units to be granted at closing was determined during the contract process and remeasured at fair value as of the contribution date of February 29, 2016. Class A OP Units are exchangeable for shares of Common Stock on a one-for-one basis, or cash, at the election of the Operating Partnership. Therefore, the Company determined the fair value of the Units to be equivalent to the price of its common stock on the closing date of the acquisition.

(3) The Company assumed the existing mortgage in conjunction with its acquisition of The Market at Victory Village. See note 10.

(4) Subsequent to the closing of the acquisition, the Company closed on a mortgage loan on Wade Green Village in the amount of \$8.2 million. See note 10.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

The Company acquired the following grocery-anchored shopping centers during the nine months ended September 30, 2015:

| Acquisition date | Property | Location | Approximate purchase price (millions) | Gross leasable area |
|------------------|--|------------------|---------------------------------------|---------------------|
| 9/4/2015 | Royal Lakes Marketplace ⁽¹⁾ | Atlanta, Georgia | \$ 16.6 | 119,493 |
| 7/1/2015 | Independence Square | Dallas, Texas | \$ 18.0 | 140,218 |
| | | | | 259,711 |

⁽¹⁾ See Note 7 - Related Party Transactions

The purchase prices approximated the fair value of the acquired assets and assumed liabilities. The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. These purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but are preliminary and are subject to refinement for a period of up to one year from the closing date of each transaction.

| | Independence Square | Royal Lakes Marketplace |
|---|---------------------|--------------------------|
| Land | \$4,114,574 | \$4,874,078 |
| Buildings and improvements | 13,123,553 | 9,921,403 |
| Tenant improvements | 566,857 | 517,191 |
| In-place leases | 1,567,944 | 957,093 |
| Above-market leases | 35,127 | 198,238 |
| Leasing costs | 392,451 | 365,629 |
| Below-market leases | (1,775,506) | (315,837) |
| Other assets | — | 88,553 |
| Security deposits, prepaid rents, and other liabilities | (226,599) | (145,581) |
| Net assets acquired | \$ 17,798,401 | \$ 16,460,767 |
| Cash paid | \$ 17,798,401 | \$ 6,660,767 |
| Mortgage debt | — | ⁽¹⁾ 9,800,000 |
| Total consideration | \$ 17,798,401 | \$ 16,460,767 |

⁽¹⁾ On August 27, 2015, the Company entered into a mortgage note secured by the Independence Square property in the principal amount of \$12,617,500.

| | Independence Square | Royal Lakes Marketplace |
|--|---------------------|-------------------------|
| Three months ended September 30, 2016: | | |
| Revenue | \$ 535,000 | \$ 341,000 |
| Net loss | \$(68,000) | \$(5,000) |

Nine months ended September 30, 2016:

| | | |
|----------|--------------|--------------|
| Revenue | \$ 1,580,000 | \$ 1,016,000 |
| Net loss | \$(256,000) | \$(61,000) |

| | | |
|--|------------|------------|
| Cumulative acquisition costs incurred by the Company | \$ 573,000 | \$ 245,000 |
|--|------------|------------|

| | | |
|--|-----|-----|
| Remaining amortization period of intangible assets and liabilities (years) | 6.3 | 9.9 |
|--|-----|-----|

On August 29, 2016, the Company acquired a nine-story, class A office building in Birmingham Alabama. The Company allocated the purchase price to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase

16

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

price allocation was based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but are preliminary and are subject to refinement for a period of up to one year from the closing date of the transaction.

| | |
|--|---------------------|
| | Brookwood Office |
| Land | \$1,744,828 |
| Buildings and improvements | 39,099,395 |
| Tenant improvements | 3,561,805 |
| In-place leases | 3,728,049 |
| Above-market leases | 146,941 |
| Leasing costs | 2,402,958 |
| Below-market leases | (1,737,158) |
| Other assets | 1,466,906 |
| Other liabilities | (580,668) |
| Net assets acquired | \$49,833,056 |
| Cash paid | \$17,433,056 |
| Mortgage debt | 32,400,000 |
| Total consideration | \$49,833,056 |
| Three months ended September 30, 2016: | |
| Revenue | \$513,000 |
| Net income | \$74,000 |
| Nine months ended September 30, 2016: | |
| Revenue | \$513,000 |
| Net income | \$74,000 |
| Cumulative acquisition costs incurred by the Company | \$377,000 |
| Remaining amortization period of intangible assets and liabilities (years) | 11.9 |

The Company recognizes depreciation and amortization expense over the estimated useful life of its tangible and intangible assets. The Company's consolidated amortization and depreciation expense consisted of:

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------------|-------------------------------------|-------------|------------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Depreciation: | | | | |
| Buildings and improvements | \$9,637,960 | \$4,545,441 | \$24,251,696 | \$11,356,809 |
| Furniture, fixtures, and equipment | 5,775,856 | 2,999,399 | 15,135,655 | 7,695,830 |
| | 15,413,816 | 7,544,840 | 39,387,351 | 19,052,639 |
| Amortization: | | | | |
| Acquired intangible assets | 6,205,194 | 2,982,982 | 15,523,359 | 7,343,400 |
| Deferred leasing costs | 38,621 | 7,207 | 53,510 | 7,207 |

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| | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Website development costs | 6,732 | 1,457 | 16,844 | 6,517 |
| Total depreciation and amortization | \$21,664,363 | \$10,536,486 | \$54,981,064 | \$26,409,763 |

17

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

4. Acquired Intangible Assets and Liabilities

The Company recorded the following acquired lease intangible assets and liabilities and related accumulated amortization, as of September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | |
|-----------------------------------|--------------------|---------------|-----------------|----------------|
| | Multifamily | Retail | Office building | Total |
| In-place leases | \$35,125,997 | \$34,862,165 | \$3,728,048 | \$73,716,210 |
| Above-market leases | — | 3,474,370 | 146,941 | 3,621,311 |
| Customer relationships | 1,335,417 | — | — | 1,335,417 |
| Lease origination costs | 78,786 | 11,015,892 | 37,053 | 11,131,731 |
| Acquired intangible assets | \$36,540,200 | \$49,352,427 | \$3,912,042 | \$89,804,669 |
| Less accumulated amortization of: | | | | |
| In-place leases | \$(29,493,437) | \$(6,976,555) | \$(44,016) | \$(36,514,008) |
| Above market leases | — | (580,489) | (8,415) | (588,904) |
| Customer relationships | (1,335,417) | — | — | (1,335,417) |
| Lease origination costs | (31,330) | (1,509,438) | — | (1,540,768) |
| Accumulated amortization | (30,860,184) | (9,066,482) | (52,431) | (39,979,097) |
| Acquired intangible assets, net | \$5,680,016 | \$40,285,945 | \$3,859,611 | \$49,825,572 |
| Below market lease liability | \$277,195 | \$20,099,812 | \$1,737,158 | \$22,114,165 |
| Less: accumulated amortization | (277,195) | (2,641,572) | (15,044) | (2,933,811) |
| Below market lease liability, net | \$— | \$17,458,240 | \$1,722,114 | \$19,180,354 |
| | December 31, 2015 | | | |
| | Multifamily | Retail | Total | |
| In-place leases | \$24,704,733 | \$14,439,414 | \$39,144,147 | |
| Above-market leases | — | 1,386,254 | 1,386,254 | |
| Customer relationships | 1,588,277 | — | 1,588,277 | |
| Lease origination costs | 78,786 | 4,216,166 | 4,294,952 | |
| Acquired intangible assets | \$26,371,796 | \$20,041,834 | \$46,413,630 | |
| Less accumulated amortization of: | | | | |
| In-place leases | \$(21,608,833) | \$(2,965,096) | \$(24,573,929) | |
| Above market leases | — | (233,833) | (233,833) | |
| Customer relationships | (1,588,277) | — | (1,588,277) | |
| Lease origination costs | (1,466) | (634,652) | (636,118) | |
| Accumulated amortization | (23,198,576) | (3,833,581) | (27,032,157) | |
| Acquired intangible assets, net | \$3,173,220 | \$16,208,253 | \$19,381,473 | |
| Below market lease liability | \$383,593 | \$10,448,062 | \$10,831,655 | |

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| | | | | | | |
|-----------------------------------|----------|---|-------------|---|-------------|---|
| Less: accumulated amortization | (383,593 |) | (1,194,612 |) | (1,578,205 |) |
| Below market lease liability, net | \$— | | \$9,253,450 | | \$9,253,450 | |

18

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

The Company recognized amortization of acquired intangible assets and liabilities as follows:

Three months ended September 30, 2016

| Amortization expense | Multifamily | Retail | Office building | Total |
|------------------------------------|-------------|-------------|-----------------|-------------|
| Intangible assets: | | | | |
| Leases in place | \$3,859,901 | \$1,877,026 | \$44,016 | \$5,780,943 |
| Above-market leases ⁽¹⁾ | — | 173,347 | 8,416 | 181,763 |
| Lease origination costs | 11,131 | 413,120 | — | 424,251 |
| | \$3,871,032 | \$2,463,493 | \$52,432 | \$6,386,957 |
| Intangible liabilities: | | | | |
| Below-market leases ⁽¹⁾ | \$— | \$691,593 | \$15,044 | \$706,637 |

Three months ended September 30, 2015

| Amortization expense | Multifamily | Retail | Total |
|------------------------------------|-------------|-----------|-------------|
| Intangible assets: | | | |
| Leases in place | \$2,183,437 | \$668,053 | \$2,851,490 |
| Above-market leases ⁽¹⁾ | — | 45,585 | 45,585 |
| Lease origination costs | — | 131,492 | 131,492 |
| | \$2,183,437 | \$845,130 | \$3,028,567 |
| Intangible liabilities: | | | |
| Below-market leases ⁽¹⁾ | \$— | \$270,517 | \$270,517 |

Nine months ended September 30, 2016

| Amortization expense | Multifamily | Retail | Office building | Total |
|------------------------------------|--------------|-------------|-----------------|--------------|
| Intangible assets: | | | | |
| Leases in place | \$10,417,678 | \$4,137,666 | \$44,016 | \$14,599,360 |
| Above-market leases ⁽¹⁾ | — | 366,816 | 8,416 | 375,232 |
| Lease origination costs | 31,229 | 892,769 | — | 923,998 |
| | \$10,448,907 | \$5,397,251 | \$52,432 | \$15,898,590 |
| Intangible liabilities: | | | | |
| Below-market leases ⁽¹⁾ | \$— | \$1,478,517 | \$15,044 | \$1,493,561 |

Nine months ended September 30, 2015

| Amortization expense | Multifamily | Retail | Total |
|------------------------------------|-------------|-------------|-------------|
| Intangible assets: | | | |
| Leases in place | \$5,162,093 | \$1,816,193 | \$6,978,286 |
| Above-market leases ⁽¹⁾ | — | 128,688 | 128,688 |
| Lease origination costs | — | 365,114 | 365,114 |
| | \$5,162,093 | \$2,309,995 | \$7,472,088 |
| Intangible liabilities: | | | |
| Below-market leases ⁽¹⁾ | \$— | \$694,948 | \$694,948 |

(1) Amortization of above and below market lease intangibles is recorded as a decrease and an increase to rental revenue, respectively.

19

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

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

At September 30, 2016, our portfolio of real estate loans, including maximum potential loan amounts, consisted of:

| Project/Property ⁽¹⁾ | Location | Date of loan | Maturity date | Optional extension date | Total loan commitments | Senior loans held by unrelated third parties | Current / deferred interest % per annum |
|---------------------------------|-------------------------------------|--------------|---------------|-------------------------|------------------------|--|---|
| Haven West | ⁽²⁾ Atlanta, GA | 7/15/2013 | 12/15/2016 | 6/2/2018 | 6,940,795 | \$ 16,195,189 | 8 / 6 |
| Haven 12 | ⁽³⁾ Starkville, MS | 6/16/2014 | 6/16/2017 | 11/30/2020 | 6,116,384 | \$ 18,615,081 | 8.5 / 6.5 ⁽⁴⁾ |
| Founders' Village | Williamsburg, VA | 8/29/2013 | 8/29/2018 | N/A | 10,346,000 | \$ 26,936,000 | 8 / 7.5 |
| Encore | Atlanta, GA | 10/9/2015 | 4/8/2019 | 10/8/2020 | 10,958,200 | \$ 46,892,800 | 8.5 / 5 ⁽⁴⁾ |
| Encore Capital | Atlanta, GA | 10/9/2015 | 4/8/2019 | 10/8/2020 | 9,758,200 | — | 8.5 / 5 |
| Palisades | Northern VA | 8/18/2014 | 2/18/2018 | 8/18/2019 | 17,270,000 | \$ 38,000,000 | 8 / 5 ⁽⁴⁾ |
| Fusion | Irvine, CA | 7/1/2015 | 5/31/2018 | 5/31/2020 | 59,052,583 | \$ 43,747,287 | 8.5 / 7.5 ⁽⁴⁾ |
| Green Park | Atlanta, GA | 12/1/2014 | 12/1/2017 | 12/1/2019 | 13,464,372 | \$ 27,775,000 | 8.5 / 5.83 ⁽⁴⁾ |
| Stadium Village ⁽⁵⁾ | Atlanta, GA | 6/27/2014 | 6/27/2017 | N/A | 13,424,995 | \$ 34,825,000 | 8.5 / 5.83 ⁽⁴⁾ |
| Summit Crossing III | Atlanta, GA | 2/27/2015 | 2/26/2018 | 2/26/2020 | 7,246,400 | \$ 16,822,000 | 8.5 / 7.5 ⁽⁴⁾ |
| Overture | Tampa, FL | 7/21/2015 | 7/21/2018 | 7/21/2020 | 6,920,000 | \$ 17,080,000 | 8.5 / 7.5 ⁽⁴⁾ |
| Aldridge at Town Village | Atlanta, GA | 1/27/2015 | 12/27/2017 | 12/27/2019 | 10,975,000 | \$ 28,338,937 | 8.5 / 6 ⁽⁴⁾ |
| 18 Nineteen | ⁽⁶⁾ Lubbock, TX | 4/9/2015 | 4/9/2018 | 4/9/2020 | 15,598,352 | \$ 34,871,251 | 8.5 / 6 ⁽⁴⁾ |
| Haven South | ⁽⁷⁾ Waco, TX | 5/1/2015 | 5/1/2018 | 5/1/2019 | 15,455,668 | \$ 41,827,034 | 8.5 / 6 ⁽⁴⁾ |
| Haven46 | ⁽⁸⁾ Tampa, FL | 3/29/2016 | 3/29/2019 | 9/29/2020 | 9,819,662 | \$ 29,885,928 | 8.5 / 5 ⁽⁴⁾ |
| Bishop Street | ⁽⁹⁾ Atlanta, GA | 2/18/2016 | 2/18/2020 | N/A | 12,693,457 | \$ 29,700,000 | 8.5 / 6.5 ⁽⁴⁾ |
| Dawson Marketplace | ⁽¹⁰⁾ Atlanta, GA | 12/16/2015 | 11/15/2018 | 11/15/2020 | 12,857,005 | \$ 36,740,430 | 8.5 / 5 ⁽⁴⁾ |
| Hidden River | Tampa, FL | 12/4/2015 | 12/3/2018 | 12/3/2020 | 4,734,960 | \$ 27,620,600 | 8.5 / 6.5 ⁽⁴⁾ |
| Hidden River Capital | Tampa, FL | 12/4/2015 | 12/4/2018 | 12/4/2020 | 5,380,000 | \$ — | 8.5 / 6.5 |
| CityPark II | Charlotte, NC | 1/8/2016 | 1/7/2019 | 1/7/2021 | 3,364,800 | \$ 19,628,000 | 8.5 / 6.5 ⁽⁴⁾ |
| CityPark II Capital | Charlotte, NC | 1/8/2016 | 1/8/2019 | 1/31/2021 | 3,916,000 | \$ — | 8.5 / 6.5 |
| Crescent Avenue | ⁽¹¹⁾ Atlanta, GA | 1/13/2016 | 7/13/2017 | N/A | 6,000,000 | \$ — | 9 / 3 |
| Haven Northgate | ⁽¹²⁾ College Station, TX | 6/21/2016 | 6/20/2019 | 6/20/2020 | 64,678,549 | \$ — | 6.6 / 1.5 ⁽¹⁴⁾ |
| Lubbock II | ⁽¹³⁾ Lubbock, TX | 4/19/2016 | 4/20/2019 | N/A | 9,357,171 | \$ 28,478,346 | 8.5 / 5 ⁽⁴⁾ |
| Park 35 on Clairmont | Birmingham, AL | 8/24/2016 | 6/26/2018 | 6/26/2020 | 21,000,000 | \$ 35,000,000 | 8.5 / 2 ⁽⁴⁾ |

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| | | | | | | | |
|------------|-------------------|-----------|-----------|-----|---------------|-----|--------|
| Fort Myers | Fort Myers, FL | 9/26/2016 | 9/25/2017 | N/A | 4,000,000 | \$— | 12 / 0 |
| | | | | | \$361,328,553 | | |

- (1) All loans pertain to developments of multifamily communities, except as otherwise indicated.
- (2) Real estate loan in support of a completed 160-unit, 568-bed student housing community adjacent to the campus of the University of West Georgia. On August 1, 2016, we terminated the purchase option on the community.
- (3) Real estate loan in support of a completed 152-unit, 536-bed student housing community adjacent to the campus of Mississippi State University.
- (4) The purchase price is to be calculated based upon market cap rates at the time of exercise of the purchase option, with discounts ranging from between 20 and 60 basis points, depending on the loan, plus adjustments, if any.
- (5) Real estate loan in support of a completed 198-unit, 792-bed student housing community adjacent to the campus of Kennesaw State University in Atlanta, Georgia.
- (6) Real estate loan of up to approximately \$15.6 million in support of a planned 217-unit, 732-bed student housing community adjacent to the campus of Texas Tech University.
- (7) Real estate loan in support of a planned 250-unit, 840-bed student housing community adjacent to the campus of Baylor University.
- (8) On March 29, 2016, our bridge loan was converted to a real estate loan in support of a planned 158-unit, 542-bed student housing community adjacent to the campus of the University of South Florida.
- (9) On February 18, 2016, our bridge loan was converted to a real estate loan in support of a planned multifamily community in Atlanta, Georgia.
- (10) Real estate loan in support of a planned approximate 200,000 square foot retail center in the Atlanta, Georgia market.

(Table continued on next page)

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

(Table continued from
previous page)

- (11) Bridge loan in support of a proposed multi-use property in Atlanta, Georgia.
- (12) Senior loan in support of a planned 427-unit, 808-bed student housing community adjacent to the campus of Texas A&M University, which accrues interest at 1 month LIBOR plus 600 basis points. See note 7 for related party disclosure.
- (13) Real estate loan of up to approximately \$9.4 million in support of a planned 140-unit, 556-bed second phase student housing community adjacent to the campus of Texas Tech University.

(14) Current interest is calculated as the sum of 6.0% plus 1 month LIBOR.

The Palisades, Green Park, Stadium Village, and Founders' Village loans are subject to a loan participation agreement with a syndicate of unaffiliated third parties, under which the syndicate is to fund 25% of the loan commitment amount and collectively receive 25% of interest payments and returns of principal. The Company's Encore loan is subject to a loan participation agreement of 49% of the loan commitment amount, interest payments, and return of principal. The aggregate amount of the Company's liability under the loan participation agreements at September 30, 2016 was \$19,638,232.

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

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

At September 30, 2016, the carrying values of our portfolio of real estate loans were:

| Project/Property | As of 9/30/2016 | | | | Carrying amount as of | |
|------------------------------------|-----------------|---|---|---------------------------------------|-----------------------|-------------------|
| | Amount drawn | Loan fee received from borrower - 2% ⁽¹⁾ | Acquisition fee paid to Manager - 1% ⁽¹⁾ | Unamortized deferred loan fee revenue | September 30, 2016 | December 31, 2015 |
| Crosstown Walk | \$— | \$— | \$— | \$— | \$— | \$10,950,040 |
| City Vista | — | — | — | — | — | 16,083,431 |
| Overton Rise | — | — | — | — | — | 16,572,959 |
| Haven West | 6,784,167 | 138,816 | (69,408) |) — | 6,784,167 | 6,775,835 |
| Haven 12 | 5,815,849 | 122,328 | (61,164) |) — | 5,815,849 | 5,815,849 |
| Founders' Village ^(1,2) | 9,866,000 | 197,320 | (98,660) |) (16,370) |) 9,849,630 | 9,841,816 |
| Encore ⁽²⁾ | 10,958,200 | 539,695 | (269,847) |) — | 10,958,200 | 10,894,278 |
| Encore Capital | 6,564,124 | — | — | — | 6,564,124 | 6,036,465 |
| Palisades ^(1,2) | 16,070,000 | 321,400 | (160,700) |) (3,809) |) 16,066,191 | 16,063,817 |
| Fusion | 48,396,901 | 1,120,890 | (560,445) |) (168,107) |) 48,228,794 | 37,072,235 |
| Green Park ^(1,2) | 13,180,052 | 269,287 | (134,644) |) (14,846) |) 13,165,206 | 12,330,489 |
| Stadium Village ^(1,2) | 13,329,868 | 268,500 | (134,250) |) (4,039) |) 13,325,829 | 13,321,293 |
| Summit Crossing III | 7,246,400 | 144,928 | (72,464) |) (24,903) |) 7,221,497 | 7,205,894 |
| Overture | 5,992,592 | 138,400 | (69,200) |) (25,218) |) 5,967,374 | 4,481,446 |
| Aldridge at Town Village | 10,427,956 | 219,500 | (109,750) |) (40,479) |) 10,387,477 | 9,707,532 |
| 18 Nineteen | 15,496,602 | 311,967 | (155,984) |) (47,340) |) 15,449,262 | 14,421,568 |
| Haven South | 15,186,370 | 309,113 | (154,557) |) (72,277) |) 15,114,093 | 14,087,852 |
| Haven46 | 7,146,862 | 58,000 | (29,000) |) (54,553) |) 7,092,309 | 2,891,067 |
| Bishop Street | 10,906,611 | 62,140 | (31,070) |) (77,010) |) 10,829,601 | 3,086,778 |
| Dawson Marketplace | 12,343,718 | 257,140 | (128,570) |) (7,817) |) 12,335,901 | 11,563,352 |
| Madison Wade Green | — | — | — | — | — | 6,225,304 |
| Hidden River Lending | 4,734,960 | 94,700 | (47,350) |) (38,889) |) 4,696,071 | (47,350) |
| Hidden River Capital | 4,527,161 | 107,600 | (53,800) |) (36,382) |) 4,490,779 | 2,619,808 |
| Crescent Avenue | 6,000,000 | 120,000 | (60,000) |) (29,871) |) 5,970,129 | — |
| City Park Lending | 3,364,800 | 67,296 | (33,648) |) (25,001) |) 3,339,799 | — |
| City Park II Capital Lending | 3,254,444 | 78,320 | (39,160) |) (27,998) |) 3,226,446 | — |
| Haven Northgate | 39,082,506 | 1,293,571 | (646,786) |) (534,802) |) 38,547,704 | — |
| Lubbock II | 7,382,840 | 187,143 | (93,572) |) (75,726) |) 7,307,114 | — |
| Park 35 on Clairmont | 19,371,924 | 421,203 | (210,602) |) (197,502) |) 19,174,422 | — |
| Fort Myers | 3,538,936 | 80,000 | (40,000) |) (39,418) |) 3,499,518 | — |
| | \$306,969,843 | \$6,929,257 | \$(3,464,631) | \$(1,562,357) | \$305,407,486 | \$238,001,758 |

⁽¹⁾ See note 7.

⁽²⁾ 25% of the net amount collected by the Company as an acquisition fee was paid to the associated third party loan participant. The participant on our Encore loan was paid \$53,695 as an acquisition fee.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

The Company holds options, but not obligations, to purchase certain of the properties which are partially financed by its real estate loans, as shown in the table below. In the event the Company exercises the associated purchase option and acquires the property, any additional accrued interest, if not paid, will be treated as additional consideration for the acquired project. The option purchase prices are negotiated at the time of the loan closing.

| Project/Property | Purchase option window | | Purchase option price | Total units upon completion | Total beds (student housing communities) |
|--------------------------|------------------------|------------|-----------------------|-----------------------------|--|
| | Begin | End | | | |
| Haven 12 | (1) 9/1/2017 | 11/30/2017 | (2) | 152 | 536 |
| Founders' Village | 2/1/2017 | 5/31/2017 | \$44,266,000 | 247 | — |
| Encore | 1/8/2018 | 5/8/2018 | (2) | 340 | — |
| Palisades | 3/1/2017 | 7/31/2017 | (2) | 304 | — |
| Fusion | 1/1/2018 | 4/1/2018 | (2) | 280 | — |
| Green Park | 11/1/2017 | 2/28/2018 | (2) | 310 | — |
| Stadium Village | (3) 9/1/2017 | 11/30/2017 | (2) | 198 | 792 |
| Summit Crossing III | 8/1/2017 | 11/30/2017 | (2) | 172 | — |
| Overture | 1/1/2018 | 5/1/2018 | (2) | 180 | — |
| Aldridge at Town Village | 11/1/2017 | 2/28/2018 | (2) | 300 | — |
| 18 Nineteen | 10/1/2017 | 12/31/2017 | (2) | 217 | 732 |
| Haven South | 10/1/2017 | 12/31/2017 | (2) | 250 | 840 |
| Haven46 | 11/1/2018 | 1/31/2019 | (2) | 158 | 542 |
| Bishop Street | 10/1/2018 | 12/31/2018 | (2) | 232 | — |
| Dawson Marketplace | 12/16/2017 | 12/15/2018 | (2) | — | — |
| Hidden River | 9/1/2018 | 12/31/2018 | (2) | 300 | — |
| Crescent Avenue | N/A | N/A | N/A | — | — |
| City Park II | 5/1/2018 | 8/31/2018 | (2) | 200 | — |
| Haven Northgate | 10/1/2018 | 12/31/2018 | (2) | 427 | 808 |
| Lubbock II | 11/1/2018 | 1/31/2019 | (2) | 140 | 556 |
| Fort Myers | N/A | N/A | N/A | 224 | — |
| Park 35 on Clairmont | (4) | (4) | (2) | 271 | — |
| | | | | 4,902 | 4,806 |

(1) Effective August 31, 2016, the purchase option window dates were amended as shown.

(2) The purchase price is to be calculated based upon market cap rates at the time of exercise of the purchase option, with discounts ranging from between 20 and 60 basis points, depending on the loan, plus adjustments, if any.

(3) Effective July 1, 2016, the purchase option window dates were amended as shown.

(4) Purchase option begins on the first day of the month that is 90 days after the project achieves at least 93% occupancy and ends 60 days thereafter.

The Company extends loans for purposes such as to partially finance the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities, and for other real estate or real estate related projects. The Company's Founders' Village loan includes an exclusive option to purchase the project at a fixed price within a specific time window following project completion and stabilization and this and other loans provide the Company with the rights to incremental exit fees over and above the amount of

periodic interest paid during the life of the loans. These characteristics can cause the loans to create variable interests to the Company and require further evaluation as to whether the variable interest creates a VIE which could necessitate consolidation of the project. The Company considers the facts and circumstances pertinent to each entity borrowing under the loan, including the relative amount of financing the Company is contributing to the overall project cost, decision making rights or control held by the Company, guarantees provided by third parties, and rights to expected residual gains or obligations to absorb expected residual losses that could be significant from the project. If the Company is deemed to be the primary beneficiary of a VIE, consolidation would be required.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

The Company's real estate loans partially finance the development activities of the borrowers' associated legal entities. Each of these loans create variable interests in each of these entities, and according to the Company's analysis, are deemed to be VIEs, due to the combined factors of the sufficiency of the borrowers' investment at risk, the existence of payment and performance guaranties provided by the borrowers, and the existence of a purchase option at a discount to market. The Company has concluded that it is not the primary beneficiary of the borrowing entities. It has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. Therefore, since the Company has concluded it is not the primary beneficiary, it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of September 30, 2016 of approximately \$290.6 million. The maximum aggregate amount of loans to be funded as of September 30, 2016 was approximately \$344.4 million.

The Company has evaluated its real estate loans, where appropriate, for accounting treatment as loans versus real estate development projects, as required by ASC 310. For each loan, the characteristics and the facts and circumstances indicate that loan accounting treatment is appropriate.

The Company is also subject to a geographic concentration of risk that could be considered significant with regard to real estate investment loans which are partially supporting proposed multifamily communities, student housing projects, and a retail shopping center in or near Atlanta, Georgia. The drawn amount of these loans as of September 30, 2016 totaled approximately \$97.7 million (with a total commitment amount of approximately \$104.3 million) and in the event of a total failure to perform by the borrowers and guarantors, would subject the Company to a total possible loss of that amount.

At September 30, 2016, our portfolio of notes and lines of credit receivable consisted of:

| Borrower | Date of loan | Maturity date | Total loan commitments | Outstanding balance as of: | | Interest rate |
|--|--------------|---------------|------------------------|----------------------------|---------------|---------------------|
| | | | | 9/30/2016 | 12/31/2015 | |
| 360 Residential, LLC | 3/20/2013 | 6/30/2017 | \$ 2,000,000 | \$ 1,428,306 | \$ 1,304,999 | 12 % ⁽¹⁾ |
| Preferred Capital Marketing Services, LLC ⁽²⁾ | 1/24/2013 | 12/31/2016 | 1,500,000 | 1,140,647 | 1,305,550 | 10 % |
| Oxford Contracting LLC | 8/27/2013 | 4/30/2017 | 1,500,000 | 1,475,000 | 1,475,000 | 8 % ⁽¹⁾ |
| Preferred Apartment Advisors, LLC ^(2,3) | 8/21/2012 | 12/31/2016 | 15,000,000 | 12,539,917 | 12,793,440 | 8 % |
| Haven Campus Communities, LLC ⁽²⁾ | 6/11/2014 | 12/31/2016 | 11,500,000 | 7,324,904 | 5,359,904 | 12 % ⁽¹⁾ |
| Oxford Capital Partners, LLC ⁽⁴⁾ | 10/5/2015 | 3/31/2017 | 10,650,000 | 7,559,004 | 10,502,626 | 12 % |
| Newport Development Partners, LLC | 6/17/2014 | 6/30/2017 | 3,000,000 | — | 806,318 | 12 % ⁽¹⁾ |
| 360 Residential, LLC II | 12/30/2015 | 12/31/2017 | 3,255,000 | 2,776,984 | 2,477,952 | 15 % ⁽¹⁾ |
| Hendon Properties, LLC | 12/8/2015 | 3/31/2017 | 2,000,000 | — | 2,000,000 | 12 % |
| Mulberry Development Group, LLC | 3/31/2016 | 5/31/2017 | 500,000 | 129,000 | — | 12 % |
| 360 Capital Company, LLC | 5/24/2016 | 12/31/2017 | 2,000,000 | 1,033,667 | — | 12 % ⁽¹⁾ |
| Unamortized loan fees | | | | (79,017) | (82,056) | |
| | | | \$ 52,905,000 | \$ 35,328,412 | \$ 37,943,733 | |

- (1) The amounts payable under the terms of these revolving credit lines are collateralized by a personal guaranty of repayment by the principals of the borrower.
- (2) See related party disclosure in note 7.
- (3) The amounts payable under this revolving credit line were collateralized by an assignment of the Manager's rights to fees due under the Fifth Amended and Restated Management Agreement between the Company and the Manager.
- (4) The amounts payable under the terms of this revolving credit line, up to the lesser of 25% of the loan balance or \$2,000,000 are collateralized by a personal guaranty of repayment by the principals of the borrower. On June 15, 2016, the loan commitment amount was temporarily raised to \$10,650,000 until July 15, 2016, when it reverted back to the previous amount of \$10,150,000.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Real estate loans: | | | | |
| Current interest payments | \$5,902,915 | \$4,077,298 | \$16,913,037 | \$11,263,071 |
| Additional accrued interest | 3,917,641 | 3,018,766 | 10,633,937 | 7,573,044 |
| Deferred loan fee revenue | 201,147 | 204,790 | 636,875 | 555,657 |
| Total real estate loan revenue | 10,021,703 | 7,300,854 | 28,183,849 | 19,391,772 |
| Interest income on notes and lines of credit | 974,540 | 654,026 | 3,111,339 | 2,007,281 |
| Interest income on loans and notes receivable | \$10,996,243 | \$7,954,880 | \$31,295,188 | \$21,399,053 |

6. Redeemable Preferred Stock and Equity Offerings

On August 16, 2012, the Company filed a registration statement on Form S-11 (333-183355), and later amended the registration statement onto Form S-3, for an offering of up to 900,000 Units consisting of 900,000 Series A Redeemable Preferred Stock and warrants to purchase 18,000,000 shares of Common Stock, or the Follow-on Offering. The Company's Follow-on Offering is being offered by International Assets Advisory, LLC, or the Dealer Manager, on a "reasonable best efforts" basis. Each share of Preferred Stock ranks senior to Common Stock and carries a cumulative annual 6% dividend of the stated per share value of \$1,000, payable monthly as declared by the Company's board of directors. Dividends begin accruing on the date of issuance. On June 26, 2014, the Company amended the redemption schedule of the Preferred Stock to allow redemptions at the option of the holder from the date of issuance of the Preferred Stock through the first year subject to a 13% redemption fee. After year one, the redemption fee decreases to 10%, after year three it decreases to 5%, after year four it decreases to 3%, and after year five there is no redemption fee. Any redeemed shares of Preferred Stock are entitled to any accrued but unpaid dividends at the time of redemption and any redemptions may be in cash or Common Stock, at the Company's discretion. The Warrant is exercisable by the holder at an exercise price of 120% of the current market price per share of the Common Stock on the date of issuance of such warrant with a minimum exercise price of \$9.00 per share. The current market price per share is determined using the volume weighted average closing market price for the 20 trading days prior to the date of issuance of the Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance. Warrant exercises resulted in the issuance of 1,516,320 shares of Common Stock for cash proceeds of approximately \$16.2 million for the nine-month period ended September 30, 2016 and 130,720 shares of Common Stock for cash proceeds of approximately \$1.2 million for the nine-month period ended September 30, 2015.

As of September 30, 2016, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately \$79.4 million. These costs are reflected as a reduction of stockholders' equity at the time of closing. In addition, the costs related to the offering not related to a specific closing transaction totaled approximately \$13.5 million. As of September 30, 2016, the Company had issued 809,460 Units from which it realized net proceeds of approximately \$729.4 million after commissions and other costs. A total of 7,428 shares of Series A Preferred Stock were subsequently redeemed. The number of Units issued was approximately 81.8% of the maximum number of Units anticipated to be issued under the Primary Series A Offering and the Follow-On Offering. The Company cumulatively recognized approximately 81.8% of the approximate \$13.5 million deferred to date, or approximately \$11.1 million as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately \$2.4

million, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at September 30, 2016. The remainder of current and future deferred offering costs related to the Follow-on Offering will likewise be recognized as a reduction of stockholders' equity in the proportion of the number of Units issued to the maximum number of Units anticipated to be issued. Offering costs not related to a specific closing transaction are subject to an overall cap of 1.5% (discussed further below) of the total gross proceeds raised during the Unit offerings.

Aggregate offering expenses, including selling commissions and dealer manager fees, will be capped at 11.5% of the aggregate gross proceeds of the Primary Series A Offering and the Follow-On Offering, of which the Company will reimburse its Manager up to 1.5% of the gross proceeds of these offerings for all organization and offering expenses incurred, excluding selling commissions and dealer manager fees; however, upon approval by the conflicts committee of the board of directors, the Company may reimburse its Manager for any such expenses incurred above the 1.5% amount as permitted by the Financial Industry Regulatory Authority.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

On May 17, 2013, the Company filed a registration statement on Form S-3 (File No. 333-188677) for an offering up to \$200 million of equity or debt securities, or Shelf Registration Statement, which was declared effective by the SEC on July 19, 2013. All amounts previously recorded as deferred offering costs related to this Shelf Registration Statement have been reflected as a reduction of stockholders' equity as of September 30, 2016. The Shelf Registration Statement expired on July 19, 2016.

On February 28, 2014, the Company filed a prospectus supplement to the Shelf Registration Statement to issue and sell up to \$100 million of Common Stock from time to time in an "at the market" offering, or the ATM Offering, through MLV & Co. LLC as sales agent. Through September 30, 2016, the Company sold approximately 6.5 million shares of Common Stock through the ATM offering and collected net proceeds of approximately \$54.4 million. The ATM Offering terminated in connection with the expiration of the Shelf Registration Statement.

On May 5, 2016, the Company filed a registration statement on Form S-3 (File No. 333-211178), or the New Shelf Registration Statement, for an offering of up to \$300 million of equity or debt securities, or the Shelf Offering, which was declared effective by the SEC on May 17, 2016. Deferred offering costs related to this Shelf Registration Statement totaled approximately \$825,000 as of September 30, 2016, of which \$13,000 has been reflected as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately \$812,000, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at September 30, 2016.

On June 9, 2016, the Company filed a registration statement on Form S-3 (File No. 333-211924) for an offering of up to 2,000,000 Units consisting of 2,000,000 shares of Series A Redeemable Preferred Stock and Warrants to purchase 40,000,000 shares of Common Stock, or the New Follow-On Offering. Except as described in the prospectus, the terms of the New Follow-on Offering are substantially similar to those under the Follow-on Offering. Deferred offering costs related to the New Follow-On Offering reflected in the asset section of the consolidated balance sheet at September 30, 2016 were approximately \$538,000.

On July 18, 2016, the Company filed a prospectus for its registration statement on Form S-3 (Registration No. 333-211178) to issue and sell up to \$150 million of Common Stock from time to time in an "at the market" offering (the "2016 ATM Offering") through JonesTrading Institutional Services LLC, FBR Capital Markets & Co, and Canaccord Genuity Inc, as its sales agents. The Company intends to use any proceeds from the 2016 ATM Offering to repay outstanding amounts under our existing senior secured revolving credit facility and for other general corporate purposes, which includes making investments in accordance with the Company's investment objectives. Through September 30, 2016, the Company sold 197,256 shares of common stock through the ATM offering and collected net proceeds of approximately \$2.8 million.

7. Related Party Transactions

John A. Williams, the Company's Chief Executive Officer and Chairman of the Board, and Leonard A. Silverstein, the Company's President and Chief Operating Officer and a member of the Board, are also executive officers and directors of NELL Partners, Inc., which controls the Manager. Mr. Williams is the Chief Executive Officer and Mr. Silverstein is the President and Chief Operating Officer of the Manager.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

The Sixth Amended and Restated Management Agreement, or Management Agreement, which was effective June 3, 2016, entitles the Manager to receive compensation for various services it performs related to acquiring assets and managing properties on the Company's behalf. The following table details Manager fees recognized, net of deferrals, as described below.

| Type of Compensation | Basis of Compensation | Three months ended September 30, | | Nine months ended September 30, | |
|---|--|-------------------------------------|-------------|------------------------------------|--------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Acquisition fees | 1% of the gross purchase price of real estate assets acquired prior to January 1, 2016 | \$— | \$2,035,350 | \$— | \$4,438,813 |
| Loan origination fees | 1.0% of the maximum commitment of any real estate loan, note or line of credit receivable | 250,602 | 494,100 | 1,374,828 | 1,063,457 |
| Loan coordination fees | As of January 1, 2016, 1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property ⁽¹⁾ | 3,493,227 | — | 8,178,836 | — |
| Asset management fees | Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted | 2,196,363 | 1,045,986 | 5,708,868 | 2,290,870 |
| Property management fees | Monthly fee equal to 4% of the monthly gross revenues of the properties managed | 1,438,569 | 743,775 | 3,629,322 | 1,652,034 |
| General and administrative expense fees | Monthly fee equal to 2% of the monthly gross revenues of the Company | 831,711 | 497,437 | 2,343,936 | 1,154,639 |
| | | \$8,210,472 | \$4,816,648 | \$21,235,790 | \$10,599,813 |

⁽¹⁾ If an asset is acquired without debt financing, the loan coordination fee is calculated as 1.6% of 63% of the purchase price of the asset.

The Management Agreement also entitles the Manager to receive compensation for services rendered in connection with the construction, development or landscaping of the properties (Construction Management Fees), including the supervision of any third party vendors engaged by the Manager to provide such services; such fee is an amount equal to the customary and competitive market rates in light of the size, type and location of the property. The Company paid Construction Management Fees of \$126,446 and \$9,193 to the Manager for the nine-month periods ended September 30, 2016 and 2015, respectively which were capitalized as part of the related capital improvements.

The Manager, at its election, may elect to forego payment of certain of the asset management, property management, or general and administrative expense fees due to the Manager for properties owned by the Company. With this election, the future payment of those fees becomes contingent upon the occurrence of certain capital transactions, to the extent that the net sale proceeds from these transactions exceed the allocable capital contributions for the asset plus a 7% priority annual return on the asset. A total of \$1,458,245 of combined asset management, general and

administrative expense and property management fees related to certain properties and land loans during the nine-month period ended September 30, 2016 and \$3,596,068 cumulatively are contingent upon these events. The Company will recognize these contingent fees, if any, in future periods to the extent it determines that it is probable that the estimated net sale proceeds would exceed the hurdles listed above. As of September 30, 2016, the Company determined that there was insufficient evidence to support recognition of these contingent fees; therefore, the Company has not recognized any expense for these contingent amounts.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

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

| Three months ended | | Nine months ended | |
|--------------------|-------------|-------------------|-------------|
| September 30, | | September 30, | |
| 2016 | 2015 | 2016 | 2015 |
| \$2,808,402 | \$1,688,347 | \$7,688,470 | \$4,114,752 |

The Manager utilizes its own and its affiliates' personnel to accomplish certain tasks related to raising capital that would typically be performed by third parties, including, but not limited to, legal and marketing functions. As permitted under the Management Agreement, the Manager was reimbursed \$356,752 and \$708,547 for the nine-month periods ended September 30, 2016 and 2015, respectively.

Preferred Capital Securities, LLC, a broker-dealer owned by NELL Partners, Inc., was reimbursed \$768,869 for these same costs for the nine-month period ended September 30, 2016. These costs are recorded as deferred offering costs until such time as additional closings occur on the Follow-on Offering, the New Follow-on Series A Offering, or the Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders' equity.

The Company's Haven West, Haven 12, Stadium Village, 18 Nineteen, Haven South, Haven46, Haven Northgate and Lubbock II real estate loans and the Haven Campus Communities' line of credit are supported in part by guaranties of repayment and performance by John A. Williams, Jr., our Chief Executive Officer's son, a principal of the borrowers and a related party of the Company under GAAP.

In addition to the fees described above, the Management Agreement also entitles the Manager to other potential fees, including a disposition fee of 1% of the sale price of a real estate asset. The Manager earned a disposition fee of \$390,000 on the sale of the Trail Creek property, which is included net in the Gain on sale of real estate, net of disposition expenses line on the Consolidated Statements of Operations. The Manager also receives leasing commission fees. Retail leasing commission fees (a) for new retail leases are equal to the greater of (i) \$4.00 per square foot, and (ii) 4.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the original lease term; and (b) for lease renewals are equal to the greater of (i) \$2.00 per square foot, and (ii) 2.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the newly renewed lease term. There are no commissions payable on retail lease renewals thereafter. Office leasing commission fees (a) for new office leases are equal to 50% of the first month's gross rent plus 2% of the remaining fixed gross rent on the guaranteed lease term, (b) in the event of co-broker participation in a new lease, the leasing commission determined for a new lease are equal to 150% of the first month's gross rent plus 6% of the remaining fixed gross rent of the guaranteed lease term, and (c) for lease renewals, are equal to 2% of the fixed gross rent of the guaranteed lease term or, in the event of a co-broker, 6% of the fixed gross rent of the guaranteed lease term. Office leasing commission fees may not exceed market rates for office leasing services. The Manager earned approximately \$17,000 and \$47,000 in leasing commission fees for the three-month and nine-month periods ended September 30, 2016, respectively. No leasing commission fees were earned by the Manager for the three-month and nine-month periods ended September 30, 2015.

The Company holds a promissory note in the amount of \$1,140,647 due from Preferred Capital Marketing Services, LLC, which is a wholly-owned subsidiary of NELL Partners.

The Company has extended a revolving line of credit with a maximum borrowing amount of \$15.0 million to its Manager.

8. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions on its Series A Preferred Stock in the amount of \$5.00 per share per month, prorated for partial months at issuance as necessary. The Company's cash distributions on its Series A Preferred Stock were:

28

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

| 2016 | | | 2015 | | |
|--------------------|------------------|------------------------------|--------------------|------------------|------------------------------|
| Record date | Number of shares | Aggregate dividends declared | Record date | Number of shares | Aggregate dividends declared |
| January 30, 2016 | 482,774 | \$2,481,086 | January 30, 2015 | 192,607 | \$984,217 |
| February 27, 2016 | 516,017 | 2,630,601 | February 27, 2015 | 206,007 | 1,047,189 |
| March 31, 2016 | 544,129 | 2,770,048 | March 31, 2015 | 223,699 | 1,141,491 |
| April 29, 2016 | 582,720 | 2,979,196 | April 30, 2015 | 243,570 | 1,244,249 |
| May 31, 2016 | 617,994 | 3,143,567 | May 29, 2015 | 267,273 | 1,366,207 |
| June 30, 2016 | 651,439 | 3,321,519 | June 30, 2015 | 288,392 | 1,480,101 |
| July 29, 2016 | 682,392 | 3,458,513 | July 31, 2015 | 311,944 | 1,588,310 |
| August 31, 2016 | 721,143 | 3,671,020 | August 31, 2015 | 334,013 | 1,701,019 |
| September 30, 2016 | 765,185 | 3,886,173 | September 30, 2015 | 358,687 | 1,824,797 |
| | Total | \$28,341,723 | | Total | \$12,377,580 |

The Company's dividend activity on its Common Stock for the nine-month periods ended September 30, 2016 and 2015 was:

| 2016 | | | | 2015 | | | |
|--------------------|------------------|--------------------|--------------------------|--------------------|------------------|--------------------|--------------------------|
| Record date | Number of shares | Dividend per share | Aggregate dividends paid | Record date | Number of shares | Dividend per share | Aggregate dividends paid |
| March 15, 2016 | 23,041,502 | \$0.1925 | \$4,435,489 | March 13, 2015 | 22,004,309 | \$0.175 | \$3,850,754 |
| June 15, 2016 | 23,568,328 | 0.2025 | 4,772,587 | June 15, 2015 | 22,290,677 | 0.18 | 4,012,322 |
| September 15, 2016 | 24,652,041 | 0.2025 | 4,992,038 | September 15, 2015 | 22,323,604 | 0.18 | 4,018,249 |
| | | \$0.5975 | \$14,200,114 | | | \$0.535 | \$11,881,325 |

The holders of Class A Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At September 30, 2016, the Company had 886,168 Class A Units outstanding, which are exchangeable on a one-for-one basis for shares of Common Stock or the equivalent amount of cash. Distribution activity by the Operating Partnership was:

| 2016 | | | 2015 | | |
|------------------|------------------|-------------------------|------------------|------------------|-------------------------|
| Declaration date | Payment date | Aggregate distributions | Declaration date | Payment date | Aggregate distributions |
| February 4, 2016 | April 15, 2016 | \$ 117,395 | February 5, 2015 | April 22, 2015 | \$ 49,063 |
| May 5, 2016 | July 15, 2016 | 179,449 | April 29, 2015 | July 15, 2015 | 50,465 |
| August 4, 2016 | October 14, 2016 | 179,449 | August 6, 2015 | October 21, 2015 | 49,779 |
| | | \$ 476,293 | | | \$ 149,307 |

9. Equity Compensation

Stock Incentive Plan

On February 25, 2011, the Company's board of directors adopted, and the Company's stockholders approved, the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan to incentivize, compensate and retain eligible

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

Equity compensation expense by award type for the Company was:

| | Three months ended September 30, | | Nine months ended September 30, | | Unamortized expense as of September 30, 2016 |
|--|-------------------------------------|------------------|------------------------------------|--------------------|--|
| | 2016 | 2015 | 2016 | 2015 | |
| Quarterly board member committee fee grants Class B Unit awards: Executive officers | \$18,030 | \$18,018 | \$48,021 | \$41,917 | \$— |
| - 2014 Executive officers | — | — | — | 3,825 | — |
| - 2015 Executive officers | — | 495,399 | 5,236 | 1,474,872 | — |
| - 2016 Restricted stock grants: | 517,884 | — | 1,536,946 | — | 1,130,342 |
| 2014 | — | — | — | 107,321 | — |
| 2015 | — | 80,000 | 106,670 | 133,333 | — |
| 2016 | 102,500 | — | 170,833 | — | 239,166 |
| Total | \$638,414 | \$593,417 | \$1,867,706 | \$1,761,268 | \$1,369,508 |

Restricted Stock Grants

On May 5, 2016, the Company granted a total of 30,990 shares of restricted Common Stock to its independent board members, in payment of their annual retainer fees. The per-share fair value was \$13.23 and total compensation cost in the amount of \$409,998 will be recognized over the four consecutive 90-day periods following the date of grant. The shares granted vested on a pro-rata basis over these same four periods.

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On May 7, 2015, the Company granted a total of 30,133 shares of restricted Common Stock to its independent board members, in payment of their annual retainer fees. The per-share fair value was \$10.62 and total compensation cost in the amount of \$320,012 was recognized over the four consecutive 90-day periods following the date of grant. The shares granted vested on a pro-rata basis over these same four periods.

Directors' Stock Grants

The Company grants shares of Common Stock to its independent board members in payment of their meeting fees. The total compensation cost of these immediate-vesting awards was recorded in full at the grant dates and the fair values were based upon the closing prices of the Common Stock on the trading days immediately preceding the dates of grant. Details concerning these grants were:

| Grant date | Total number of shares granted | Fair value per share | Total fair value |
|------------|--------------------------------|----------------------|------------------|
| 8/4/2016 | 834 | \$ 14.44 | 12,042 |
| 8/3/2016 | 417 | \$ 14.36 | \$5,988 |
| 5/4/2016 | 474 | \$ 12.62 | \$5,982 |
| 3/4/2016 | 474 | \$ 12.68 | \$6,010 |
| 2/4/2016 | 1,485 | \$ 12.12 | \$17,998 |
| 8/6/2015 | 1,647 | \$ 10.94 | \$18,018 |
| 5/7/2015 | 564 | \$ 10.62 | \$5,990 |
| 2/5/2015 | 1,782 | \$ 10.05 | \$17,909 |

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

Class B Units

On January 2, 2014, the Company granted 239,556 Class B Units for service to be rendered during 2014. On January 2, 2015, the Company granted 285,997 Class B Units for service to be rendered during 2015. On January 4, 2016, the Company granted 265,931 Class B Units for service to be rendered during 2016, 2017, and 2018.

Prior to January 4, 2016, the Class B Units became Vested Class B Units at the Initial Valuation Date, which was generally one year from the date of grant. Beginning with the 2016 grant, certain Class B Units vest in three equal consecutive one-year tranches from the date of grant. For each grant, on the Initial Valuation Date, the market capitalization of the number of shares of Common Stock at the date of grant is compared to the market capitalization of the same number of shares of Common Stock at the Initial Valuation Date. If the market capitalization measure results in an increase which exceeds the target market threshold, the Vested Class B Units become earned Class B Units and automatically convert into Class A Units of the Operating Partnership (as long as the capital accounts have achieved economic equivalence), which are henceforth entitled to distributions from the Operating Partnership and become exchangeable for Common Stock on a one-to-one basis at the option of the holder. Vested Class B Units may become Earned Class B Units on a pro-rata basis should the result of the market capitalization test be an increase of less than the target market threshold. Any Vested Class B Units that do not become Earned Class B Units on the Initial Valuation Date are subsequently remeasured on a quarterly basis until such time as all Vested Class B Units become Earned Class B Units or are forfeited due to termination of continuous service as an officer of the Company due to an event other than as a result of a qualified event, which is generally the death or disability of the holder. Continuous service through the final valuation date is required for the Vested Class B Units to qualify to become fully Earned Class B Units.

Because of the market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, a Monte Carlo simulation was utilized to calculate the total fair values, which will be amortized as compensation expense over the one-year periods beginning on the grant dates through the Initial Valuation Dates. On January 2, 2015, the 239,556 outstanding Class B Units for 2014 became fully vested and earned and automatically converted to Class A Units of the Operating Partnership. On January 2, 2016, the 285,997 outstanding Class B Units for 2015 became fully vested and earned and automatically converted to Class A Units of the Operating Partnership.

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

| | | | | |
|-------------------------|----------|----------|---|--|
| Grant dates | 1/4/2016 | 1/2/2015 | | |
| Stock price | \$12.88 | \$9.21 | | |
| Dividend yield | 5.98 | % 7.60 | % | |
| Expected volatility | 26.10 | % 30.13 | % | |
| Risk-free interest rate | 2.81 | % 2.55 | % | |

Number of Units granted:

| | | |
|---------------------------|---------|---------|
| One year vesting period | 176,835 | 285,997 |
| Three year vesting period | 89,096 | — |
| | 265,931 | 285,997 |

| | | |
|--------------------------------|---------|--------|
| Calculated fair value per Unit | \$10.03 | \$6.81 |
|--------------------------------|---------|--------|

| | | |
|---------------------------|-------------|-------------|
| Total fair value of Units | \$2,667,288 | \$1,947,640 |
|---------------------------|-------------|-------------|

Target market threshold increase \$3,549,000 \$2,629,000

The expected dividend yield assumptions were derived from the Company's closing prices of the Common Stock on the grant dates and the projected future quarterly dividend payments per share of \$0.1925 for the 2016 awards, \$0.1925 for the 2015 awards and \$0.16 for the 2014 awards.

Since the Company had a limited amount of operating history in the public equity market, the expected volatility assumptions for the 2014 and 2015 awards were derived from the observed historical volatility of the common stock prices of a select group of peer companies within the REIT industry that most closely approximated the Company's size, capitalization, leverage, line of business and geographic focus markets. For the 2016 awards, the Company's own stock price volatility was utilized as the basis for deriving this assumption.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

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

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

10. Indebtedness

Mortgage Notes Payable

The following table presents certain details regarding our mortgage notes payable:

| | Acquisition/ refinancing date | Principal balance as of September 30, 2015 | Maturity date | Interest rate ⁽¹⁾ | Interest only through date ⁽²⁾ |
|--|-------------------------------------|---|------------------|---------------------------------|--|
| Trail Creek | 6/25/2013 | \$28,109,000 | 7/1/2020 | 4.22 % | 7/1/2020 |
| Stone Rise | 7/3/2014 | 24,220,285 | 8/1/2019 | 2.89 % | 8/31/2015 |
| Summit Crossing | 4/21/2011 | 20,206,748 | 5/1/2018 | 4.71 % | 5/31/2014 |
| Summit Crossing secondary financing | 8/28/2014 | 5,080,451 | 9/1/2019 | 4.39 % | N/A |
| Summit II | 3/20/2014 | 13,353,000 | 4/1/2021 | 4.49 % | 4/30/2019 |
| Ashford Park | 1/24/2013 | 25,262,000 | 2/1/2020 | 3.13 % | 2/28/2018 |
| Ashford Park secondary financing | 8/28/2014 | 6,434,207 | 2/1/2020 | 4.13 % | N/A |
| McNeil Ranch | 1/24/2013 | 13,136,000 | 2/1/2020 | 3.13 % | 2/28/2018 |
| Lake Cameron | 1/24/2013 | 19,173,000 | 2/1/2020 | 3.13 % | 2/28/2018 |
| Enclave | 9/26/2014 | 24,268,000 | 10/1/2021 | 3.68 % | 10/31/2017 |
| Sandstone | 9/26/2014 | 31,065,064 | 10/1/2019 | 3.18 % | N/A |
| Stoneridge | 9/26/2014 | 26,276,046 | 10/1/2019 | 3.18 % | N/A |
| Vineyards | 9/26/2014 | 34,373,000 | 10/1/2021 | 3.68 % | 10/31/2017 |
| Spring Hill Plaza | 9/5/2014 | 9,728,025 | 10/1/2019 | 3.36 % | 10/31/2015 |
| Parkway Town Centre | 9/5/2014 | 7,070,745 | 10/1/2019 | 3.36 % | 10/31/2015 |
| Woodstock Crossing | 8/8/2014 | 3,050,953 | 9/1/2021 | 4.71 % | N/A |
| Deltona Landings | 9/30/2014 | 6,966,722 | 10/1/2019 | 3.48 % | N/A |
| Powder Springs | 9/30/2014 | 7,350,685 | 10/1/2019 | 3.48 % | N/A |
| Kingwood Glen | 9/30/2014 | 11,168,341 | 10/1/2019 | 3.48 % | N/A |
| Barclay Crossing | 9/30/2014 | 6,553,517 | 10/1/2019 | 3.48 % | N/A |
| Sweetgrass Corner | 9/30/2014 | 7,980,653 | 10/1/2019 | 3.58 % | N/A |
| Parkway Centre | 9/30/2014 | 4,563,162 | 10/1/2019 | 3.48 % | N/A |
| Salem Cove | 10/6/2014 | 9,600,000 | 11/1/2024 | 4.21 % | 11/30/2016 |
| Avenues at Cypress | 2/13/2015 | 22,249,863 | 9/1/2022 | 3.43 % | N/A |
| Avenues at Northpointe | 2/13/2015 | 27,278,000 | 3/1/2022 | 3.16 % | 3/31/2017 |
| Lakewood Ranch | 5/21/2015 | 30,308,018 | 12/1/2022 | 3.55 % | N/A |
| Aster Lely | 6/24/2015 | 33,279,479 | 7/5/2022 | 3.84 % | N/A |

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| | | | | | | |
|--------------------------------|------------|------------|-----|-----------|-----------------------|-----------|
| CityPark View | 6/30/2015 | 21,309,240 | 60 | 7/1/2022 | 3.27 % | N/A |
| Avenues at Creekside | 7/31/2015 | 41,556,254 | 000 | 8/1/2024 | 2.13 % ⁽³⁾ | 8/31/2016 |
| Citi Lakes | 9/3/2015 | 43,553,824 | 826 | 4/1/2023 | 2.70 % ⁽⁴⁾ | N/A |
| Independence Square | 8/27/2015 | 12,126,137 | 800 | 9/1/2022 | 3.93 % | 9/30/2016 |
| Royal Lakes Marketplace | 9/4/2015 | 9,800,000 | 000 | 9/4/2020 | 3.02 % ⁽⁵⁾ | 4/3/2017 |
| Stone Creek | 11/12/2015 | 16,572,928 | 850 | 10/1/2046 | 3.75 % | N/A |
| Lenox Village Town Center | 12/21/2015 | 30,390,948 | 360 | 5/1/2019 | 3.82 % | N/A |
| Lenox Village III | 12/21/2015 | 18,184,108 | 000 | 1/1/2023 | 4.04 % | N/A |
| The Overlook at Hamilton Place | 12/22/2015 | 20,760,000 | 000 | 1/1/2026 | 4.19 % | N/A |
| Summit Point | 10/30/2015 | 12,629,561 | 644 | 11/1/2022 | 3.57 % | N/A |

(Table continued on next page)

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

(Continued from previous page)

| | Acquisition/ refinancing date | Principal balance as of | | Maturity date | Interest rate ⁽¹⁾ | Interest only through date ⁽²⁾ |
|----------------------------------|-------------------------------------|-------------------------|----------------------|------------------|---------------------------------|--|
| | | September 30, 2016 | December 31, 2015 | | | |
| Overton Rise | 2/1/2016 | 40,891,434 | — | 8/1/2026 | 3.98 % | N/A |
| Baldwin Park | 1/5/2016 | 73,910,000 | — | 1/5/2019 | 2.43 % ⁽⁶⁾ | 1/5/2019 |
| Baldwin Park (second) | 1/5/2016 | 3,890,000 | — | 1/5/2019 | 10.43 % ⁽⁷⁾ | 1/5/2019 |
| Crosstown Walk | 1/15/2016 | 32,213,176 | — | 2/1/2023 | 3.90 % | N/A |
| East Gate Shopping Center | 4/29/2016 | 5,754,454 | — | 5/1/2026 | 3.97 % | N/A |
| Fury's Ferry | 4/29/2016 | 6,647,386 | — | 5/1/2026 | 3.97 % | N/A |
| Rosewood Shopping Center | 4/29/2016 | 4,464,662 | — | 5/1/2026 | 3.97 % | N/A |
| Southgate Village | 4/29/2016 | 7,937,178 | — | 5/1/2026 | 3.97 % | N/A |
| The Market at Victory Village | 5/16/2016 | 9,250,000 | — | 9/11/2024 | 4.40 % | 10/10/2017 |
| Avalon Park | 5/31/2016 | 61,750,000 | — | 6/5/2019 | 2.53 % ⁽⁸⁾ | N/A |
| Avalon Park B Note | 5/31/2016 | 3,250,000 | — | 6/5/2019 | 11.53 % ⁽⁹⁾ | N/A |
| Wade Green Village | 4/7/2016 | 8,152,504 | — | 5/1/2026 | 4.00 % | N/A |
| North by Northwest | 6/1/2016 | 33,679,285 | — | 9/1/2022 | 4.02 % | N/A |
| City Vista | 7/1/2016 | 35,897,408 | — | 7/1/2026 | 3.68 % | N/A |
| Lakeland Plaza | 7/15/2016 | 29,940,373 | — | 8/1/2026 | 3.85 % | N/A |
| Sorrel | 8/24/2016 | 33,600,000 | — | 9/1/2023 | 3.44 % | N/A |
| Brookwood Office | 8/29/2016 | 32,400,000 | — | 9/10/2031 | 3.52 % | 9/10/17 |
| University Palms | 8/8/2016 | 13,600,000 | — | 9/1/2026 | 3.45 % | N/A |
| Cherokee Plaza | 8/8/2016 | 26,200,000 | — | 9/1/2021 | 2.77 % ⁽¹⁰⁾ | N/A |
| Sandy Plains Exchange | 8/8/2016 | 9,500,000 | — | 9/1/2026 | 3.45 % | N/A |
| Thompson Bridge Commons | 8/8/2016 | 12,700,000 | — | 9/1/2026 | 3.45 % | N/A |
| Heritage Station | 8/8/2016 | 9,400,000 | — | 9/1/2026 | 3.45 % | N/A |
| Oak Park Village | 8/8/2016 | 9,700,000 | — | 9/1/2026 | 3.45 % | N/A |
| Shoppes of Parkland | 8/8/2016 | 16,554,000 | — | 9/1/2023 | 4.67 % | N/A |
| Total | | \$1,183,335,433 | \$696,945,291 | | | |

(1) Interest accrues at a fixed rate, except where indicated.

(2) Following the indicated interest only period (where applicable), monthly payments of accrued interest and principal are based on a 25 to 30-year amortization period through the maturity date.

(3) The mortgage instrument was assumed as part of the sales transaction; It accrues interest at a variable rate which consists of the one-month London Interbank Offered Rate, or 1 Month LIBOR, plus 160 basis points. The 1 Month LIBOR index is capped at 5.0%.

(4) Variable rate which consists of 1 Month LIBOR plus 217 basis points. The 1 Month LIBOR index is capped at 4.33%.

(5) Variable rate which consisted of 1 Month LIBOR plus 250 basis points.

- (6) Variable rate which consisted of 1 Month LIBOR plus 190 basis points.
- (7) Variable rate which consisted of 1 Month LIBOR plus 990 basis points.
- (8) Variable rate which consisted of 1 Month LIBOR plus 200 basis points.
- (9) Variable rate which consisted of 1 Month LIBOR plus 1100 basis points.
- (10) Variable rate which consisted of 1 Month LIBOR plus 225 basis points. The interest rate has a floor of 2.7%.

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

The mortgage note secured by our Royal Lakes Marketplace property has a maximum commitment of \$11,050,000. As of September 30, 2016, the Company has an outstanding principal balance of \$9.8 million on this loan. Additional advances of the mortgage commitment will be drawn as the Company achieves incremental leasing benchmarks specified under the loan agreement. This mortgage has a variable interest of LIBOR plus 250 basis points, which was 3.02% as of September 30, 2016.

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

As of September 30, 2016, the weighted-average remaining life of deferred loan costs related to the Company's mortgage indebtedness was approximately 6.3 years.

Credit Facility

The Company has a credit facility, or Credit Facility, with Key Bank National Association, or Key Bank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of Key Bank), working capital and other general corporate purposes on an as needed basis. The maximum borrowing capacity on the Revolving Line of Credit was \$70.0 million, pursuant to the Third Amended and Restated Credit Agreement and accrued interest at a rate equal to LIBOR plus 3.25% per annum. On August 5, 2016, the Company entered into a Fourth Amended and Restated Credit Agreement with Key Bank and the other lenders, or the Fourth Amended and Restated Credit Agreement, that (i) increased the borrowing capacity under our Revolving Line of Credit from \$70.0 million to \$135.0 million with the ability to further increase it to \$300.0 million, subject to certain syndication and other requirements and (ii) extended the maturity date to August 5, 2019, with an option, subject to certain conditions described therein, to extend the maturity date to August 5, 2020. Also on February 12, 2015, the Company entered into a \$32.0 million term loan with Key Bank under the Credit Facility, or the Term Loan, to partially finance the acquisition of two multifamily communities in Houston, Texas. The Term Loan accrued interest at a rate of LIBOR plus 4.0% per annum until it was repaid in full on May 12, 2015.

On January 5, 2016, the Company entered into a \$35.0 million term loan with Key Bank under the Credit Facility, or the 2016 Term Loan, to partially finance the acquisition of the Baldwin Park multifamily community. On August 5, 2016, the Company repaid the 2016 Term Loan. On May 26, 2016, the Company entered into a \$11.0 million interim term loan with Key Bank, or the Interim Term Loan, to partially finance the acquisition of Anderson Central, a retail shopping center located in Anderson, South Carolina. The Interim Term Loan accrues interest at a rate of LIBOR plus 2.5% per annum and the maturity date is May 25, 2017.

The Credit Facility contains certain affirmative and negative covenants, including negative covenants that limit or restrict secured and unsecured indebtedness, mergers and fundamental changes, investments and acquisitions, liens and encumbrances, dividends, transactions with affiliates, burdensome agreements, changes in fiscal year and other matters customarily restricted in such agreements. The amount of dividends that may be paid out by the Company is restricted to a maximum of 95% of Adjusted Funds From Operations, or AFFO, for the trailing rolling four quarters without the lender's consent; solely for purposes of this covenant, AFFO is calculated as earnings before interest, taxes, depreciation and amortization expense, plus reserves for capital expenditures, less normally recurring capital expenditures, less consolidated interest expense.

As of September 30, 2016, the Company was in compliance with all covenants related to the Credit Facility, as shown in the following table:

| Covenant ⁽¹⁾ | Requirement | Result | |
|-----------------------------|--------------------------------------|---------------------|---|
| Net worth | Minimum \$686,921,700 ⁽²⁾ | \$784,749,240 | |
| Debt yield | Minimum 8.0% | 8.37 | % |
| Payout ratio | Maximum 95% | ⁽³⁾ 81.9 | % |
| Total leverage ratio | Maximum 65.0% | 61.1 | % |
| Debt service coverage ratio | Minimum 1.50x | 2.25x | |

⁽¹⁾ All covenants are as defined in the current credit agreement for the Credit Facility.

⁽²⁾ Minimum \$686.9 million plus 75% of the net proceeds of any equity offering, which totaled approximately \$745.5 million as of September 30, 2016.

⁽³⁾ Calculated on a trailing four-quarter basis. For the twelve-month period ended September 30, 2016, the maximum dividends and distributions allowed under this covenant was approximately \$62.4 million.

Loan fees and closing costs for the establishment and subsequent amendments of the Revolving Line of Credit, the 2016 Term Loan, as well as the mortgage debt on the Company's multifamily communities, are amortized using the straight-line method, which approximates the effective interest method over the lives of the loans. At September 30, 2016, aggregate unamortized loan costs for the Revolving Line of Credit were \$1.9 million, which will be amortized over the remaining life of the Revolving Line of Credit. The weighted average interest rate for the Credit Facility was approximately 4.0% for the nine-month period ended September 30, 2016. The Revolving Line of Credit also bears a commitment fee on the average daily unused portion of the Credit Facility of 0.20% or 0.30% per annum, based on the amount borrowed as a percentage of the total commitment.

Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 September 30, 2016

Future Principal Payments

The Company's estimated future principal payments due on its debt instruments as of September 30, 2016 were:

| Period | Future principal payments |
|--------------|---------------------------|
| 2016 | \$97,231,643 |
| 2017 | 18,629,724 |
| 2018 | 41,224,611 |
| 2019 | 332,587,612 |
| 2020 | 89,708,642 |
| thereafter | 696,953,201 |
| Total | \$1,276,335,433 |

11. Income Taxes

The Company elected to be taxed as a REIT effective with its tax year ended December 31, 2011, and therefore, the Company generally will not be subject to federal and state income taxes after this effective date, so long as it distributes 100% of the Company's annual REIT taxable income to its shareholders. For the period preceding this election date, the Company's operations resulted in a tax loss. As of December 31, 2010, the Company had deferred federal and state tax assets totaling approximately \$298,100, none of which were based upon tax positions deemed to be uncertain. These deferred tax assets will most likely not be used since the Company elected REIT status; therefore, management has determined that a 100% valuation allowance is appropriate for the three-month and nine-month periods ended September 30, 2016 and 2015.

12. Commitments and Contingencies

On March 28, 2014, the Company entered into a payment guaranty in support of its Manager's new eleven-year office lease, which began on October 9, 2014. At September 30, 2016, the amount guaranteed by the Company was \$6.4 million. The amount of the guaranty is reduced by \$555,000 per lease year over the term of the lease.

Certain officers and employees of the Manager have been assigned company credit cards. The Company has guaranteed up to \$405,000 on these credit cards. See note 17.

A total of approximately \$3.6 million of combined asset management and general and administrative expense fees related to the acquired properties as of September 30, 2016 have been deemed contingent by the Manager. The Company will recognize any contingent fees in future periods to the extent, if any, it determines that it is probable that the estimated net sale proceeds would exceed the allocable capital contributions for the asset plus a 7% priority annual return on the asset.

At September 30, 2016, the Company had unfunded balances on its real estate loan portfolio of approximately \$54.4 million.

The Company is otherwise currently subject to neither any known material commitments or contingencies from its business operations, nor any material known or threatened litigation.

13. Segment Information

The Company's Chief Operating Decision Maker, or CODM, evaluates the performance of the Company's business operations and allocates financial and other resources by assessing the financial results and outlook for future performance across four distinct segments: multifamily communities, real estate related financing, New Market Properties, and office building.

Multifamily Communities - consists of the Company's portfolio of owned residential multifamily communities, including its owned student housing community and the Lenox Portfolio, which includes 47,600 square feet of ground floor retail gross leasable area.

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Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 September 30, 2016

Financing - consists of the Company's investment portfolio of real estate loans, bridge loans, and other instruments deployed by the Company to partially finance the development, construction, and prestabilization carrying costs of new multifamily communities and other real estate and real estate related assets. Excluded from the financing segment are financial results of the Company's Dawson Marketplace real estate loan.

New Market Properties - consists of the Company's portfolio of owned grocery-anchored shopping centers, which are owned by New Market Properties, LLC, a wholly-owned subsidiary of the Company, as well as the financial results from the Company's Dawson Marketplace real estate loan.

Office Building - consists of the Company's Class A office building located in Birmingham, Alabama.

The CODM monitors net operating income (“NOI”) on a segment and a consolidated basis as a key performance measure for its operating segments. NOI is defined as rental and other property revenue from real estate assets plus interest income from its financing segment less total property operating and maintenance expenses, property management fees, real estate taxes, property insurance, and general and administrative expenses. The CODM uses NOI as a measure of operating performance because it provides a measure of the core operations, rather than factoring in depreciation and amortization, financing costs, acquisition expenses, and other expenses generally incurred at the corporate level.

The following tables present the Company's assets, revenues, and NOI results by reportable segment, as well as a reconciliation from NOI to net income (loss). The assets attributable to 'Other' primarily consist of deferred offering costs recorded but not yet reclassified as reductions of stockholders' equity and cash balances at the Company and Operating Partnership levels.

| | September 30, 2016 | December 31, 2015 |
|-------------------------|-----------------------|----------------------|
| Assets: | | |
| Multifamily communities | \$1,182,652,596 | \$781,224,019 |
| Financing | 345,622,541 | 272,454,610 |
| New Market Properties | 533,156,727 | 229,461,573 |
| Office building | 52,187,657 | — |
| Other | 9,917,549 | 12,388,831 |
| Consolidated assets | \$2,123,537,070 | \$1,295,529,033 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------|-------------------------------------|--------------|------------------------------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Multifamily communities | \$32,254,954 | \$18,624,534 | \$87,941,541 | \$44,714,185 |
| Financing | 10,575,595 | 7,822,002 | 29,957,116 | 21,266,174 |
| New Market Properties | 10,193,843 | 3,509,157 | 22,715,460 | 9,408,676 |
| Office building | 512,945 | — | 512,945 | — |

| | | | | |
|---|--------------|--------------|---------------|--------------|
| Consolidated revenues | \$53,537,337 | \$29,955,693 | \$141,127,062 | \$75,389,035 |
| Capitalized expenditures ⁽¹⁾ | | | | |
| Multifamily communities | \$2,674,743 | \$1,156,136 | \$6,762,650 | \$2,737,108 |
| New Market Properties | 565,010 | 326,499 | 1,679,766 | 1,008,023 |
| Total capitalized expenditures | \$3,239,753 | \$1,482,635 | \$8,442,416 | \$3,745,131 |

⁽¹⁾ Excluding the purchase price of acquisitions and including construction in progress.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|---------------|------------------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Segment net operating income (Segment NOI) | | | | |
| Multifamily communities | \$18,413,797 | \$10,517,036 | \$48,169,241 | \$24,585,670 |
| Financing | 10,575,595 | 7,822,002 | 29,957,116 | 21,266,174 |
| New Market Properties | 7,795,476 | 2,605,528 | 17,048,716 | 6,662,181 |
| Office building | 373,454 | — | 373,454 | — |
| Consolidated segment net operating income | 37,158,322 | 20,944,566 | 95,548,527 | 52,514,025 |
| Interest expense: | | | | |
| Multifamily communities | 7,852,145 | 4,253,524 | 21,006,486 | 10,403,085 |
| New Market Properties | 2,615,924 | 844,472 | 5,588,947 | 2,391,479 |
| Financing | 1,632,424 | 720,764 | 3,959,391 | 2,089,779 |
| Office building | 133,681 | — | 133,681 | — |
| | 12,234,174 | 5,818,760 | 30,688,505 | 14,884,343 |
| Depreciation and amortization: | | | | |
| Multifamily communities | 16,028,880 | 8,719,852 | 42,800,401 | 21,526,901 |
| New Market Properties | 5,452,490 | 1,816,634 | 11,997,670 | 4,882,862 |
| Office building | 182,993 | — | 182,993 | — |
| | 21,664,363 | 10,536,486 | 54,981,064 | 26,409,763 |
| Professional fees | 593,623 | 577,579 | 2,176,510 | 1,249,947 |
| Management fees, net of deferrals | 3,022,124 | 1,535,382 | 8,025,916 | 3,302,109 |
| Acquisition costs: | | | | |
| Multifamily communities | 601,033 | 2,543,159 | 4,645,530 | 5,335,149 |
| New Market Properties | 396,679 | 781,799 | 1,856,933 | 941,514 |
| Office building | 359,825 | — | 383,401 | — |
| | 1,357,537 | 3,324,958 | 6,885,864 | 6,276,663 |
| Equity compensation to directors and executives: | | | | |
| New Market Properties | 20,356 | 72,071 | 60,289 | 213,912 |
| Other | 618,058 | 521,346 | 1,807,417 | 1,547,356 |
| | 638,414 | 593,417 | 1,867,706 | 1,761,268 |
| Gain on sale of real estate | — | — | 4,271,506 | — |
| Other | 336,707 | 255,751 | 1,055,099 | 671,792 |
| Net income (loss) | \$(2,688,620) | \$(1,697,767) | \$(5,860,631) | \$(2,041,860) |

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

14. Income (Loss) Per Share

The following is a reconciliation of weighted average basic and diluted shares outstanding used in the calculation of income (loss) per share of Common Stock:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|--|---|----------------|--|-----------------|
| Numerator: | | | | |
| Net income (loss) | \$(2,688,620) | \$(1,697,767) | \$(5,860,631) | \$(2,041,860) |
| Net (income) loss attributable to non-controlling interests | 86,484 | 15,289 | 175,045 | 20,712 |
| Net income (loss) attributable to the Company | (2,602,136) | (1,682,478) | (5,685,586) | (2,021,148) |
| Dividends declared to Series A preferred stockholders ^(A) | (11,015,706) | (5,114,126) | (28,341,723) | (12,377,580) |
| Earnings attributable to unvested restricted stock ^(B) | (6,159) | (4,068) | (12,434) | (16,355) |
| Net loss available to common stockholders | \$(13,624,001) | \$(6,800,672) | \$(34,039,743) | \$(14,415,083) |
| Denominator: | | | | |
| Weighted average number of shares of Common Stock - basic | 24,340,791 | 22,292,217 | 23,552,951 | 22,109,036 |
| Effect of dilutive securities: ^(C) | | | | |
| Warrants | — | — | — | — |
| Class B Units | — | — | — | — |
| Unvested restricted stock | — | — | — | — |
| Weighted average number of shares of Common Stock - diluted | 24,340,791 | 22,292,217 | 23,552,951 | 22,109,036 |
| Net loss per share of Common Stock available to common stockholders: | | | | |
| Basic and diluted | \$(0.56) | \$(0.31) | \$(1.45) | \$(0.65) |

^(A) The Company's shares of Series A Preferred Stock outstanding accrue dividends at an annual rate of 6% of the stated value of \$1,000 per share, payable monthly. The Company had 802,032 and 384,112 outstanding shares of Series A Preferred Stock at September 30, 2016, and 2015, respectively.

^(B) The Company's outstanding unvested restricted share awards (23,247 and 22,602 shares of Common Stock at September 30, 2016, and 2015, respectively) contain non-forfeitable rights to distributions or distribution equivalents. The impact of the unvested restricted share awards on earnings per share has been calculated using the two-class method whereby earnings are allocated to the unvested restricted share awards based on dividends declared and the unvested restricted shares' participation rights in undistributed earnings. Given the Company incurred net losses

attributable to common stockholders for each of the three-month and nine-month periods ended September 30, 2016 and 2015, the dividends declared for that period are adjusted in determining the calculation of loss per share of Common Stock since the unvested restricted share awards are defined as participating securities.

(C) Potential dilution from warrants outstanding at September 30, 2016 and September 30, 2015 from issuances of Units that are potentially exercisable into 14,056,460 and 7,607,520 shares of Common Stock respectively, are excluded from the diluted shares calculations because the effect was antidilutive. Class A Units were excluded from the denominator because earnings were allocated to non-controlling interests in the calculation of the numerator.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

15. Pro Forma Financial Information (unaudited)

The Company's condensed pro forma financial results assume the following acquisitions were hypothetically completed on the following dates, as shown below:

| | Hypothetical acquisition date |
|--------------------------------|-------------------------------|
| Lenox Portfolio | 1/1/2014 |
| Stone Creek | 1/1/2014 |
| Citi Lakes | 12/1/2014 |
| Avenues at Creekside | 1/1/2014 |
| CityPark View | 1/1/2014 |
| Aster at Lely | 1/1/2014 |
| Venue at Lakewood Ranch | 9/1/2014 |
| Houston Portfolio | 2/1/2014 |
| The Overlook at Hamilton Place | 1/1/2014 |
| Summit Point | 1/1/2014 |
| Royal Lakes Marketplace | 1/1/2014 |
| Independence Square | 1/1/2014 |
| Overton Rise | 1/1/2015 |
| Baldwin Park | 1/1/2015 |
| Crosstown Walk | 1/1/2015 |
| Wade Green Village | 1/1/2015 |
| Southeastern 6 Portfolio | 1/1/2015 |
| Avalon Park | 1/1/2015 |
| North by Northwest | 1/1/2015 |
| The Market at Victory Village | 1/1/2015 |
| City Vista | 1/1/2015 |
| Lakeland Plaza | 1/1/2015 |
| Sorrel | 1/1/2015 |
| Brookwood Office | 1/1/2015 |
| University Palms | 1/1/2015 |
| Cherokee Plaza | 1/1/2015 |
| Sandy Plains Exchange | 1/1/2015 |
| Thompson Bridge Commons | 1/1/2015 |
| Heritage Station | 1/1/2015 |
| Oak Park Village | 1/1/2015 |
| Shoppes of Parkland | 1/1/2015 |

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

| | Three months ended September 30, 2016 | | 2015 | | Nine months ended September 30, 2016 | | 2015 | |
|---|---|-----------------|-----------------|-----------------|--|--|------|--|
| Pro forma: | | | | | | | | |
| Revenues | \$56,305,235 | \$52,440,197 | \$167,230,831 | \$149,371,941 | | | | |
| Net income (loss) | \$2,634,574 | \$(7,583,116) | \$3,586,801 | \$(31,388,770) | | | | |
| Net income (loss) attributable to the Company | \$2,536,343 | \$(7,365,660) | \$3,419,840 | \$(30,309,018) | | | | |
| Net loss attributable to common stockholders | \$(8,485,522) | \$(12,483,854) | \$(24,934,317) | \$(42,702,953) | | | | |
| Net loss per share of Common Stock attributable to common stockholders, Basic and diluted | \$(0.35) | \$(0.56) | \$(1.06) | \$(1.89) | | | | |
| Weighted average number of shares of Common Stock outstanding, basic and diluted | 24,340,791 | 22,292,217 | 23,552,951 | 22,570,222 | | | | |

These pro forma operating results include aggregate nonrecurring adjustments to combined acquisition costs and acquisition fees of reductions of approximately \$1.7 million and \$3.2 million for the three-month periods ended September 30, 2016 and 2015, respectively, and reductions of approximately \$6.8 million and \$5.5 million for the nine-month periods ended September 30, 2016 and 2015, respectively.

These pro forma results are not necessarily indicative of what historical performance would have been had these business combinations been effective as of the hypothetical acquisition dates listed above, nor should they be interpreted as expectations of future results.

16. Fair Values of Financial Instruments

Fair value is defined as the price at which an asset or liability is exchanged between market participants in an orderly transaction at the reporting date. The Company's cash equivalents, notes receivable, accounts receivable and payables and accrued expenses all approximate fair value due to their short term nature.

The following tables provide estimated fair values of the Company's financial instruments. The carrying values of the Company's real estate loans include accrued interest receivable from additional interest or exit fee provisions and are presented net of deferred loan fee revenue, where applicable.

As of September 30, 2016

| | Carrying value | Fair Value | Fair value measurements using fair value hierarchy | | |
|---------------------------------------|-----------------|-----------------|--|---------|------------------|
| | | | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Real estate loans ⁽¹⁾ | \$305,407,486 | \$342,775,296 | \$— | — | —\$342,775,296 |
| Notes and line of credit receivable | 35,328,412 | 35,328,412 | — | — | 35,328,412 |
| | \$340,735,898 | \$378,103,708 | \$— | — | —\$378,103,708 |
| Financial liabilities: | | | | | |
| Mortgage notes payable ⁽²⁾ | \$1,183,335,433 | \$1,197,997,866 | \$— | — | —\$1,197,997,866 |
| Revolving credit facility | 82,000,000 | 82,000,000 | — | — | 82,000,000 |
| Term loan | 11,000,000 | 11,000,000 | — | — | 11,000,000 |
| Loan participation obligations | 19,638,232 | 20,486,803 | — | — | 20,486,803 |
| | \$1,295,973,665 | \$1,311,484,669 | \$— | — | —\$1,311,484,669 |

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
September 30, 2016

| | As of December 31, 2015 | | Fair value measurements using fair value hierarchy | |
|---------------------------------------|-------------------------|---------------|--|----------------|
| | Carrying value | Fair Value | Level | |
| | | | Level 1 | Level 2 |
| Financial assets: | | | | |
| Real estate loans ⁽¹⁾ | \$252,296,406 | \$267,383,427 | \$— | —\$267,383,427 |
| Notes and line of credit receivable | 37,943,733 | 37,943,733 | — | 37,943,733 |
| | \$290,240,139 | \$305,327,160 | \$— | —\$305,327,160 |
| Financial liabilities: | | | | |
| Mortgage notes payable ⁽²⁾ | \$696,945,291 | 692,008,640 | \$— | —\$692,008,640 |
| Revolving credit facility | 34,500,000 | 34,500,000 | — | 34,500,000 |
| Loan participation obligations | 13,544,160 | 14,061,190 | — | 14,061,190 |
| | \$744,989,451 | \$740,569,830 | \$— | —\$740,569,830 |

⁽¹⁾ The carrying value of real estate assets includes the Company's balance of the Founders' Village, Palisades, Green Park, and Stadium Village real estate loans, as well as the amounts funded by unrelated participants. The loan participation obligations are the amounts due the participants under these arrangements. The carrying value of real estate loans includes accrued interest of approximately \$17.7 million and \$14.3 million as of September 30, 2016 and December 31, 2015, respectively.

⁽²⁾ The carrying value of mortgage notes payable consists of the principal amounts due reduced by any unamortized deferred loan issuance costs.

The fair value of the real estate loans within the level 3 hierarchy are comprised of estimates of the fair value of the notes, which were developed utilizing a discounted cash flow model over the remaining terms of the notes until their maturity dates and utilizing discount rates believed to approximate the market risk factor for notes of similar type and duration. The fair values also contain a separately-calculated estimate of any applicable exit fee or additional interest payment due the Company at the maturity date of the loan, based on the outstanding loan balances at September 30, 2016, discounted to the reporting date utilizing discount rates ranging between 10% and 12.5%.

The fair values of the fixed rate mortgages on the Company's properties were developed using market quotes of the fixed rate yield index and spread for four, five, seven and 30 year notes as of the reporting date. The present values of the cash flows were calculated using the original interest rate in place on the fixed rate mortgages and again at the current market rate. The difference between the two results was applied as a fair market adjustment to the carrying value of the mortgages.

17. Subsequent Events

Between October 1, 2016 and October 31, 2016, the Company issued 29,419 Units and collected net proceeds of approximately \$26.5 million after commissions and fees under its Follow-on Offering.

On October 18, 2016, the Company acquired a grocery-anchored shopping center with approximately 383,100 square feet of gross leasable area, located in the Houston, Texas market. The allocation of this transaction to the fair value of

individual assets and liabilities is not presented as the calculations of the allocation were not complete at the date of filing of this Quarterly Report on Form 10-Q.

On October 25, 2016, Preferred Capital Securities, LLC issued certain of its employees credit cards which the Company has guaranteed up to \$200,000.

On November 3, 2016, the Company declared a Common Stock dividend of \$0.22 per share for the fourth quarter 2016, which is payable on January 17, 2017, to common stockholders of record on December 15, 2016.

On November 4, 2016, the Company acquired an approximate 110,000 square foot office building in the Atlanta, Georgia area. The allocation of this transaction to the fair value of individual assets and liabilities is not presented as the calculations of the allocation were not complete at the date of filing of this Quarterly Report on Form 10-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Significant Developments

During the first nine months of 2016, we acquired five multifamily communities located in Jacksonville, Orlando and Tampa, Florida and Atlanta, Georgia, representing 1,941 units and converted our City Vista real estate loan into an approximate 96% ownership interest in a joint venture which owns the underlying multifamily community located in Pittsburgh, Pennsylvania, adding another 272 units. We also acquired a 219-unit, 679-bed student housing community adjacent to the campus of Florida State University in Tallahassee, Florida. The aggregate purchase price of the acquired properties was approximately \$416.9 million, including our investment in the joint venture of approximately \$12.5 million. We also sold our Trail Creek multifamily community located in Hampton, Virginia. As of September 30, 2016, we owned 25 multifamily communities with 8,268 units, including one student housing community with 219 units.

In addition, we acquired a nine-story, 169,500 square foot class A office building located in Birmingham, Alabama and 16 grocery-anchored shopping centers located in throughout Texas and the Southeastern U.S., comprising approximately 1.6 million aggregate square feet of gross leasable area. As of September 30, 2016, we owned 30 grocery-anchored shopping centers with an approximate aggregate of 2,913,000 square feet of gross leasable area.

During the first nine months of 2016, we converted three bridge loans to real estate loans, with an aggregate loan commitment amount of approximately \$87.2 million to partially finance a planned multifamily community to be located in Atlanta, Georgia and student housing projects located adjacent to the University of South Florida in Tampa, Florida and Texas A&M University in College Station, Texas. We also originated three new real estate investment loans and a member loan with an aggregate loan commitment amount of approximately \$37.7 million in support of a planned second phase of our CityPark View multifamily community in Charlotte, North Carolina, a second phase of a student housing community adjacent to Texas Tech University in Lubbock, Texas and a multifamily community in Birmingham, Alabama. Also during the first nine months of 2016, we originated two land acquisition loans of an aggregate of \$10.0 million in support of a mixed use project in Atlanta, Georgia and a multifamily community in Fort Myers, Florida.

As of September 30, 2016, our real estate loan portfolio consisted of 24 real estate loans and two bridge loan supporting 20 planned multifamily communities, including seven student housing projects and one planned retail center, with an aggregate commitment amount of approximately \$361.4 million. There can be no assurance that we will acquire any of the assets under construction.

During the first nine months of 2016, we issued 323,278 Units and collected net proceeds of approximately \$287.8 million from our Follow-On Offering.

Forward-looking Statements

Certain statements contained in this quarterly report on Form 10-Q, including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects," "assumes," "goals," "guidance," "trends" and similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon our current plans, expectations and projections about future events. However, such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- our business and investment strategy;

- our projected operating results;
- actions and initiatives of the U.S. Government and changes to U.S. Government policies and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic areas;
- economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements, including through the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac;
- financing and advance rates for our target assets;
- our expected leverage;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;

- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust, or REIT, for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition;
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;
- weakness in the national, regional and local economies, which could adversely impact consumer spending and retail sales and in turn tenant demand for space and could lead to increased store closings;
- changes in market rental rates;
- changes in demographics (including the number of households and average household income) surrounding our shopping centers;
- adverse financial conditions for grocery anchors and other retail, service, medical or restaurant tenants;
- continued consolidation in the retail and grocery sector;
- excess amount of retail space in our markets;
- reduction in the demand by tenants to occupy our shopping centers as a result of reduced consumer demand for certain retail formats;
- the growth of super-centers and warehouse club retailers, such as those operated by Wal-Mart and Costco, and their adverse effect on traditional grocery chains;
- our ability to aggregate a critical mass of grocery-anchored shopping centers or to spin-off, sell or distribute them;
- the impact of an increase in energy costs on consumers and its consequential effect on the number of shopping visits to our centers; and
- consequences of any armed conflict involving, or terrorist attack against, the United States.

Forward-looking statements are found throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this quarterly report on Form 10-Q. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission, or SEC, we do not have any intention or obligation to publicly release any revisions to forward-looking statements to reflect unforeseen or other events after the date of this report. The forward-looking statements should be read in light of the risk factors indicated in the section entitled "Risk Factors" in section 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 and as may be supplemented by any amendments to our risk factors in our subsequent quarterly reports on Form 10-Q and other reports filed with the SEC, which are accessible on the SEC's website at www.sec.gov.

General

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial position. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are an externally managed Maryland corporation formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward

purchase contracts or purchase options for to-be-built multifamily communities and we may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties. As a secondary strategy, we may acquire or originate senior mortgage loans, subordinate loans or real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 20% of our assets, subject to any temporary increase unanimously approved by our board of directors, in other real estate related investments such as grocery-anchored shopping centers, senior mortgage loans, subordinate loans or real estate loans secured by interests in grocery-anchored related assets, membership or partnership interests in grocery-anchored shopping centers and other grocery-anchored related assets as determined by our Manager as appropriate for us.

We seek to generate returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy by acquiring multifamily assets and shopping centers in our targeted markets. The current economic environment still provides many challenges for new development, which provides opportunity for current multifamily product to potentially enjoy stable occupancy rates and rising rental rates as the overall economy continues to grow. As the real estate market and economy stabilize, we intend to employ efficient management techniques to grow income and create asset value.

As market conditions change over time, we intend to adjust our investment strategy to adapt to such changes as appropriate. We continue to believe there are abundant opportunities among our target assets that currently present attractive risk-return profiles. However, in order to capitalize on the investment opportunities that may be present in the various other points of an economic cycle, we may expand or change our investment strategy and target assets. We believe that the diversification of the portfolio of assets that we intend to acquire, our ability to acquire and manage our target assets, and the flexibility of our strategy will position us to generate attractive total returns for our stockholders in a variety of market conditions.

We elected to be taxed as a REIT under the Code effective with our tax year ended December 31, 2011. We also intend to operate our business in a manner that will permit us to maintain our status as a REIT and our exemption from registration under the Investment Company Act. We have and will continue to conduct substantially all of our operations through our Operating Partnership in which we owned an approximate 96.5% interest as of September 30, 2016. New Market Properties, LLC, a wholly-owned subsidiary of the Operating Partnership, owns and conducts the business of our grocery-anchored shopping center properties.

Properties

At September 30, 2016, we were the sole owner of the following 23 multifamily communities, one student housing community and the approximate 96% owner of one multifamily community joint venture, which comprise our multifamily segment:

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| Property Name | Location | Year constructed | Number of units | Average Unit Size (sq. ft.) | Average Occupancy | Average Rent per Unit |
|------------------------------|------------------|------------------|-----------------|-----------------------------|-------------------|-----------------------|
| Ashford Park | Atlanta, GA | 1992 | 408 | 1,008 | 96.9 % | \$ 1,195 |
| Lake Cameron | Raleigh, NC | 1997 | 328 | 940 | 96.9 % | \$ 919 |
| McNeil Ranch | Austin, TX | 1999 | 192 | 1,071 | 92.6 % | \$ 1,240 |
| Stone Rise | Philadelphia, PA | 2008 | 216 | 1,079 | 94.7 % | \$ 1,448 |
| Enclave at Vista Ridge | Dallas, TX | 2003 | 300 | 1,079 | 94.8 % | \$ 1,146 |
| Stoneridge Farms | Nashville, TN | 2002 | 364 | 1,153 | 96.1 % | \$ 1,026 |
| Vineyards | Houston, TX | 2003 | 369 | 1,122 | 90.5 % | \$ 1,123 |
| Avenues at Cypress | Houston, TX | 2014 | 240 | 1,166 | 97.2 % | \$ 1,380 |
| Avenues at Northpointe | Houston, TX | 2013 | 280 | 1,154 | 93.7 % | \$ 1,359 |
| Aster at Lely Resort | Naples, FL | 2015 | 308 | 979 | 94.0 % | \$ 1,342 |
| Venue at Lakewood Ranch | Sarasota, FL | 2015 | 237 | 1,001 | 94.3 % | \$ 1,568 |
| Total/Average Same Store | | | 3,242 | | 94.7 % | |
| Summit Crossing | Atlanta, GA | 2007 | 485 | 1,053 | — % | \$ 1,223 |
| Sandstone Creek | Kansas City, KS | 2000 | 364 | 1,135 | — % | \$ 1,035 |
| CityPark View | Charlotte, NC | 2014 | 284 | 948 | — % | \$ 1,063 |
| Mansions at Creekside | San Antonio, TX | 2014 | 395 | 974 | 94.9 % | \$ 1,155 |
| Citi Lakes | Orlando, FL | 2014 | 346 | 984 | 92.5 % | \$ 1,417 |
| Lenox Portfolio | Nashville, TN | 2009-2015 | 474 | 886 | 97.7 % | \$ 1,165 |
| Stone Creek | Houston, TX | 2009 | 246 | 852 | — % | \$ 1,001 |
| Overton Rise | Atlanta, GA | 2015 | 294 | 1,018 | 94.7 % | \$ 1,468 |
| Baldwin Park | Orlando, FL | 2008 | 528 | 1,069 | — % | \$ 1,423 |
| Crosstown Walk | Tampa, FL | 2014 | 342 | 980 | 92.2 % | \$ 1,181 |
| Avalon Park | Orlando, FL | 2008 | 487 | 1,394 | — % | \$ 1,319 |
| Sorrel | Jacksonville, FL | 2015 | 290 | 1,048 | — % | \$ — |
| Total/Avg PAC Non-Same Store | | | 4,535 | | | |
| Student housing community: | | | | | | |
| North by Northwest | Tallahassee, FL | 2012 | 219 | 1,137 | N/A | \$ 2,289 |
| Joint Venture: | | | | | | |
| City Vista | Pittsburgh, PA | 2014 | 272 | 1,023 | 94.9 % | \$ — |
| Total all PAC units | | | 8,268 | | 94.6 % | |

For the three-month period ended September 30, 2016, our average occupancy was 94.6%. We define average occupancy as market rent reduced by vacancy losses, expressed as a percentage. All of our multifamily properties are included in this calculation except for properties which are not yet stabilized, which we define as properties having first achieved 93% physical occupancy, properties which are owned for less than the entire reporting period (Sorrel and City Vista), and properties which are undergoing significant capital projects or are adding additional phases (Summit Crossing, Stone Creek, Sandstone Creek, Baldwin Park, Avalon Park and City Park View).

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At September 30, 2016, we were the sole owner of the following 30 grocery-anchored shopping centers, which comprise our retail segment:

| Property name | Metropolitan area | Year built | GLA ⁽¹⁾ | | Percent leased ⁽²⁾ | Anchor tenant |
|--------------------------------|----------------------------|------------|--------------------|---------|-------------------------------|---------------------|
| Woodstock Crossing | Atlanta, GA | 1994 | 66,122 | | 92.6 % | Kroger |
| Cherokee Plaza | Atlanta, GA | 1958 | 102,864 | 102,864 | 100.0 % | Kroger |
| Lakeland Plaza | Atlanta, GA | 1990 | 301,711 | | 92.3 % | Sprouts/Belk |
| Powder Springs | Atlanta, GA | 1999 | 77,853 | | 92.8 % | Publix |
| Royal Lakes Marketplace | Atlanta, GA | 2008 | 119,493 | | 84.4 % | Kroger |
| Sandy Plains Exchange | Atlanta, GA | 1997 | 72,784 | 72,784 | 100.0 % | Publix |
| Summit Point | Atlanta, GA | 2004 | 111,970 | | 80.4 % | Publix |
| Thompson Bridge Commons | Atlanta, GA | 2001 | 92,587 | 92,587 | 97.3 % | Kroger |
| Wade Green Village | Atlanta, GA | 1993 | 74,978 | | 89.7 % | Publix |
| East Gate Shopping Center | Augusta, GA | 1995 | 75,716 | | 89.5 % | Publix |
| Fury's Ferry | Augusta, GA | 1996 | 70,458 | | 91.0 % | Publix |
| Parkway Centre | Columbus, GA | 1999 | 53,088 | | 97.4 % | Publix |
| Spring Hill Plaza | Nashville, TN | 2005 | 61,570 | | 100.0 % | Publix |
| Parkway Town Centre | Nashville, TN | 2005 | 65,587 | | 95.4 % | Publix |
| Salem Cove | Nashville, TN | 2010 | 62,356 | | 97.8 % | Publix |
| The Market at Victory Village | Nashville, TN | 2007 | 71,300 | | 98.5 % | Publix |
| The Overlook at Hamilton Place | Chattanooga, TN | 1992 | 213,095 | | 95.8 % | The Fresh Market |
| Sweetgrass Corner | Charleston, SC | 1999 | 89,124 | | 100.0 % | Bi-Lo |
| Anderson Central | Greenville Spartanburg, SC | 1999 | 223,211 | | 97.1 % | Walmart |
| Fairview Market | Greenville Spartanburg, SC | 1998 | 53,888 | | 96.8 % | Publix |
| Rosewood Shopping Center | Columbia, SC | 2002 | 36,887 | | 90.2 % | Publix |
| Heritage Station | Raleigh, NC | 2004 | 72,946 | 72,946 | 100.0 % | Harris Teeter |
| Shoppes of Parkland | Miami, FL | 2000 | 145,720 | 145,720 | 95.0 % | BJ's Wholesale Club |
| Barclay Crossing | Tampa, FL | 1998 | 54,958 | | 100.0 % | Publix |
| Deltona Landings | Orlando, FL | 1999 | 59,966 | | 95.5 % | Publix |
| University Palms | Orlando, FL | 1993 | 99,172 | 99,172 | 98.4 % | Publix |
| Kingwood Glen | Houston, TX | 1998 | 103,397 | | 100.0 % | Kroger |
| Independence Square | Dallas, TX | 1977 | 140,218 | | 91.5 % | Tom Thumb |
| Oak Park Village | San Antonio, TX | 1970 | 64,287 | 64,287 | 100.0 % | H.E.B. |
| Southgate Village | Birmingham, AL | 1988 | 75,092 | | 100.0 % | Publix |

2,912,398

⁽¹⁾ Gross leasable area, or GLA, represents the total amount of property square footage that can be leased to tenants.

⁽²⁾ As of September 30, 2016, our retail portfolio was 94.9% leased. Percent leased represents the percentage of GLA that is leased, including noncancelable lease agreements that have been signed which have not yet commenced.

At September 30, 2016, we were also the sole owner of a nine-story, approximate 169,500 square foot class A office building located in Birmingham, Alabama.

Industry Outlook

We believe continued, albeit potentially sporadic, improvement in the United States' economy will continue for 2016, with continued job growth and improvements in consumer confidence. We believe a growing economy,

improved job market and increased consumer confidence should help create favorable conditions for the multifamily sector. If the economy continues to improve, we expect current occupancy rates generally to remain stable, on an annual basis, as the current level of occupancy nationwide will be difficult to measurably improve upon. The pipeline of new multifamily construction, although increasing, has been relatively measured in most of our markets. Nationally, new multifamily construction is currently at or slightly above average historical levels in most markets. Even with the increase in new supply of multifamily properties, recent job growth and demographic trends have led to reasonable levels of absorption in most of our markets, which in many of our markets has offset or exceeded the new supply coming online. The absorption rate has led to generally stable occupancy rates with increases in rental rates in most of our markets. We believe the supply of new multifamily construction will not increase dramatically as the constraints in the market (including availability of quality sites and the difficult permitting and entitlement process) will contain further increases in multifamily supply. We believe that a potential reversal in the recent trend on declining cap rates in the multifamily sector may be in the offing. The rising cost of private capital, less debt capital available from traditional commercial banks for real estate loans

and a softening of the market in some “Gateway” cities have all put pressure on the pricing dynamic in multifamily transactions. This could lead to an increase in capitalization rates and a softening price environment, and if this were to occur, then our pipeline of candidate multifamily property acquisitions with returns meeting our investment objectives may expand.

We believe that the grocery-anchored shopping center sector benefits from many of the same improving metrics as the multifamily sector, namely improved economy and job and wage growth. More specifically, the types of centers we own and plan to acquire are primarily occupied by grocery stores, service uses, medical providers and restaurants. We believe that these businesses are significantly less impacted by e-commerce than some other retail businesses, and that grocery anchors typically generate repeat trips to the center. We expect that improving macroeconomic conditions, coupled with continued population growth in the suburban markets where our retail properties are located, will create favorable conditions for grocery shopping and other uses provided by grocery-anchored shopping centers. With moderate supply growth following a period of historically low retail construction starts, we believe our centers that are all generally located in Sun Belt and Texas markets are well-positioned to have solid operating fundamentals. The debt market for our grocery anchored retail assets remains strong. Life insurance companies have continued to demonstrate a specific interest in our strategy and we continue to see new participants in the market. Spreads and rates are generally comparable to those for multifamily, however, the leverage levels on the retail assets may be slightly lower than the levels on our multifamily assets.

Favorable U.S. Treasury yields and competitive lender spreads have created a generally favorable borrowing environment for multifamily owners and developers. Given the uncertainty around the world's financial markets, fueled in part by global instability and the recent “Brexit” vote in Britain, investors have been willing to accept lower yields on U.S. government backed securities, providing Freddie Mac and Fannie Mae (the GSEs) with excellent access to investor capital. Even with the recent volatility in U.S. Treasury rates, we expect the market to continue to remain favorable for financing multifamily communities, as the equity and debt markets have generally continued to view the U.S. multifamily sector as a desirable investment. Lending by GSEs could be limited by caps imposed by the Federal Housing and Finance Association, which could lead to higher lending costs, although we expect such higher costs to be offset by increased lending activity by other market participants; however, such other market participants may have increased costs and stricter underwriting criteria.

We believe the combination of continued high construction mortgage underwriting standards as compared to before the financial crisis, coupled with continued hesitance and reluctance among many prospective homebuyers to believe the net benefits of home ownership are greater than the benefit of the flexibility offered through renting will continue to work in the existing multifamily sector's favor, resulting in gradual increases in market rents, lower concessions and opportunities for increases in ancillary fee income. We also believe there will be a continued increase in demand for multifamily rental housing due to the ongoing entry of the “millennial” generation, the sons and daughters of the baby-boom generation, into the workforce, resulting in an increase in demand for rental housing.

Critical Accounting Policies

Below is a discussion of the accounting policies that management believes are critical. We consider these policies critical because they involve significant management judgments, assumptions and estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Real Estate

Cost Capitalization. Investments in real estate properties are carried at cost and depreciated using the straight-line method over the estimated useful lives of 30 to 50 years for buildings, 5 to 20 years for building and land improvements and 5 to 10 years for computers, furniture, fixtures and equipment. Acquisition costs are generally

expensed as incurred for transactions that are deemed to be business combinations. Repairs, maintenance and resident turnover costs are charged to expense as incurred and significant replacements and betterments are capitalized and depreciated over the items' estimated useful lives. Repairs, maintenance and resident turnover costs include all costs that do not extend the useful life of the real estate property. We consider the period of future benefit of an asset to determine its appropriate useful life.

Real Estate Acquisition Valuation. We generally record the acquisition of income-producing real estate as a business combination. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values.

We assess the acquisition-date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis) and that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

We record above-market and below-market in-place lease values for acquired properties based on the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining average non-cancelable term of the leases. We amortize any recorded above-market or below-market lease values as a reduction or increase, respectively, to rental income over the remaining average non-cancelable term of the respective leases.

Intangible assets include the value of in-place leases, which represents the estimated value of the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. These estimates include estimated carrying costs, such as real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the hypothetical expected lease-up periods. Acquired in-place lease values are amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases.

The fair values of in-place leases for retail shopping centers and office buildings represent the value of direct costs associated with leasing, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases. Direct costs associated with obtaining a new tenant include commissions, legal and marketing costs, incentives such as tenant improvement allowances and other direct costs. Such direct costs are estimated based on our consideration of current market costs to execute a similar lease. The value of opportunity costs is estimated using the estimated market lease rates and the estimated absorption period of the space. These direct costs and opportunity costs are included in the accompanying consolidated balance sheets as acquired intangible assets and are amortized to expense over the remaining term of the respective leases. The fair values of above-market and below-market in-place leases for retail shopping centers and office buildings are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the leases, taking into consideration the probability of renewals for any below-market leases. The capitalized above-market leases and in place leases are included in the acquired intangible assets line of the consolidated balance sheets. Both above-market and below-market lease values are amortized as adjustments to rental revenue over the remaining term of the respective leases for office buildings. The amortization period for retail shopping center leases is the remaining lease term plus any below market probable renewal options.

Intangible assets also include the value of customer relationships, which represent the value inherent in the relationships with existing lessees, quantified by management's estimate of the average likelihood of lease renewal. Customer relationships are amortized over the average remaining non-cancelable term of in place leases, plus an estimated renewal period.

Estimating the fair values of the tangible assets, identifiable intangibles and assumed liabilities requires us to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, the number of years the property will be held for investment and market interest rates. The use of different assumptions would result in variations of the values of our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact their subsequent amortization and ultimately our net income.

Impairment of Real Estate and Related Intangible Assets. We monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related intangible assets may not be recoverable or realized. When conditions suggest that an asset group may be impaired, we compare its carrying value to its estimated undiscounted future cash flows, including proceeds from its eventual disposition. If, based on this analysis, we do not believe that we will be able to recover the carrying value of an asset group, we record an impairment to the extent that

the carrying value exceeds the estimated fair value of the asset group. Fair market value is determined based on a discounted cash flow analysis. This analysis requires us to use future estimates of net operating income, expected hold period, capitalization rates and discount rates. The use of different assumptions would result in variations of the values of the assets which could impact the amount of our net income and our assets on our balance sheet.

Real Estate Loans

We extend loans for purposes such as to provide partial financing for the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities and for other real estate or real estate related projects. Certain of these loans we extend include characteristics such as exclusive options to purchase the project within a specific time window following expected project completion and stabilization, the rights to incremental exit fees over and above the amount of periodic interest paid during the life of the loans, or both. These characteristics can cause the loans to fall under the definition of a variable interest entity, or VIE, and thus trigger consolidation consideration. We consider the facts and circumstances pertinent to each loan, including the relative amount of financing we are contributing to the overall project cost, decision making rights or control we hold and our rights to expected residual gains or our obligations to absorb expected residual losses from the project. If we are deemed to be the primary beneficiary of a VIE due to holding a controlling financial interest, the majority of decision making control, or by other means, consolidation of the VIE would be required. Arriving at these conclusions requires us to make significant assumptions and judgments concerning each project, especially with regard to our estimates of future market capitalization rates and property net operating income projections. Additionally, we analyze each loan arrangement and utilize these same assumptions and judgments for consideration of whether the loan qualifies for accounting as a loan or as an investment in a real estate development project.

Impairment of Loans and Notes Receivable. We monitor the progress of underlying real estate development projects which are partially financed by our real estate loans and certain of our notes receivable. Draws of interest included in these loans and notes are monitored versus the budgeted amounts, and the progress of projects are monitored versus the estimates in the project timeline. Changes in circumstances could indicate that the carrying amounts of our loans and notes receivable may not be recoverable or realized. Receivables are deemed to be impaired when conditions arise that cause the collection of all interest and principal amounts due according to the terms of the instrument to be improbable. If, based on this analysis, we do not believe that we will be able to collect the amounts due from a loan or note, we record a valuation allowance to the extent that the carrying value exceeds its estimated fair value. Fair market value is determined based on a discounted cash flow analysis and is substantiated by an independent appraisal of the collateral if necessary. This analysis requires us to use future estimates of progress of a project versus its budget, local and national economic conditions and discount rates. The use of different assumptions would result in variations of the values of the loans and notes which could impact the amount of our net income and our assets on our consolidated balance sheets.

Revenue Recognition

We generally lease apartment units under leases with terms of thirteen months or less. We generally lease retail properties for rental terms of several years. Rental revenue, net of concessions, is recognized on a straight-line basis over the term of the lease. Differences from the straight-line method, which recognize the effect of any up-front concessions and other adjustments ratably over the lease term, are recorded in the appropriate period, to the extent that adjustments to the straight-line method are material.

Revenue from reimbursements of retail tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized as the respective costs are incurred in accordance with the lease agreements. We estimate the collectability of the receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental income on a straight-line basis, by taking into consideration our historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms.

We recognize gains on sales of real estate either in total or deferred for a period of time, depending on whether a sale has been consummated, the extent of the buyer's investment in the property being sold, whether our receivable, if any, is subject to future subordination, and the degree of our continuing involvement with the property after the sale, if any.

If the criteria for profit recognition under the full-accrual method are not met, we defer gain recognition and account for the continued operations of the property by applying the reduced profit, deposit, installment or cost recovery method, as appropriate, until the appropriate criteria are met.

Other income, including interest earned on our cash, is recognized as it is earned. We recognize interest income on real estate loans on an accrual basis over the life of the loan using the effective interest method. Loan origination fees received from borrowers as incentive to extend the real estate loans, (excluding the amounts paid to the Manager) are amortized over the life of the loan as an additive adjustment to interest income. We stop accruing interest on loans when circumstances indicate that it is probable that the ultimate collection of all principal and interest due according to the loan agreement will not be realized, which is generally a delinquency of 30 days in required payments of interest or principal. Any payments received on such non-accrual

loans are recorded as interest income when the payments are received. Interest accrual on real estate loan investments is resumed once interest and principal payments become current.

Promotional fees received from service providers at our properties are deferred and recognized on a straight-line basis over the term of the agreement.

Equity Compensation

We calculate the fair value of equity compensation instruments such as warrants and stock options based upon estimates of their expected term, the expected volatility of and dividend yield on our shares of common stock, par value \$.01 per share, or Common Stock, over this expected term period and the market risk-free rate of return. The compensation expense is accrued over the vesting period(s).

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. ASU 2014-09 may be applied using either a full retrospective or a modified approach upon adoption. The Company is currently evaluating the impact this standard may have on its financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15 ("ASU 2014-15"), Presentation of Financial Statements—Going Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This new guidance establishes a requirement that management evaluate the entity's ability to continue as a going concern and requires certain disclosures should substantial doubt exist about the entity's viability. ASU 2014-15 is effective on January 1, 2017 and the Company expects to adopt the new guidance on that date and does not expect the adoption of ASU 2014-15 to materially impact the Company's consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update 2015-02 ("ASU 2015-02"), Consolidation (Topic 810): Amendments to the Consolidation Analysis. This new guidance specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will be required to consolidate the limited partnership. ASU 2015-02 is effective on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The Company's adoption of ASU 2015-02 had no impact on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-01 ("ASU 2016-01"), Financial Instruments—Overall (Subtopic 825-10): Recognition and measurement of Financial Assets and Liabilities. The new standard's applicable provisions to the Company include an elimination of the disclosure requirement of the significant inputs and assumptions underlying the fair value calculations of its financial instruments which are carried at amortized cost. The standard is effective on January 1, 2018, and early adoption is not permitted for the applicable provision. The Company does not expect the adoption of ASU 2016-01 to impact the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance but does not expect its adoption to materially impact the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 2016-09 ("ASU 2016-09"), Compensation—Stock Compensation (Topic 178): Improvements to Employee Share-Based Payment Accounting. The new standard's applicable provisions to the Company include allowing the entity to make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures of equity compensation awards when they occur. Previous guidance required entities to estimate the number of awards that are expected to vest. The standard is effective on January 1, 2017, and the Company adopted ASU 2016-09 on January 1, 2016 pursuant to the allowed early adoption provision. The Company does not expect the adoption of ASU 2016-09 to materially impact the Company's consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13 ("ASU 2016-13"), Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial instruments carried at amortized cost to be presented at the net amount expected to be collected, utilizing a valuation account which reflects the cumulative net adjustments from the gross amortized cost value. Under existing GAAP, entities would not record a valuation allowance until a loss was probable of occurring. The standard is effective for the Company on January 1, 2020. We are presently evaluating the impact the adoption of ASU 2016-13 will have on our consolidated financial statements.

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

Results of Operations

The highlights of our third quarter 2016 operating results included:

During the third quarter 2016, we acquired a 290-unit multifamily community located in Jacksonville, Florida and converted our City Vista real estate loan into an approximate 96% ownership interest in a joint venture which owns the underlying 272-unit multifamily community located in Pittsburgh, Pennsylvania. We also acquired eight grocery-anchored shopping centers located in Georgia, Florida, Texas, and North Carolina, comprising approximately 952,000 aggregate square feet of gross leasable area and a nine-story, 169,500 square foot class A office building located in Birmingham, Alabama.

During the third quarter 2016, we closed on a real estate investment loan of up to approximately \$21.1 million in support of a proposed 271-unit multifamily community to be located in Birmingham, Alabama and a land loan of up to \$4.0 million in partial support of a proposed 224-unit multifamily community to be located in Fort Myers, Florida.

With the closing of the acquisitions referenced above, as of September 30, 2016 we owned 24 multifamily communities consisting of an aggregate of 8,049 units, one 219-unit student housing community, one class A office building comprising 169,500 square feet, and 30 grocery-anchored shopping centers comprising an aggregate of approximately 2,913,000 square feet of gross leasable area. Upon completion of all the projects partially financed by our real estate loan portfolio and if we were to acquire all of the underlying properties, we would own 20 additional multifamily communities, comprising an aggregate of 4,902 units, including seven student housing communities comprising an aggregate of 4,806 beds in 1,542 units and one additional retail shopping center comprising approximately 212,800 square feet of gross leasable area. We evaluate each project individually and we make no assurance that we will acquire any of the underlying properties.

Financial Highlights

Our operating results are presented below. Core Funds From Operations Attributable to Common Stockholders and Unitholders ("Core FFO"), which we previously referred to as Normalized Funds From Operations, excludes acquisition costs and certain other costs not representative of our ongoing operations.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--------------------------|-------------------------------------|--------------|-------------|------------------------------------|--------------|----------|
| | 2016 | 2015 | % change | 2016 | 2015 | % change |
| Revenues | \$53,537,337 | \$29,955,693 | 78.7 % | \$141,127,062 | \$75,389,035 | 87.2 % |
| Per share data: | | | | | | |
| Net loss ⁽¹⁾ | \$(0.56) | \$(0.31) | (80.6)% | \$(1.45) | \$(0.65) | (123.1)% |
| FFO ⁽²⁾ | \$0.31 | \$0.16 | 93.8 % | \$0.66 | \$0.53 | 24.5 % |
| Core FFO ⁽²⁾ | \$0.38 | \$0.32 | 18.8 % | \$0.99 | \$0.82 | 20.7 % |
| Dividends ⁽³⁾ | \$0.2025 | \$0.18 | 12.5 % | \$0.5975 | \$0.535 | 11.7 % |

⁽¹⁾ Per weighted average share of Common Stock outstanding for the periods indicated. See Definitions of Non-GAAP and Other Measures later within this "Results of Operations" section.

⁽²⁾ FFO and Core FFO are presented per weighted average share of Common Stock and Class A Unit in our Operating Partnership outstanding for the periods indicated.

⁽³⁾ Per share of Common Stock and Class A Unit outstanding.

For the third quarter 2016, our Core FFO payout ratio to our Common Stockholders and Unitholders was approximately 54.5% and our AFFO payout ratio to Common Stockholders and Unitholders was approximately 91.5%. ⁽¹⁾

- For the third quarter 2016, our Core FFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 53.7% and our AFFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 66.1%. ⁽¹⁾

Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders, or AFFO, was \$0.90 per share for the nine months ended September 30, 2016, an increase of 21.6% from \$0.74 per share for the same 2015 period. AFFO is calculated after deductions for all preferred dividends. AFFO was \$0.22 per share for the third quarter 2016, no change from \$0.22 per share for the third quarter 2015.

At September 30, 2016, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 58.6%.

Cash flow from operations for the third quarter 2016 was approximately \$21.0 million, an increase of approximately \$11.1 million, or 112.3%, compared to approximately \$9.9 million for the third quarter 2015.

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During the nine months ended September 30, 2016, we acquired the following real estate assets:

| Acquisition date | Multifamily communities | Location | Units |
|------------------|-----------------------------------|------------------|-------|
| 8/24/2016 | Sorrel | Jacksonville, FL | 290 |
| 7/1/2016 | City Vista ⁽¹⁾ | Pittsburgh, PA | 272 |
| 6/1/2016 | North by Northwest ⁽²⁾ | Tallahassee, FL | 219 |
| 5/31/2016 | Avalon Park | Orlando, FL | 487 |
| 2/1/2016 | Overton Rise | Atlanta, GA | 294 |
| 1/15/2016 | Crosstown Walk | Tampa, FL | 342 |
| 1/5/2016 | Baldwin Park | Orlando, FL | 528 |
| | | | 2,432 |

⁽¹⁾ We own an approximate 96% equity interest in Oxford City Vista Development LLC, which owns the subject property.

⁽²⁾ A student housing community located adjacent to the campus of Florida State University in Tallahassee, Florida.

| Acquisition date | Grocery anchored shopping centers | Market | Gross leasable area (square feet) |
|------------------|-----------------------------------|--|-----------------------------------|
| 8/8/2016 | University Palms | ⁽¹⁾ Orlando, FL | 99,172 |
| 8/8/2016 | Cherokee Plaza | ⁽¹⁾ Atlanta, GA | 102,864 |
| 8/8/2016 | Sandy Plains Exchange | ⁽¹⁾ Atlanta, GA | 72,784 |
| 8/8/2016 | Thompson Bridge Commons | ⁽¹⁾ Atlanta, GA | 92,587 |
| 8/8/2016 | Heritage Station | ⁽¹⁾ Winston-Salem, NC | 72,946 |
| 8/8/2016 | Oak Park Village | ⁽¹⁾ San Antonio, TX | 64,287 |
| 8/8/2016 | Shoppes of Parkland | ⁽¹⁾ Fort Lauderdale, FL | 145,720 |
| 7/15/2016 | Lakeland Plaza | Atlanta, GA | 301,711 |
| 5/16/2016 | The Market at Victory Village | Nashville, TN | 71,300 |
| 4/29/2016 | Anderson Central | ⁽²⁾ Greenville-Anderson, SC MSA | 223,211 |
| 4/29/2016 | East Gate Shopping Center | ⁽²⁾ Augusta, Georgia MSA | 75,716 |
| 4/29/2016 | Fairview Market | ⁽²⁾ Greenville, SC | 53,888 |
| 4/29/2016 | Fury's Ferry | ⁽²⁾ Augusta, GA | 70,458 |
| 4/29/2016 | Rosewood Shopping Center | ⁽²⁾ Columbia, SC | 36,887 |
| 4/29/2016 | Southgate Village | ⁽²⁾ Birmingham, AL | 75,092 |
| 2/29/2016 | Wade Green Village | Atlanta, GA | 74,978 |
| | | | 1,633,601 |

⁽¹⁾ Collectively referred to as the Sunbelt 7 Portfolio.

⁽²⁾ Collectively referred to as the Southeastern 6 Portfolio.

In addition, on August 29, 2016, we acquired a 169,500 square foot class A office building located in Birmingham, Alabama.

Three Months and Nine Months Ended September 30, 2016 compared to 2015

The following discussion and tabular presentations highlight the major drivers behind the line item changes by reportable segment in our results of operations for the three months and nine months ended September 30, 2016 versus 2015.

| Preferred Apartment Communities, Inc. | Three months ended September 30, | | Change inc (dec) | | |
|---|-------------------------------------|---------------|------------------|------------|---|
| | 2016 | 2015 | Amount | Percentage | |
| Revenues: | | | | | |
| Rental revenues | \$37,319,207 | \$19,442,628 | \$17,876,579 | 91.9 | % |
| Other property revenues | 5,221,887 | 2,558,185 | \$2,663,702 | 104.1 | % |
| Interest income on loans and notes receivable | 7,194,742 | 5,909,907 | \$1,284,835 | 21.7 | % |
| Interest income from related parties | 3,801,501 | 2,044,973 | \$1,756,528 | 85.9 | % |
| Total revenues | 53,537,337 | 29,955,693 | \$23,581,644 | 78.7 | % |
| Operating expenses: | | | | | |
| Property operating and maintenance | 5,504,848 | 3,097,080 | \$2,407,768 | 77.7 | % |
| Property salary and benefits reimbursement to related party | 2,808,402 | 1,688,347 | \$1,120,055 | 66.3 | % |
| Property management fees to related parties | 1,724,411 | 857,294 | \$867,117 | 101.1 | % |
| Real estate taxes | 4,789,085 | 2,506,885 | \$2,282,200 | 91.0 | % |
| General and administrative | 1,144,256 | 632,164 | \$512,092 | 81.0 | % |
| Equity compensation to directors and executives | 638,414 | 593,417 | \$44,997 | 7.6 | % |
| Depreciation and amortization | 21,664,363 | 10,536,486 | \$11,127,877 | 105.6 | % |
| Acquisition and pursuit costs | 1,036,171 | 1,783,708 | \$(747,537) | (41.9) | % |
| Acquisition fees to related parties | 321,366 | 1,541,250 | \$(1,219,884) | (79.1) | % |
| Asset management fees to related parties | 3,759,084 | 1,908,742 | \$1,850,342 | 96.9 | % |
| Insurance, professional fees and other | 1,338,343 | 1,062,687 | \$275,656 | 25.9 | % |
| Total operating expenses | 44,728,743 | 26,208,060 | \$18,520,683 | 70.7 | % |
| Contingent asset management and general and administrative expense fees | (736,960) | (373,360) | \$(363,600) | 97.4 | % |
| Net operating expenses | 43,991,783 | 25,834,700 | \$18,157,083 | 70.3 | % |
| Operating income | 9,545,554 | 4,120,993 | \$5,424,561 | 131.6 | % |
| Less interest expense | 12,234,174 | 5,818,760 | \$6,415,414 | 110.3 | % |
| Net loss | \$(2,688,620) | \$(1,697,767) | \$(990,853) | 58.4 | % |

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| Preferred Apartment Communities, Inc. | Nine months ended September 30, | | Change inc (dec) | | |
|---|------------------------------------|---------------|------------------|------------|---|
| | 2016 | 2015 | Amount | Percentage | |
| Revenues: | | | | | |
| Rental revenues | \$96,541,544 | \$47,304,230 | \$49,237,314 | 104.1 | % |
| Other property revenues | 13,290,330 | 6,685,752 | \$6,604,578 | 98.8 | % |
| Interest income on loans and notes receivable | 20,984,625 | 16,367,864 | \$4,616,761 | 28.2 | % |
| Interest income from related parties | 10,310,563 | 5,031,189 | \$5,279,374 | 104.9 | % |
| Total revenues | 141,127,062 | 75,389,035 | \$65,738,027 | 87.2 | % |
| Operating expenses: | | | | | |
| Property operating and maintenance | 13,883,133 | 7,722,017 | \$6,161,116 | 79.8 | % |
| Property salary and benefits reimbursement to related party | 7,688,470 | 4,114,752 | \$3,573,718 | 86.9 | % |
| Property management fees to related parties | 4,308,841 | 2,082,839 | \$2,226,002 | 106.9 | % |
| Real estate taxes | 15,457,134 | 6,911,034 | \$8,546,100 | 123.7 | % |
| General and administrative | 3,255,728 | 1,553,666 | \$1,702,062 | 109.6 | % |
| Equity compensation to directors and executives | 1,867,706 | 1,761,268 | \$106,438 | 6.0 | % |
| Depreciation and amortization | 54,981,064 | 26,409,763 | \$28,571,301 | 108.2 | % |
| Acquisition and pursuit costs | 6,179,442 | 2,876,642 | \$3,302,800 | 114.8 | % |
| Acquisition fees to related parties | 706,422 | 3,400,021 | \$(2,693,599) | (79.2) | % |
| Asset management fees to related parties | 9,484,161 | 4,830,588 | \$4,653,573 | 96.3 | % |
| Insurance, professional fees and other | 4,216,838 | 2,412,441 | \$1,804,397 | 74.8 | % |
| Total operating expenses | 122,028,939 | 64,075,031 | \$57,953,908 | 90.4 | % |
| Contingent asset management and general and administrative expense fees | (1,458,245) | (1,528,479) | \$70,234 | (4.6) | % |
| Net operating expenses | 120,570,694 | 62,546,552 | \$58,024,142 | 92.8 | % |
| Operating income | 20,556,368 | 12,842,483 | \$7,713,885 | 60.1 | % |
| Less interest expense | 30,688,505 | 14,884,343 | \$15,804,162 | 106.2 | % |
| Gain on sale of real estate | 4,271,506 | — | \$4,271,506 | — | |
| Net loss | \$(5,860,631) | \$(2,041,860) | \$(3,818,771) | 187.0 | % |

New Market Properties, LLC

Our retail business consists of our portfolio of grocery-anchored shopping centers and our Dawson Marketplace real estate loan supporting a proposed shopping center in the Atlanta, Georgia market. These assets are owned by our wholly-owned subsidiary, New Market Properties, LLC, which we intend to spin off upon attainment of sufficient size and if warranted by market conditions. Comparative statements of operations of New Market Properties, LLC for the three-month and nine month periods ended September 30, 2016 and 2015 are presented below. These statements of operations include no allocations of corporate overhead or other expenses.

| | Three months ended | | Change inc (dec) | | |
|---|-----------------------|---------------|------------------|------------|---|
| | September 30, 2016 | 2015 | Amount | Percentage | |
| New Market Properties, LLC | | | | | |
| Revenues: | | | | | |
| Rental revenues | \$7,767,052 | \$2,662,113 | \$5,104,939 | 191.8 | % |
| Other property revenues | 2,006,143 | 714,166 | 1,291,977 | 180.9 | % |
| Interest income on loans and notes receivable | 420,648 | 132,878 | 287,770 | 216.6 | % |
| Interest income from related parties | — | — | — | — | % |
| Total revenues | 10,193,843 | 3,509,157 | 6,684,686 | 190.5 | % |
| Operating expenses: | | | | | |
| Property operating and maintenance | 904,877 | 373,215 | 531,662 | 142.5 | % |
| Property management fees | 332,869 | 118,613 | 214,256 | 180.6 | % |
| Real estate taxes | 950,444 | 304,997 | 645,447 | 211.6 | % |
| General and administrative | 150,039 | 48,667 | 101,372 | 208.3 | % |
| Equity compensation executive | 20,356 | 72,071 | (51,715) | (71.8) | % |
| Depreciation and amortization | 5,452,491 | 1,816,634 | 3,635,857 | 200.1 | % |
| Acquisition and pursuit costs | 192,433 | 436,049 | (243,616) | (55.9) | % |
| Acquisition fees to related parties | 204,246 | 345,750 | (141,504) | (40.9) | % |
| Asset management fees to related parties | 775,794 | 251,972 | 523,822 | 207.9 | % |
| Insurance, professional fees and other | 148,656 | 86,512 | 62,144 | 71.8 | % |
| Total operating expenses | 9,132,205 | 3,854,480 | 5,277,725 | 136.9 | % |
| Contingent asset management and general and administrative expense fees | (88,097) | (89,987) | 1,890 | (2.1) | % |
| Net operating expenses | 9,044,108 | 3,764,493 | 5,279,615 | 140.2 | % |
| Operating income | 1,149,735 | (255,336) | 1,405,071 | (550.3) | % |
| Less: interest expense | 2,615,925 | 844,472 | 1,771,453 | 209.8 | % |
| Net income | \$(1,466,190) | \$(1,099,808) | \$(366,382) | 33.3 | % |

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| | Nine months ended September 30, | | Change inc (dec) | | |
|---|------------------------------------|---------------|------------------|------------|----|
| | 2016 | 2015 | Amount | Percentage | |
| New Market Properties, LLC | | | | | |
| Revenues: | | | | | |
| Rental revenues | \$16,718,701 | \$7,122,580 | \$9,596,121 | 134.7 | % |
| Other property revenues | 4,658,688 | 2,153,219 | 2,505,469 | 116.4 | % |
| Interest income on loans and notes receivable | 1,338,071 | 132,878 | 1,205,193 | 907.0 | % |
| Total revenues | 22,715,460 | 9,408,677 | 13,306,783 | 141.4 | % |
| Operating expenses: | | | | | |
| Property operating and maintenance | 2,078,128 | 1,176,697 | 901,431 | 76.6 | % |
| Property management fees | 741,221 | 322,529 | 418,692 | 129.8 | % |
| Real estate taxes | 2,376,099 | 951,990 | 1,424,109 | 149.6 | % |
| General and administrative | 350,930 | 143,626 | 207,304 | 144.3 | % |
| Equity compensation to executive | 60,289 | 213,912 | (153,623) | (71.8) |)% |
| Depreciation and amortization | 11,997,671 | 4,882,862 | 7,114,809 | 145.7 | % |
| Acquisition and pursuit costs | 1,267,631 | 595,764 | 671,867 | 112.8 | % |
| Acquisition fees to related parties | 589,302 | 345,750 | 243,552 | 70.4 | % |
| Asset management fees to related parties | 1,689,601 | 678,622 | 1,010,979 | 149.0 | % |
| Insurance, professional fees and other | 353,835 | 236,777 | 117,058 | 49.4 | % |
| Total operating expenses | 21,504,707 | 9,548,529 | 11,956,178 | 125.2 | % |
| Contingent asset management and general and administrative expense fees | (255,281) | (259,282) | 4,001 | (1.5) |)% |
| Net operating expenses | 21,249,426 | 9,289,247 | 11,960,179 | 128.8 | % |
| Operating income | 1,466,034 | 119,430 | 1,346,604 | 1,127.5 | % |
| Less: interest expense | 5,588,947 | 2,391,479 | 3,197,468 | 133.7 | % |
| Net income | \$(4,122,913) | \$(2,272,049) | \$(1,850,864) | 81.5 | % |

Rental and other property revenues and property operating expenses for the three-month and nine-month periods ended September 30, 2016 increased versus the corresponding prior year periods primarily due to property acquisitions completed since the end of the third quarter 2015, which are listed in the following table:

| Property | Type | Date of acquisition |
|----------------------------|----------------------------------|---------------------|
| Stone Creek | Multifamily community | 11/12/2015 |
| Lenox Portfolio | Three multifamily communities | 12/21/2015 |
| Baldwin Park | Multifamily community | 1/5/2016 |
| Crosstown Walk | Multifamily community | 1/15/2016 |
| Overton Rise | Multifamily community | 2/1/2016 |
| Avalon Park | Multifamily community | 5/31/2016 |
| North by Northwest | Student housing project | 6/1/2016 |
| City Vista | Multifamily community | 7/1/2016 |
| Sorrell | Multifamily community | 8/24/2016 |
| Summit Point | Grocery-anchored shopping center | 10/30/2015 |
| Overlook at Hamilton Place | Grocery-anchored shopping center | 12/22/2015 |
| Wade Green Village | Grocery-anchored shopping center | 2/29/2016 |

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| | | |
|-------------------------------|---|-----------|
| Southeastern Six Portfolio | Six grocery-anchored shopping centers | 4/29/2016 |
| The Market at Victory Village | Grocery-anchored shopping center | 5/16/2016 |
| Lakeland Plaza | Grocery-anchored shopping center | 7/15/2016 |
| Sunbelt 7 Portfolio | Seven grocery-anchored shopping centers | 8/8/2016 |
| Brookwood | Class A office building | 8/29/2016 |

Revenues

Rental revenues increased for the three months and nine months ended September 30, 2016 from the comparable 2015 periods primarily due to acquisitions shown in the following table:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|--|---------------------------|---|---------------------------|
| | Amount (rounded to 000s): | Percent of increase | Amount (rounded to 000s): | Percent of increase |
| Rental revenues | | | | |
| Increases attributable to: | | | | |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$4,460,000 | 24.9 % | \$13,065,000 | 26.5 % |
| Stone Creek and Lenox Portfolio | 2,539,000 | 14.2 % | 7,500,000 | 15.2 % |
| Avenues at Creekside and Citi Lakes | 1,259,000 | 7.0 % | 6,247,000 | 12.7 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | 66,000 | 0.4 % | 5,864,000 | 11.9 % |
| North by Northwest and Avalon Park | 3,287,000 | 18.4 % | 4,386,000 | 8.9 % |
| City Vista and Sorrel | 1,524,000 | 8.5 % | 1,524,000 | 3.1 % |
| Other | (362,000) | (2.0)% | 1,055,000 | 2.1 % |
| Total | 12,773,000 | 71.4 % | 39,641,000 | 80.5 % |
| New Market Properties | 5,104,000 | 28.6 % | 9,596,000 | 19.5 % |
| Total | \$17,877,000 | 100.0 % | \$49,237,000 | 100.0 % |

Rental revenues are directly impacted by occupancy levels. Our average occupancy was 94.6% and 96.0% for the three-month periods ended September 30, 2016 and 2015, respectively. We define average occupancy as market rent reduced by vacancy losses expressed as a percentage within our multifamily communities segment.

Our New Market Properties portfolio of grocery-anchored shopping centers was 94.9% and 94.1% leased as of September 30, 2016 and 2015, respectively. We define percent leased as the percentage of gross leasable area that is leased, including lease agreements that have been signed which have not yet commenced.

Factors which we believe affect market rents include vacant unit inventory in local markets, local and national economic growth and resultant employment stability, income levels and growth, the ease of obtaining credit for home purchases, and changes in demand due to consumer confidence in the above factors.

We also collect revenue from residents for items such as utilities, application fees, lease termination fees, and late charges. Other revenues from our grocery-anchored shopping centers include tenant reimbursements to us for common area maintenance, real estate tax, property insurance and utility reimbursements. The increase in other property revenues for the nine-month period ended September 30, 2016 versus 2015 was also due primarily to the acquisitions listed above.

Interest income from our real estate loans increased substantially for the three-month and nine-month periods ended September 30, 2016 versus 2015, primarily due to the addition of 11 real estate loans and bridge loans since September 30, 2015, partially offset by the repayment or settlement of 6 loans in connection with the acquisition of the underlying properties. Also contributing to the increases in interest income were higher loan balances on real estate loans, from accumulating draws and loan balances as the underlying projects progressed toward completion. The principal amount outstanding on our portfolio of real estate investment loans, bridge loans, and lines of credit receivable was approximately \$342.4 million at September 30, 2016 and \$237.1 million at September 30, 2015.

| | Three months ended | | Nine months ended | |
|---|---------------------|-------------|---------------------|--------------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| | Amounts (rounded to | | Amounts (rounded to | |
| | 000s): | | 000s): | |
| Real estate loan investments: | | | | |
| Current interest payments | \$5,903,000 | \$4,119,000 | \$16,913,000 | \$14,749,000 |
| Additional accrued interest received | 3,918,000 | 3,182,000 | 10,634,000 | 4,642,000 |
| Deferred loan fee revenue | 201,000 | — | 637,000 | — |
| Total real estate loan investment revenue | 10,022,000 | 7,301,000 | 28,184,000 | 19,391,000 |
| Interest income on notes and lines of credit | 974,000 | 654,000 | 3,111,000 | 2,008,000 |
| Interest income on loans and notes receivable | \$10,996,000 | \$7,955,000 | \$31,295,000 | \$21,399,000 |

Property operating and maintenance expense

As shown in the following table, expenses for the operations and maintenance of our multifamily communities and retail assets rose primarily due to the incremental costs brought on by the multifamily and retail properties which were acquired since September 30, 2015. The primary components of operating and maintenance expense are utilities, property repairs, and landscaping costs. The expenses incurred for property repairs and, to a lesser extent, utilities could generally be expected to increase gradually over time as the buildings and properties age. Utility costs may generally be expected to increase in future periods as rate increases from providing carriers are passed on to our residents and tenants.

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|--------------------|----------|
| | September 30, 2016 | | September 30, 2016 | |
| | Amount | Percent | Amount | Percent |
| | (rounded to | of | (rounded to | of |
| | 000s): | increase | 000s): | increase |
| Property operating and maintenance expenses | | | | |
| Increases attributable to: | | | | |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$576,000 | 23.9 % | \$1,561,000 | 25.3 % |
| Stone Creek and Lenox Portfolio | 307,000 | 12.7 % | 936,000 | 15.2 % |
| Avenues at Creekside and Citi Lakes | 196,000 | 8.1 % | 874,000 | 14.2 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | 40,000 | 1.7 % | 750,000 | 12.2 % |
| North by Northwest and Avalon Park | 638,000 | 26.5 % | 765,000 | 12.4 % |
| City Vista and Sorrel | 225,000 | 9.3 % | 225,000 | 3.7 % |
| Other | (105,000) | (4.4)% | 149,000 | 2.4 % |
| Total | 1,877,000 | 77.9 % | 5,260,000 | 85.4 % |
| New Market Properties | 531,000 | 22.1 % | 901,000 | 14.6 % |
| Total | \$2,408,000 | 100.0 % | \$6,161,000 | 100.0 % |

Property Salary and Benefits Reimbursement to Related Party

We recorded expense reimbursements to our multifamily property manager for the salary and benefits expense for individuals who handle the on-site management, operations and maintenance of our multifamily communities. These costs increased primarily due to the incremental costs brought on by the multifamily properties acquired since

September 30, 2015, as shown in the following table. The number of employees assigned by our property manager to our multifamily communities at September 30, 2016 is not expected to change materially over the foreseeable future.

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| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|---|---------------------------|---|---------------------------|
| | Increase Amount (rounded to 000s): | Percent of increase | Increase Amount (rounded to 000s): | Percent of increase |
| Property salary and benefits reimbursement to related party: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$387,000 | 34.6 % | \$1,088,000 | 30.4 % |
| Stone Creek and Lenox Portfolio | 258,000 | 23.0 % | 795,000 | 22.2 % |
| Avenues at Creekside and Citi Lakes | 120,000 | 10.7 % | 629,000 | 17.6 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | (19,000) | (1.7)% | 479,000 | 13.4 % |
| North by Northwest and Avalon Park | 299,000 | 26.7 % | 410,000 | 11.5 % |
| City Vista and Sorrel | 140,000 | 12.5 % | 140,000 | 3.9 % |
| Other | (65,000) | (5.8)% | 33,000 | 1.0 % |
| Total | \$1,120,000 | 100.0 % | \$3,574,000 | 100.0 % |

Property management fees

We pay a fee for property management services to our Manager in an amount of 4% of gross property revenues as compensation for services such as rental, leasing, operation and management of our multifamily communities and the supervision of any subcontractors; for retail assets, property management fees are generally 4% of gross property revenues, of which generally 3.5% is paid to a third party management company. The increases were primarily due to properties acquired since September 30, 2015, as shown in the following table:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|--|---------------------------|---|---------------------------|
| | Increase Amount (rounded to 000s): | Percent of increase | Increase Amount (rounded to 000s): | Percent of increase |
| Property management fees: | | | | |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$195,000 | 22.5 % | \$555,000 | 24.9 % |
| Stone Creek and Lenox Portfolio | 115,000 | 13.3 % | 333,000 | 15.0 % |
| Avenues at Creekside and Citi Lakes | 66,000 | 7.6 % | 284,000 | 12.8 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | 16,000 | 1.8 % | 277,000 | 12.4 % |
| North by Northwest and Avalon Park | 180,000 | 20.8 % | 181,000 | 8.1 % |
| City Vista and Sorrel | 61,000 | 7.0 % | 77,000 | 3.5 % |
| Other | 20,000 | 2.2 % | 100,000 | 4.5 % |
| | 653,000 | 75.2 % | 1,807,000 | 81.2 % |
| New Market Properties | 214,000 | 24.8 % | 419,000 | 18.8 % |
| Total | \$867,000 | 100.0 % | \$2,226,000 | 100.0 % |

Real estate taxes

We are liable for property taxes due to the various counties and municipalities that levy such taxes on real property for each of our multifamily communities and retail assets. Real estate taxes rose primarily due to the incremental costs brought on by acquisitions made since September 30, 2015, as shown in the following table:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|---|---------------------------|---|---------------------------|
| | Increase Amount (rounded to 000s): | Percent of increase | Increase Amount (rounded to 000s): | Percent of increase |
| Real estate taxes: | | | | |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$627,000 | 27.5 % | \$2,397,000 | 28.0 % |
| Stone Creek and Lenox Portfolio | 218,000 | 9.6 % | 1,150,000 | 13.5 % |
| Avenues at Creekside and Citi Lakes | 182,000 | 8.0 % | 1,338,000 | 15.7 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | (60,000) | (2.6)% | 633,000 | 7.4 % |
| North by Northwest and Avalon Park | 470,000 | 20.6 % | 618,000 | 7.2 % |
| City Vista and Sorrel | 247,000 | 10.8 % | 247,000 | 2.9 % |
| Other | (47,000) | (2.1)% | 739,000 | 8.6 % |
| Total | 1,637,000 | 71.8 % | 7,122,000 | 83.3 % |
| New Market Properties | 645,000 | 28.2 % | 1,424,000 | 16.7 % |
| Total | \$2,282,000 | 100.0 % | \$8,546,000 | 100.0 % |

We generally expect the assessed values of our multifamily communities and retail assets to rise over time, owing to our expectation of improving market conditions and the value of our multifamily communities and retail assets, as well as pressure on municipalities to raise revenues.

General and Administrative

The increases in general and administrative expenses were primarily due to higher franchise and net worth taxes, and administrative expenses related to the properties acquired since September 30, 2015, as shown in the following table:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|---|---------------------------|---|---------------------------|
| | Increase Amount (rounded to 000s): | Percent of increase | Increase Amount (rounded to 000s): | Percent of increase |
| General and administrative expenses: | | | | |
| Taxes, licenses & fees | \$98,000 | 19.1 % | \$291,000 | 17.1 % |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | 127,000 | 24.8 % | 371,000 | 21.8 % |
| Stone Creek and Lenox Portfolio | 79,000 | 15.4 % | 252,000 | 14.8 % |
| Avenues at Creekside and Citi Lakes | (2,000) | (0.4)% | 123,000 | 7.2 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | 24,000 | 4.7 % | 218,000 | 12.8 % |
| North by Northwest and Avalon Park | 70,000 | 13.7 % | 90,000 | 5.3 % |
| City Vista and Sorrel | 40,000 | 7.8 % | 40,000 | 2.4 % |
| Other | (25,000) | (4.8)% | 110,000 | 6.5 % |

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| | | | | | |
|-----------------------|-----------|-------|---|-------------|---------|
| | — | | — | | |
| | 411,000 | 80.3 | % | 1,495,000 | 87.9 % |
| New Market Properties | 101,000 | 19.7 | % | 207,000 | 12.1 % |
| Total | \$512,000 | 100.0 | % | \$1,702,000 | 100.0 % |

61

Equity compensation to directors and executives

Equity compensation expense by grant was as follows in the table below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Quarterly board member committee fee grants | \$18,030 | \$18,018 | \$48,021 | \$41,917 |
| Class B Unit awards: | | | | |
| Executive officers | — | — | — | 3,825 |
| 2014 Executive officers | — | 495,399 | 5,236 | 1,474,872 |
| 2015 Executive officers | 517,884 | — | 1,536,946 | — |
| 2016 Restricted stock grants: | | | | |
| 2014 | — | — | — | 107,321 |
| 2015 | — | 80,000 | 106,670 | 133,333 |
| 2016 | 102,500 | — | 170,833 | — |
| Total | \$638,414 | \$593,417 | \$1,867,706 | \$1,761,268 |

Depreciation and amortization

The net increases in depreciation and amortization were driven primarily by the additional depreciable assets from the acquisitions made since September 30, 2015, as shown below:

| Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|---------------------|---|---------------------|
| Amount (rounded to 000s): | Percent of total | Amount (rounded to 000s): | Percent of total |

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| | | | | | |
|--|--------------|--------|---|--------------|--------|
| Multifamily: | | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | | | | | |
| Depreciation | \$2,059,000 | 9.5 | % | \$5,581,000 | 10.2 % |
| Amortization of intangible assets | 1,880,000 | 8.7 | % | 5,477,000 | 10.0 % |
| Stone Creek and Lenox Portfolio | | | | | |
| Depreciation | 1,138,000 | 5.3 | % | 3,474,000 | 6.3 % |
| Amortization of intangible assets | 137,000 | 0.6 | % | 2,064,000 | 3.8 % |
| Creekside and Citi Lakes | | | | | |
| Depreciation | 1,225,000 | 5.7 | % | 3,656,000 | 6.6 % |
| Amortization of intangible assets | — | — | % | 645,000 | 1.2 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | | | | | |
| Depreciation | 1,355,000 | 6.3 | % | 4,061,000 | 7.4 % |
| Amortization of intangible assets | 1,000 | — | % | 2,000 | — % |
| North by Northwest and Avalon Park | | | | | |
| Depreciation | 1,492,000 | 6.9 | % | 2,069,000 | 3.8 % |
| Amortization of intangible assets | 1,086,000 | 5.0 | % | 1,495,000 | 2.7 % |
| City Vista and Sorrel | | | | | |
| Depreciation | 678,000 | 3.1 | % | 678,000 | 1.2 % |
| Amortization of intangible assets | 771,000 | 3.6 | % | 771,000 | 1.4 % |
| Other | 4,390,000 | 20.3 | % | 13,011,000 | 23.7 % |
| Total Multifamily | 16,212,000 | 75.0 | % | 42,984,000 | 78.3 % |
| New Market Properties | | | | | |
| | 5,452,000 | 25.0 | % | 11,997,000 | 21.7 % |
| Total | \$21,664,000 | 100.0% | | \$54,981,000 | 100.0% |

Acquisition and pursuit costs and fees to related parties

Acquisition and pursuit costs and acquisition fees consisted of:

| | Three months ended September 30, 2016 | | |
|---------------------------|--|-------------------------------|-------------------------------|
| Amount (rounded to 000s): | Acquisition fees | Other acquisition costs | Total acquisition costs |
| Multifamily communities: | | | |
| City Vista and Sorrel | \$465,000 | \$ 65,000 | \$530,000 |
| Other | 72,000 | — | 72,000 |
| Total | 537,000 | 65,000 | 602,000 |
| New Market Properties: | | | |
| Sunbelt 7 Portfolio | 138,000 | 156,000 | 294,000 |
| Lakeland Plaza | 55,000 | 48,000 | 103,000 |
| Total | 193,000 | 204,000 | 397,000 |
| Brookwood | 306,000 | 52,000 | 358,000 |
| Total | \$1,036,000 | \$ 321,000 | \$ 1,357,000 |

| | Three months ended September 30, 2015 | | |
|--|--|-------------------------------|-------------------------------|
| Amount (rounded to 000s): | Acquisition fees | Other acquisition costs | Total acquisition costs |
| Multifamily communities: | | | |
| Lakewood Ranch, Aster at Lely, and CityPark View | \$21,000 | \$— | \$21,000 |
| Houston Portfolio | 5,000 | — | 5,000 |
| Avenues at Creekside and Citi Lakes | 1,215,000 | 1,196,000 | 2,411,000 |
| Stone Creek and Lenox Portfolio | 104,000 | — | 104,000 |
| Other | 2,000 | — | 2,000 |
| Total | 1,347,000 | 1,196,000 | 2,543,000 |
| New Market Properties: | | | |
| Royal Lakes Marketplace | 32,000 | 165,000 | 197,000 |
| Independence Square | 283,000 | 180,000 | 463,000 |
| Overlook at Hamilton and Summit Point | 122,000 | — | 122,000 |
| Total | 437,000 | 345,000 | 782,000 |
| Total | \$1,784,000 | \$ 1,541,000 | \$3,325,000 |

| | Nine months ended September 30, 2016 | | |
|---------------------------|---|-------------------------------|-------------------------------|
| Amount (rounded to 000s): | Acquisition fees | Other acquisition costs | Total acquisition costs |
| Multifamily communities: | | | |

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| | | | |
|--|-------------|-----------|-------------|
| Baldwin Park, Crosstown Walk, and Overton Rise | \$2,259,000 | \$— | \$2,259,000 |
| North by Northwest and Avalon Park | 1,716,000 | — | 1,716,000 |
| City Vista and Sorrel | 481,000 | 65,000 | 546,000 |
| Other | 123,000 | — | 123,000 |
| Total | 4,579,000 | 65,000 | 4,644,000 |
| New Market Properties: | | | |
| Wade Green | 183,000 | 111,000 | 294,000 |
| Southeastern Six Portfolio | 364,000 | 274,000 | 638,000 |
| Sunbelt 7 Portfolio | 457,000 | 156,000 | 613,000 |
| The Market at Victory Village and Lakeland Plaza | 264,000 | 48,000 | 312,000 |
| | 1,268,000 | 589,000 | 1,857,000 |
| Brookwood | 332,000 | 52,000 | 384,000 |
| Total | \$6,179,000 | \$706,000 | \$6,885,000 |

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| Amount (rounded to 000s): | Nine months ended September 30, 2015 | | |
|--|--------------------------------------|-------------------------|-------------------------|
| | Acquisition fees | Other acquisition costs | Total acquisition costs |
| Multifamily communities: | | | |
| Lakewood Ranch, Aster at Lely, and CityPark View | \$504,000 | \$1,098,000 | \$1,602,000 |
| Houston Portfolio | 356,000 | 760,000 | 1,116,000 |
| Avenues at Creekside and Citi Lakes | 1,270,000 | 1,196,000 | 2,466,000 |
| Stone Creek and Lenox Portfolio | 109,000 | — | 109,000 |
| Other | 42,000 | — | 42,000 |
| Total | 2,281,000 | 3,054,000 | 5,335,000 |
| New Market Properties: | | | |
| Royal Lakes Marketplace | 73,000 | 166,000 | 239,000 |
| Independence Square | 401,000 | 180,000 | 581,000 |
| Other | 122,000 | — | 122,000 |
| Total | 596,000 | 346,000 | 942,000 |
| Total | \$2,877,000 | \$3,400,000 | \$6,277,000 |

Beginning January 1, 2016, the Company replaced the acquisition fees which were paid to the Manager upon the closing of a property with loan coordination fees. Loan coordination fees are calculated as 1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property, or of 63.0% of the purchase price, if the asset is not leveraged, and are governed by the Management Agreement. If debt is employed to partially finance the acquisition of the property at the closing of the acquisition transaction, then the portion of loan coordination fees attributable to debt financing are treated as deferred loan costs and are amortized over the lives of the loans. If the property is not leveraged at the time of acquisition, then the full loan coordination fee is recognized as an acquisition expense. Such adjustments are included in the interest expense line on the consolidated statements of operations. Acquisition fees paid to our Manager were calculated as 1% of the gross purchase price of the multifamily community, the retail asset, or of the principal amount of the real estate loan. These costs also include similar expenditures for services provided by third parties.

Asset management fees and general and administrative fees to related party

Asset management fees are equal to one-twelfth of 0.50% of the total value of assets, as adjusted. The general and administrative expense fee is equal to 2% of the monthly gross revenues of the Company. Both are calculated as prescribed by the Management Agreement and are paid monthly to our Manager. These fees rose primarily due to the incremental assets and revenues brought on by acquisitions made since September 30, 2015, as shown in the following table:

| Revenues: | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|---------------------------------------|---------------------|--------------------------------------|---------------------|
| | Amount (rounded to 000s): | Percent of increase | Amount (rounded to 000s): | Percent of increase |
| Increases attributable to: | | | | |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$4,902,000 | 20.8 % | \$14,300,000 | 21.8 % |
| Stone Creek and Lenox Portfolio | 2,828,000 | 12.0 % | 8,351,000 | 12.7 % |

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| | | | | | | |
|------------------------------------|--------------|-------|---|--------------|-------|---|
| Avenues at Creekside and Citilakes | 1,420,000 | 6.0 | % | 6,937,000 | 10.6 | % |
| North by Northwest and Avalon Park | 3,539,000 | 15.0 | % | 4,673,000 | 7.1 | % |
| City Vista and Sorrel | 1,679,000 | 7.1 | % | 1,679,000 | 2.6 | % |
| Mezzanine loans | 2,433,000 | 10.3 | % | 7,587,000 | 11.5 | % |
| Other | 96,000 | 0.4 | % | 8,905,000 | 13.5 | % |
| Total | 16,897,000 | 71.7 | % | 52,432,000 | 79.8 | % |
| | | | | | | |
| New Market Properties | 6,685,000 | 28.3 | % | 13,306,000 | 20.2 | % |
| | | | | | | |
| Total | \$23,582,000 | 100.0 | % | \$65,738,000 | 100.0 | % |

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| | As of September 30, 2016 Increase | |
|--|---|---------------------------|
| | Amount (rounded to 000s): | Percent of increase |
| Gross real estate assets: | | |
| Multifamily communities: | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$213,900,000 | 24.3 % |
| Stone Creek and Lenox Portfolio | 101,558,000 | 11.5 % |
| North by Northwest and Avalon Park | 135,766,000 | 15.4 % |
| City Vista and Sorrel | 92,255,000 | 10.5 % |
| Other | 8,354,000 | 0.9 % |
| Total | 551,833,000 | 62.7 % |
| New Market Properties | 328,618,000 | 37.3 % |
| Total | \$880,451,000 | 100.0 % |

Insurance, professional fees and other expenses

The increases consisted of:

| | Three months ended September 30, 2016 Increase | | Nine months ended September 30, 2016 Increase | |
|------------------------------|--|---------------------------|---|---------------------------|
| | Amount (rounded to 000s): | Percent of increase | Amount (rounded to 000s): | Percent of increase |
| Insurance premiums: | | | | |
| Multifamily communities | \$173,000 | 62.7 % | \$726,000 | 40.2 % |
| New Market Properties | 62,000 | 22.5 % | 117,000 | 6.5 % |
| Other | 84,000 | 30.4 % | 167,000 | 9.3 % |
| Management agreement opinion | (128,000) | (46.4)% | 293,000 | 16.2 % |
| Audit and tax fees | 132,000 | 47.8 % | 359,000 | 19.9 % |
| Accounting software | 56,000 | 20.3 % | 216,000 | 12.0 % |
| Legal fees | (88,000) | (31.9)% | (56,000) | (3.1)% |
| Other | (15,000) | (5.4)% | (18,000) | (1.0)% |
| Total | \$276,000 | 100.0 % | \$1,804,000 | 100.0 % |

Contingent asset management and general and administrative expense fees

The Manager may, in its discretion, elect to forego some or all of the asset management, property management, or general and administrative expense fees for properties owned by us. Any such fees become due and payable to the extent that, in the event of any capital transaction, the net sale proceeds exceed the allocable capital contributions for the asset plus a 7% priority annual return on the asset. A total of \$1,458,245 of combined asset management, general and administrative expense and property management fees attributable to the nine-month period ended September 30, 2016 and \$3,596,068 cumulatively have been deemed contingent by the Manager. We will recognize any contingent fees in future periods to the extent, if any, we determine that it is probable that the estimated net sale proceeds would

exceed the hurdles listed above. As of September 30, 2016, there was insufficient evidence to support recognition of these contingent fees; therefore, we have not recognized any expense for the contingent amounts.

Interest expense

The increases consisted of:

| | Three months ended September 30, 2016 | | Nine months ended September 30, 2016 | |
|--|---|---------------------------|---|---------------------------|
| | Increase Amount (rounded to 000s): | Percent of increase | Increase Amount (rounded to 000s): | Percent of increase |
| Interest expense: | | | | |
| Increases attributable to: | | | | |
| Multifamily communities: | | | | |
| Baldwin Park, Crosstown Walk, and Overton Rise | \$ 1,498,000 | 23.4 % | \$ 4,166,000 | 26.4 % |
| Stone Creek and Lenox Portfolio | 705,000 | 11.0 % | 2,129,000 | 13.5 % |
| Avenues at Creekside and Citilakes | 268,000 | 4.2 % | 1,341,000 | 8.5 % |
| Lakewood Ranch, Aster at Lely, and CityPark View | (19,000) | (0.3)% | 1,437,000 | 9.1 % |
| North by Northwest and Avalon Park | 994,000 | 15.5 % | 1,337,000 | 8.5 % |
| City Vista and Sorrel | 497,000 | 7.7 % | 498,000 | 3.2 % |
| KeyBank Operating LOC and Term Notes | 826,000 | 12.9 % | 1,603,000 | 10.1 % |
| Total | 4,769,000 | 74.3 % | 12,511,000 | 79.2 % |
| | | | | |
| New Market Properties | 1,772,000 | 27.6 % | 3,197,000 | 20.2 % |
| | | | | |
| Other | (126,000) | (1.9)% | 96,000 | 0.6 % |
| | | | | |
| Total | \$ 6,415,000 | 100.0 % | \$ 15,804,000 | 100.0 % |

Funds From Operations Attributable to Common Stockholders and Unitholders (“FFO”)

Analysts, managers and investors make certain adjustments to reported net income amounts under U.S. GAAP in order to better assess these vehicles’ operating results. FFO is one of the most commonly utilized Non-GAAP measures currently in practice. In its 2002 “White Paper on Funds From Operations,” which was most recently revised in 2012, the National Association of Real Estate Investment Trusts, or NAREIT, standardized the definition of how Net income/loss should be adjusted to arrive at FFO, in the interests of uniformity and comparability.

The NAREIT definition of FFO (and the one reported by the Company) is:

Net income/loss:

- excluding impairment charges on and gains/losses from sales of depreciable property;
- plus depreciation and amortization of real estate assets and deferred leasing costs; and
- after adjustments for the Company’s proportionate share of unconsolidated partnerships and joint ventures.

Not all companies necessarily utilize the standardized NAREIT definition of FFO, so caution should be taken in comparing the Company’s reported FFO results to those of other companies. The Company’s FFO results are comparable to the FFO results of other companies that follow the NAREIT definition of FFO and report these figures on that basis. The Company believes FFO is useful to investors as a supplemental gauge of our operating results. FFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders.

Core Funds From Operations Attributable to Common Stockholders and Unitholders (“Core FFO”)

Core FFO makes certain adjustments to FFO, which are either not likely to occur on a regular basis or are otherwise not representative of the Company's ongoing operating performance. For example, the Company incurs substantial costs related to property acquisitions, which are required under GAAP to be recognized as expenses when they are incurred. The Company adds back any such acquisition and pursuit costs, including costs incurred in connection with obtaining short term debt financing for acquisitions and beginning January 1, 2016, amortization of loan coordination fees to FFO in its calculation of Core FFO since such costs are not representative of our operating results. The Company also adds back any costs incurred related to the extension of our management agreement with our Manager, realized losses on debt extinguishment and any non-cash dividends in this calculation. Core FFO figures reported by us may not be comparable to those Core FFO figures reported by other companies.

We utilize Core FFO as a measure of the operating performance of our portfolio of real estate assets. We believe Core FFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other real estate companies that are not as involved in ongoing acquisition activities. Core FFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders.

Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders (“AFFO”)

AFFO makes further adjustments to Core FFO results in order to arrive at a more refined measure of operating and financial performance. There is no industry standard definition of AFFO and practice is divergent across the industry. The Company calculates AFFO as:

Core FFO, plus:

- non-cash equity compensation to directors and executives;
- amortization of loan closing costs, excluding costs incurred in connection with obtaining short term financing related to acquisitions;
- depreciation and amortization of non-real estate assets;
- net loan fees received; and
- deferred interest income received;

Less:

- non-cash loan interest income;
- cash paid for pursuit costs on abandoned acquisitions;
- cash paid for loan closing costs;
- amortization of acquired real estate intangible liabilities; and
- normally-recurring capital expenditures and capitalized retail direct leasing costs.

AFFO figures reported by us may not be comparable to those AFFO figures reported by other companies. We utilize AFFO as another measure of the operating performance of our portfolio of real estate assets. We believe AFFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other real estate companies. AFFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders. FFO, Core FFO, and AFFO are not considered measures of liquidity and are not alternatives to measures calculated under GAAP.

Reconciliation of FFO, Core FFO, and AFFO
to Net Loss Attributable to Common Stockholders ^(A)

| | Three months ended: | |
|---|---------------------|---------------|
| | 09/30/2016 | 09/30/2015 |
| Net loss attributable to common stockholders (See note 1) | \$(13,624,001) | \$(6,800,672) |
| Less: non-controlling interests (See note 2) | (86,484) | (15,289) |
| Add: Depreciation of real estate assets | 15,283,505 | 7,510,851 |
| Amortization of acquired real estate intangible assets and deferred leasing costs | 6,243,815 | 2,982,982 |
| FFO | 7,816,835 | 3,677,872 |
| Add: Acquisition and pursuit costs | 1,357,537 | 3,324,958 |
| Loan cost amortization on acquisition term note (See note 3) | 26,937 | — |
| Amortization of loan coordination fees paid to the Manager (See note 4) | 288,127 | — |
| Costs incurred from extension of management agreement with advisor (See note 6) | — | 129,279 |
| Core FFO | 9,489,436 | 7,132,109 |
| Add: Non-cash equity compensation to directors and executives | 638,414 | 593,417 |
| Amortization of loan closing costs (See note 5) | 723,426 | 369,128 |
| Depreciation/amortization of non-real estate assets | 137,043 | 42,653 |
| Net loan fees received (See note 7) | 250,602 | 494,100 |
| Deferred interest income received (See note 8) | — | 282,620 |
| Less: Non-cash loan interest income (See note 7) | (3,950,676) | (2,640,396) |

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| | | |
|--|--------------------|--------------------|
| Abandoned pursuit costs | — | (39,657) |
| Cash paid for loan closing costs | — | (433,195) |
| Amortization of acquired real estate intangible liabilities (See note 9) | (643,123) | (304,608) |
| Normally recurring capital expenditures and leasing costs (See note 10) | (993,684) | (462,638) |
| AFFO | \$5,651,438 | \$5,033,533 |

Common Stock dividends and distributions to Unitholders declared:

| | | |
|---|--------------------|--------------------|
| Common Stock dividends | \$4,992,038 | \$4,018,249 |
| Distributions to Unitholders (See note 2) | 179,449 | 49,781 |
| Total | \$5,171,487 | \$4,068,030 |

| | | |
|---|----------|--------|
| Common Stock dividends and Unitholder distributions per share | \$0.2025 | \$0.18 |
|---|----------|--------|

| | | |
|---|--------|--------|
| FFO per weighted average basic share of Common Stock and Unit Outstanding | \$0.31 | \$0.16 |
|---|--------|--------|

| | | |
|--|--------|--------|
| Core FFO per weighted average basic share of Common Stock and Unit Outstanding | \$0.38 | \$0.32 |
|--|--------|--------|

| | | |
|--|--------|--------|
| AFFO per weighted average basic share of Common Stock and Unit Outstanding | \$0.22 | \$0.22 |
|--|--------|--------|

Weighted average shares of Common Stock and Units outstanding: ^(A)

| | | |
|---------------------------------------|-------------------|-------------------|
| Basic: | | |
| Common Stock | 24,340,791 | 22,292,217 |
| Class A Units | 886,168 | 278,006 |
| Common Stock and Class A Units | 25,226,959 | 22,570,223 |

| | | |
|---------------------------------------|-------------------|-------------------|
| Diluted: ^(B) | | |
| Common Stock and Class A Units | 27,032,093 | 22,953,854 |

| | | |
|---|------------|------------|
| Actual shares of Common Stock outstanding, including 23,247 and 22,602 unvested shares of restricted Common Stock at September 30, 2016 and 2015, 24,681,281 | | 22,323,804 |
| respectively | | |
| Actual Class A Units outstanding | 886,168 | 276,560 |
| Total | 25,567,449 | 22,600,364 |

(A) Units and Unitholders refer to Class A Units in our Operating Partnership, or Class A Units, and holders of Class A Units, respectively. Unitholders include recipients of awards of Class B Units in our Operating Partnership, or Class B Units, for annual service which became vested and earned and automatically converted to Class A Units. Unitholders also include the entity that contributed the Wade Green grocery-anchored shopping center. The Class A Units collectively represent an approximate 3.66% weighted average non-controlling interest in the Operating Partnership for the three-month period ended September 30, 2016.

(B) Since our Core FFO and AFFO results are positive for the periods reflected above, we are presenting recalculated diluted weighted average shares of Common Stock and Class A Units for these periods for purposes of this table, which includes the dilutive effect of common stock equivalents from grants of the Class B Units, warrants included in units of Series A Preferred Stock issued, as well as annual grants of restricted Common Stock. The weighted average shares of Common Stock outstanding presented on the Consolidated Statements of Operations are the same for basic and diluted for any period for which we recorded a net loss available to common stockholders.

Reconciliation of FFO, Core FFO, and AFFO
to Net Loss Attributable to Common Stockholders ^(A)

| | Nine months ended: | |
|---|--------------------|----------------|
| | 09/30/2016 | 09/30/2015 |
| Net loss attributable to common stockholders (See note 1) | \$(34,039,743) | \$(14,415,083) |
| Loss attributable to | | |
| Add: non-controlling interests (See note 2) | (175,045) | (20,712) |
| Depreciation of real estate assets | 39,006,354 | 18,951,905 |
| Amortization of acquired real estate intangible assets and deferred leasing costs | 15,576,868 | 7,343,400 |
| Less: Gain on sale of real estate | (4,271,506) | — |
| FFO | 16,096,928 | 11,859,510 |
| Add: Acquisition and pursuit costs | 6,885,864 | 6,276,663 |
| Loan cost amortization on acquisition term note (See note 3) | 139,744 | 96,658 |
| Amortization of loan coordination fees paid to the Manager (See note 4) | 551,654 | — |
| Costs incurred from extension of management agreement with advisor (See note 6) | 421,387 | 129,279 |
| Core FFO | 24,095,577 | 18,362,110 |
| Non-cash equity | | |
| Add: compensation to directors and executives | 1,867,706 | 1,761,268 |
| Amortization of loan closing costs (See note 5) | 1,740,411 | 973,303 |
| Depreciation/amortization of non-real estate assets | 397,843 | 114,458 |
| Net loan fees received (See note 7) | 1,374,828 | 1,038,792 |
| Deferred interest income received (See note 8) | 6,875,957 | 3,250,379 |
| Less: Non-cash loan interest income (See note 7) | (10,457,754) | (6,596,366) |

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| | | | |
|--|--------------|----------|--------------|
| Abandoned pursuit costs | — | (39,657) |) |
| Cash paid for loan closing costs | (13,276) |) | (529,853) |
| Amortization of acquired real estate intangible liabilities (See note 9) | (1,714,792) |) | (695,177) |
| Normally recurring capital expenditures and leasing costs (See note 10) | (2,180,123) |) | (1,012,440) |
| AFFO | | | |
| | \$21,986,377 | | \$16,626,817 |
| Common Stock dividends and distributions to Unitholders declared: | | | |
| Common Stock dividends and distributions to Unitholders declared: | | | |
| Common Stock dividends | \$14,200,114 | | \$11,881,325 |
| Distributions to Unitholders (See note 2) | 476,293 | | 149,307 |
| Total | \$14,676,407 | | \$12,030,632 |
| Common Stock dividends and Unitholder distributions per share | \$0.5975 | | \$0.535 |
| FFO per weighted average basic share of Common Stock and Unit Outstanding | \$0.66 | | \$0.53 |
| Core FFO per weighted average basic share of Common Stock and Unit Outstanding | \$0.99 | | \$0.82 |
| AFFO per weighted average basic share of Common Stock and Unit Outstanding | \$0.90 | | \$0.74 |
| Weighted average shares of Common Stock and Units outstanding: ^(A) | | | |
| Basic: | | | |
| Common Stock | 23,552,951 | | 22,109,036 |
| Class A Units | 796,710 | | 279,481 |
| Common Stock and Class A Units | 24,349,661 | | 22,388,517 |
| Diluted: ^(B) | 25,854,478 | | 22,783,909 |
| Common Stock and Class A Units | | | |
| Actual shares of Common Stock outstanding, including 23,247 and 22,602 unvested shares | 24,681,281 | | 22,323,804 |

of restricted Common Stock at
September 30, 2016 and 2015,
respectively

| | | |
|-------------------------------------|------------|------------|
| Actual Class A Units outstanding | 886,168 | 276,560 |
| Total | 25,567,449 | 22,600,364 |

(A) Units and Unitholders refer to Class A Units in our Operating Partnership, or Class A Units, and holders of Class A Units, respectively. Unitholders include recipients of awards of Class B Units in our Operating Partnership, or Class B Units, for annual service which became vested and earned and automatically converted to Class A Units. Unitholders also include the entity that contributed the Wade Green grocery-anchored shopping center. The Class A Units collectively represent an approximate 3.27% weighted average non-controlling interest in the Operating Partnership for the nine-month period ended September 30, 2016.

(B) Since our Core FFO and AFFO results are positive for the periods reflected above, we are presenting recalculated diluted weighted average shares of Common Stock and Class A Units for these periods for purposes of this table, which includes the dilutive effect of common stock equivalents from grants of the Class B Units, warrants included in units of Series A Preferred Stock issued, as well as annual grants of restricted Common Stock. The weighted average shares of Common Stock outstanding presented on the Consolidated Statements of Operations are the same for basic and diluted for any period for which we recorded a net loss available to common stockholders.

Notes to Reconciliation of FFO, Core FFO and AFFO to Net Loss Attributable to Common Stockholders

Rental and other property revenues and expenses for the three-month period ended September 30, 2016 include activity for the two multifamily communities and eight grocery-anchored shopping centers acquired during the third quarter 2016 only from their respective dates of acquisition. In addition, the 2016 period includes a full quarter of activity for the six multifamily communities, ten grocery-anchored shopping centers and one student housing community acquired during the fourth quarters of 2015 and the first and second quarters 2016. Rental and other property revenues and expenses for the three-month period ended September 30, 2015 include activity for the two multifamily communities and two grocery-anchored shopping centers only from their respective dates of acquisition during the third quarter 2015.

Non-controlling interests in our Operating Partnership consisted of a total of 886,168 Class A Units as of September 30, 2016. Included in this total are 419,228 Class A Units which were granted as partial consideration to the seller in conjunction with the seller's contribution to us on February 29, 2016 of the Wade Green grocery-anchored shopping center. The remaining Class A units were awarded primarily to our key executive officers. The Class A Units are apportioned a percentage of our financial results as non-controlling interests. The weighted average ownership percentage of these holders of Class A Units was calculated to be 3.51% and 1.23% for the three-month periods ended September 30, 2016 and 2015, respectively and 3.27% and 1.25% for the nine-month periods ended September 30, 2016 and 2015, respectively.

We incurred loan closing costs for the acquisition of the Village at Baldwin Park multifamily community during the first quarter 2016 on our \$35 million acquisition term loan facility with Key Bank National Association, or 2016 Term Loan and on our \$11 million term note. These costs were deferred and are being amortized over the life of the 2016 Term Loan. We also incurred loan closing costs for the acquisition of the Avenues at Northpointe and Avenues at Cypress multifamily communities in 2015 on our \$32 million acquisition term loan facility with Key Bank National Association, or 2015 Term Loan. These costs were deferred and were amortized over the life of the 2015 Term Loan until it was repaid in full on May 12, 2015. Since the amortization expense of these deferred costs is similar in character to acquisition costs, they are therefore an additive adjustment in the calculation of Core FFO.

We pay loan coordination fees to Preferred Apartment Advisors, LLC, our Manager, related to obtaining mortgage financing for acquired properties. The portion of the loan coordination fees attributable to the financing are amortized over the lives of the respective mortgage loans, and this non-cash amortization expense is an addition to FFO in the calculation of Core FFO. At September 30, 2016, aggregate unamortized loan costs were approximately \$7.5 million, which will be amortized over a weighted average remaining loan life of approximately 7.1 years.

We incurred legal costs pertaining to the extension of our management agreement with our Manager. The three-year extension was effective as of June 3, 2016. Such costs are an additive adjustment to FFO in our calculation of Core FFO.

We incur loan closing costs on our existing mortgage loans, which are secured on a property-by-property basis by each of our acquired multifamily communities and retail assets, and also for occasional amendments to our \$135 million syndicated revolving line of credit with Key Bank National Association, or our Revolving Line of Credit. These loan closing costs are also amortized over the lives of the respective loans and the Revolving Line of Credit, and this non-cash amortization expense is an addition to Core FFO in the calculation of AFFO. Neither we nor the Operating Partnership have any recourse liability in connection with any of the mortgage loans, nor do we have any cross-collateralization arrangements with respect to the assets securing the mortgage loans, other than security interests in 49% of the equity interests of the subsidiaries owning such assets, granted in connection with our Revolving Line of Credit, which provides for full recourse liability. At September 30, 2016, aggregate unamortized loan costs were approximately \$18.3 million, which will be amortized over a weighted average remaining loan life of approximately 6.2 years.

7) We receive loan fees in conjunction with the origination of certain real estate loans. These fees are then recognized as revenue over the lives of the applicable loans as adjustments of yield using the effective interest method. The total fees received in excess of amortization income, after the payment of acquisition fees to our Manager are additive adjustments in the calculation of AFFO. Correspondingly, the non-cash income recognized under the effective interest method is a deduction in the calculation of AFFO. We also accrue over the lives of certain loans additional interest amounts that become due to us at the time of repayment of the loan or refinancing of the property, or when the property is sold to a third party. This non-cash income is deducted from Core FFO in the calculation of AFFO.

8) The Company records deferred interest revenue on certain of its real estate loans. These adjustments reflect the receipt during the periods presented of interest income which was earned and accrued prior to those periods presented on various real estate loans.

70

This adjustment reflects straight-line rent adjustments and the reversal of the non-cash amortization of below-market and above-market lease intangibles, which were recognized in conjunction with the Company's acquisitions and which are amortized over the estimated average remaining lease terms from the acquisition date for multifamily communities and over the remaining lease terms for retail assets. At September 30, 2016, the balance of unamortized below-market lease intangibles was approximately \$19.2 million, which will be recognized over a weighted average remaining lease period of approximately 9.7 years.

We deduct from Core FFO normally recurring capital expenditures that are necessary to maintain our assets' revenue streams in the calculation of AFFO. No adjustment is made in the calculation of AFFO for nonrecurring capital expenditures, which totaled \$1,140,891 and \$1,480,968 for the three-month periods ended September 30, 2016 and 2015, respectively and \$4,260,073 and \$2,140,381 for the nine-month periods ended September 30, 2016 and 2015, respectively. This adjustment also deducts from Core FFO capitalized amounts for third party costs during the period to originate or renew leases in our grocery-anchored shopping centers.

Liquidity and Capital Resources

Short-Term Liquidity

We believe our principal short-term liquidity needs are to fund:

- operating expenses directly related to our portfolio of multifamily communities and grocery-anchored shopping centers (including regular maintenance items);
- capital expenditures incurred to lease our multifamily communities and grocery-anchored shopping centers;
- interest expense on and upcoming maturities of our outstanding property level debt;
- amounts due on our Credit Facility;
- distributions that we pay to our preferred stockholders, common stockholders, and unitholders;
- cash redemptions that we may pay to our preferred stockholders, and
- committed investments.

We have a credit facility, or Credit Facility, with Key Bank National Association, or Key Bank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of Key Bank), working capital and other general corporate purposes on an as needed basis. The maximum borrowing capacity on the Revolving Line of Credit was \$70.0 million pursuant to the Third Amended and Restated Credit Agreement, which became effective August 28, 2015 and matures on August 27, 2018. The Revolving Line of Credit accrues interest at a rate of LIBOR plus 3.25% per annum.

On August 5, 2016, we entered into a Fourth Amended and Restated Credit Agreement with Key Bank and the other lenders, or the Fourth Amended and Restated Credit Agreement, that (i) increased the borrowing capacity under our Revolving Line of Credit from \$70 million to \$135 million with the ability to further increase it to \$300 million, subject to certain syndication and other requirements and (ii) extended the maturity date to August 5, 2019, with an option to extend the maturity date to August 5, 2020, subject to certain conditions described therein.

On January 5, 2016, we entered into a \$35.0 million term loan with Key Bank under the Credit Facility, or the 2016 Term Loan, to partially finance the acquisition of the Baldwin Park multifamily community. The Term Loan accrued interest at a rate of LIBOR plus 3.75% per annum. On August 5, 2016, the Company repaid the 2016 Term Loan in full.

On May 26, 2016, the Company entered into a \$11.0 million interim term loan with Key Bank, or the Interim Term Loan, to partially finance the acquisition of Anderson Central, a retail shopping center located in Anderson, South Carolina. The Interim Term Loan accrues interest at a rate of LIBOR plus 2.5% per annum and the maturity date is May 25, 2017.

The Credit Facility contains certain affirmative and negative covenants including negative covenants that limit or restrict secured and unsecured indebtedness, mergers and fundamental changes, investments and acquisitions, liens and encumbrances, dividends, transactions with affiliates, burdensome agreements, changes in fiscal year and other matters customarily restricted in such agreements. The material financial covenants include minimum net worth and debt service coverage ratios and maximum leverage and dividend payout ratios. As of September 30, 2016, we were in compliance with all covenants related to the Credit Facility, as shown in the table below.

| Covenant ⁽¹⁾ | Requirement | Result |
|-----------------------------|--------------------------------------|---------------|
| Net worth | Minimum \$686,921,700 ⁽²⁾ | \$784,749,240 |
| Debt yield | Minimum 8.0% | 8.37% |
| Payout ratio | Maximum 95% ⁽³⁾ | 81.9% |
| Total leverage ratio | Maximum 65.0% | 61.1% |
| Debt service coverage ratio | Minimum 1.50x | 2.25x |

⁽¹⁾ All covenants are as defined in the credit agreement for the Credit Facility.

⁽²⁾ Minimum \$686.9 million, plus 75% of the net proceeds of any equity offering, which totaled \$745 million as of September 30, 2016.

⁽³⁾ Calculated on a trailing four-quarter basis. For the twelve-month period ended September 30, 2016, the maximum dividends and distributions allowed under this covenant was \$62.4 million.

Interest expense for the Credit Facility was approximately \$2.6 million (including deferred loan cost amortization of approximately \$0.3 million) and the weighted average interest rate was 3.96% for the nine-month period ended September 30, 2016.

Our net cash provided by operating activities for the nine-month periods ended September 30, 2016 and 2015 was approximately \$53.9 million and \$28.2 million, respectively. The increase in net cash provided by operating activities was primarily due to the incremental cash generated by property income provided by the nine multifamily communities and 18 grocery-anchored shopping centers we acquired since September 30, 2015, and an increase in cash collections of interest income from our larger portfolio of real estate loans, which grew from an aggregate carrying value of approximately \$238 million at September 30, 2015 to approximately \$341 million at September 30, 2016.

The majority of our revenue is derived from residents and tenants under existing leases at our multifamily communities, retail shopping centers and office building. Therefore, our operating cash flow is principally dependent on: (1) the number of multifamily communities, retail shopping centers and office buildings in our portfolio; (2) rental rates; (3) occupancy rates; (4) operating expenses associated with these multifamily communities, retail projects and office building; and (5) the ability of our residents and tenants to make their rental payments. We believe we are well positioned to take advantage of the recent improvements in real estate fundamentals, such as higher occupancy rates, positive new and renewal rates over expiring leases, a declining home ownership rate and a decline in turnover, which we believe are all positive developments in the real estate industry.

We also earn interest revenue from the issuance of real estate-related loans and may receive fees at the inception of these loans for committing and originating them. Interest revenue we receive on these loans is influenced by (1) market interest rates on similar loans; (2) the availability of credit from alternative financing sources; (3) the desire of borrowers to finance new real estate projects; and (4) unique characteristics attached to these loans, such as exclusive purchase options.

Our net cash used in investing activities was approximately \$833.1 million and \$385.7 million for the nine-month periods ended September 30, 2016 and 2015, respectively. Disbursements for property acquisitions rose from approximately \$311.9 million for the nine months ended September 30, 2015 to approximately \$740.1 million for the nine months ended September 30, 2016. Net deployments of cash for real estate loans and notes receivable were

approximately \$108.4 million in 2016, versus net disbursements for loans and notes receivable in the 2015 period of approximately \$73.8 million.

Cash used in investing activities is primarily driven by acquisitions and dispositions of multifamily properties and retail shopping centers and acquisitions and maturities or other dispositions of real estate loans and other real estate and real estate-related assets, and secondarily by capital expenditures related to our owned properties. We will seek to acquire more multifamily communities and retail shopping centers at costs that we expect will be accretive to our financial results. Capital expenditures may be nonrecurring and discretionary, as part of a strategic plan intended to increase a property's value and corresponding revenue-generating power, or may be normally recurring and necessary to maintain the income streams and present value of a property. Certain capital expenditures may be budgeted and reserved for upon acquiring a property as initial expenditures necessary to bring

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a property up to our standards or to add features or amenities that we believe make the property a compelling value to prospective residents or tenants in its individual market. These budgeted nonrecurring capital expenditures in connection with acquisitions are funded from the capital sources for the acquisitions and are not dependent upon subsequent property operational cash flows for funding.

For the nine-month period ended September 30, 2016, our capital expenditures were:

| | Nonrecurring capital expenditures | | | Recurring | |
|-------------------------|-----------------------------------|----------|-----------|--------------|-----------|
| | Budgeted | Other | Total | capital | Total |
| | at | | | expenditures | |
| | acquisition | | | | |
| Multifamily: | | | | | |
| Summit Crossing | \$— | \$96,109 | \$96,109 | \$ 98,571 | \$194,680 |
| Trail Creek | — | 23,908 | 23,908 | 44,386 | 68,294 |
| Stone Rise | — | 60,737 | 60,737 | 56,003 | 116,740 |
| Ashford Park | — | 165,476 | 165,476 | 137,478 | 302,954 |
| McNeil Ranch | — | 10,554 | 10,554 | 63,220 | 73,774 |
| Lake Cameron | — | 71,845 | 71,845 | 83,241 | 155,086 |
| Stoneridge | 197,895 | 58,716 | 256,611 | 128,774 | 385,385 |
| Vineyards | 45,222 | 68,649 | 113,871 | 132,466 | 246,337 |
| Enclave | 159,576 | 18,320 | 177,896 | 111,351 | 289,247 |
| Sandstone | 89,857 | 70,300 | 160,157 | 137,320 | 297,477 |
| Cypress | 77,666 | 7,500 | 85,166 | 25,883 | 111,049 |
| Northpointe | 25,121 | 36,001 | 61,122 | 56,635 | 117,757 |
| Lakewood Ranch | 94,869 | 2,881 | 97,750 | 18,814 | 116,564 |
| Aster at Lely | — | 8,902 | 8,902 | 40,292 | 49,194 |
| CityPark View | — | 2,641 | 2,641 | 8,540 | 11,181 |
| Mansions at Creekside | 104,366 | 7,986 | 112,352 | 94,992 | 207,344 |
| Citilakes | 247,941 | 15,095 | 263,036 | 38,759 | 301,795 |
| Stone Creek | 118,923 | 3,675 | 122,598 | 41,975 | 164,573 |
| Lenox Portfolio | 28,246 | 3,049 | 31,295 | 82,954 | 114,249 |
| Village at Baldwin Park | 812,219 | 3,649 | 815,868 | 197,764 | 1,013,632 |
| Crosstown Walk | — | 24,053 | 24,053 | 42,134 | 66,187 |
| Overton Rise | 54,742 | 7,565 | 62,307 | 23,574 | 85,881 |
| Avalon Park | 29,572 | 7,221 | 36,793 | 83,366 | 120,159 |
| City Vista | — | — | — | — | — |
| Sorrel | 26,036 | — | 26,036 | 255 | 26,291 |
| | 2,112,251 | 774,832 | 2,887,083 | 1,748,747 | 4,635,830 |
| Retail: | | | | | |
| Woodstock Crossing | — | 6,450 | 6,450 | 185 | 6,635 |
| Parkway Town Centre | — | 35,762 | 35,762 | 39,233 | 74,995 |
| Spring Hill Plaza | — | — | — | 2,743 | 2,743 |
| Barclay Crossing | 198,123 | — | 198,123 | 5,156 | 203,279 |
| Deltona Landings | — | — | — | 14,831 | 14,831 |
| Kingwood Glen | — | 40,977 | 40,977 | 23,520 | 64,497 |
| Parkway Centre | — | 25,032 | 25,032 | 71,391 | 96,423 |
| Powder Springs | — | — | — | 42,871 | 42,871 |
| Sweetgrass Corner | — | — | — | 40,189 | 40,189 |
| Salem Cove | — | — | — | 24,311 | 24,311 |

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| | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Independence Square | 739,903 | 206,901 | 946,804 | 13,528 | 960,332 |
| Royal Lakes Marketplace | — | — | — | 24,445 | 24,445 |
| Summit Point | 24,465 | 36,983 | 61,448 | 10,300 | 71,748 |
| The Overlook at Hamilton Place | — | — | — | 11,478 | 11,478 |
| Wade Green Village | 58,397 | — | 58,397 | 7,434 | 65,831 |
| East Gate Shopping Center | — | — | — | 7,337 | 7,337 |
| Fairview Market | — | — | — | 2,800 | 2,800 |
| Fury's Ferry | — | — | — | 27,225 | 27,225 |
| Southgate Village | — | — | — | 40,554 | 40,554 |
| | 1,020,888 | 352,105 | 1,372,993 | 409,531 | 1,782,524 |
| Student housing: | | | | | |
| North by Northwest | — | — | — | 22,609 | 22,609 |
| | \$3,133,139 | \$1,126,937 | \$4,260,076 | \$2,180,887 | \$6,440,963 |

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For the nine-month period ended September 30, 2015, our capital expenditures were:

| | Nonrecurring capital expenditures | | | Recurring capital expenditures | |
|-----------------------|-----------------------------------|------------------|--------------------|--------------------------------|--------------------|
| | Budgeted at acquisition | Other | Total | capital expenditures | Total |
| Multifamily: | | | | | |
| Summit Crossing | \$— | \$50,690 | \$50,690 | \$ 97,434 | \$ 148,124 |
| Trail Creek | — | 85,988 | 85,988 | 88,945 | 174,933 |
| Stone Rise | — | 30,384 | 30,384 | 81,160 | 111,544 |
| Ashford Park | — | 209,015 | 209,015 | 127,725 | 336,740 |
| McNeil Ranch | — | 7,093 | 7,093 | 46,619 | 53,712 |
| Lake Cameron | — | 70,380 | 70,380 | 91,466 | 161,846 |
| Stoneridge | 103,510 | 12,294 | 115,804 | 121,494 | 237,298 |
| Vineyards | 28,264 | 8,230 | 36,494 | 63,177 | 99,671 |
| Enclave | — | 14,258 | 14,258 | 94,584 | 108,842 |
| Sandstone | 265,070 | 4,874 | 269,944 | 102,623 | 372,567 |
| Cypress | 30,675 | 3,573 | 34,248 | 15,112 | 49,360 |
| Northpointe | 43,959 | — | 43,959 | 14,559 | 58,518 |
| Lakewood Ranch | 119,222 | 17,256 | 136,478 | — | 136,478 |
| Aster at Lely | — | — | — | 12,229 | 12,229 |
| CityPark View | — | — | — | 2,794 | 2,794 |
| Mansions at Creekside | 19,576 | — | 19,576 | 21,109 | 40,685 |
| Citilakes | 19,197 | — | 19,197 | — | 19,197 |
| | 629,473 | 514,035 | 1,143,508 | 981,030 | 2,124,538 |
| Retail: | | | | | |
| Woodstock | 264,930 | 15,648 | 280,578 | 735 | 281,313 |
| Parkway Town Centre | 319,121 | — | 319,121 | 4,704 | 323,825 |
| Spring Hill Plaza | 30,040 | 3,800 | 33,840 | — | 33,840 |
| Deltona Landings | — | — | — | 1,409 | 1,409 |
| Salem Cove | 29,820 | — | 29,820 | — | 29,820 |
| Kingwood Glen | 326,207 | 7,307 | 333,514 | 19,079 | 352,593 |
| Powder Springs | — | — | — | 371 | 371 |
| Sweetgrass Corner | — | — | — | 98 | 98 |
| Independence Square | — | — | — | 5,015 | 5,015 |
| | 970,118 | 26,755 | 996,873 | 31,411 | 1,028,284 |
| Total | \$1,599,591 | \$540,790 | \$2,140,381 | \$ 1,012,441 | \$3,152,822 |

Net cash provided by financing activities was approximately \$787.3 million and \$362.5 million for the nine-month periods ended September 30, 2016 and 2015, respectively. Our receipts of funds from mortgage financing transactions of asset acquisitions were approximately \$479.5 million in the nine-month period ended September 30, 2016, versus \$204.6 million for the nine-month period ended September 30, 2015. Net proceeds from our Follow-on Offering rose from approximately \$173.5 million to \$287.8 million in the 2016 period. We collected net proceeds from the exercise of Warrants of approximately \$19.8 million during the 2016 period versus \$1.2 million for the 2015 period. We also collected net proceeds from our ATM Offering of approximately \$5.4 million for the nine-month period ended September 30, 2015 and \$2.8 million in the 2016 period.

We believe that our short-term liquidity needs are and will continue to be adequately funded.

Distributions

In order to maintain our status as a REIT for U.S. federal income tax purposes, we must comply with a number of organizational and operating requirements, including a requirement to distribute 90% of our annual REIT taxable income to our stockholders. As a REIT, we generally will not be subject to federal income taxes on the taxable income we distribute to our stockholders. Generally, our objective is to meet our short-term liquidity requirement of funding the payment of our quarterly Common Stock dividends, as well as monthly dividends to holders of our Series A Preferred Stock, through net cash generated from operating results. In addition, our Series A Preferred Stock is redeemable by the holder at stated value commencing on the date of issuance, subject to a declining redemption fee. Redemptions may be satisfied in cash or Common Stock, at our discretion. In the event we choose to redeem for cash but do not have available funds to do so, we intend to satisfy the request with shares of our Common Stock.

For the nine-month period ended September 30, 2016, our aggregate dividends and distributions paid totaled approximately \$40.6 million and our cash flows from operating activities of approximately \$53.9 million were more than sufficient to fund our cash dividend distributions for the nine months ended September 30, 2016. We expect our cash flow from operations for future periods to be sufficient to fund our quarterly Common Stock dividends and distributions to Class A Unitholders, as well as our monthly Preferred Stock dividends, with the possible exceptions of periods in which we incur significant acquisition costs, or periods of significant debt extinguishment charges.

At September 30, 2016, we had 24,658,034 issued and outstanding shares of Common Stock, an additional 23,247 shares of unvested restricted stock, and 886,168 outstanding Class A Units in our Operating Partnership, all of which are entitled to quarterly dividends or distributions, when and if declared by our board of directors. Our third quarter dividend declaration of \$0.2025 per share represents a 12.5% increase from the dividend of \$0.18 for the third quarter 2015. The annualized rate of growth from our first dividend of \$0.125 per share following our initial public offering in April 2011 to the third quarter 2016 was approximately 11.9%.

Our board of directors reviews the Series A Preferred Stock dividend monthly to determine whether we have funds legally available for payment of such dividends in cash. There can be no assurance that the Series A Preferred Stock dividends will consistently be paid in cash and dividends may be paid as a combination of cash and stock in order to satisfy the annual distribution requirements applicable to REITs. We expect the aggregate dollar amount of monthly Series A Preferred Stock dividend payments to increase at a rate that approximates the rate at which we issue new Units from our Follow-On Offering. At September 30, 2016, we had 802,032 outstanding shares of Series A Preferred Stock, which receive a monthly dividend of \$5.00 per share.

Long-Term Liquidity Needs

We believe our principal long-term liquidity needs are to fund:

- the principal amount of our long-term debt as it becomes due or matures;
- capital expenditures needed for our multifamily communities and retail shopping centers;
- costs associated with current and future capital raising activities;
- costs to acquire additional multifamily communities, retail assets or other real estate and enter into new and fund existing lending opportunities; and
- our minimum distributions necessary to maintain our REIT status.

We intend to finance our future investments with the net proceeds from additional issuances of our securities, including our Follow-on Offering, Common Stock, and units of limited partnership interest in our Operating Partnership, and/or borrowings. The success of our acquisition strategy may depend, in part, on our ability to access further capital through issuances of additional securities, especially our Follow-on Offering. If we are unsuccessful in raising additional funds, we may not be able to obtain any assets in addition to those we have acquired.

On October 11, 2013, the SEC declared effective our Follow-On Offering Registration Statement for an offering of up to 900,000 Units to be offered from time to time on a “reasonable best efforts” basis. Except as described in the prospectus for the Follow-On Offering, the terms of the Follow-On Offering are substantially similar to the terms of the Primary Series A Offering. As of September 30, 2016, we had issued an aggregate of 809,460 Units from both our Primary Series A Offering which expired on December 31, 2013 and our Follow-On Offering. At September 30, 2016, we had 179,948 Units remaining available to be issued from our Follow-on Offering. For the nine-month period ended September 30, 2016, 1,516,320 shares of Common Stock were issued from the exercise of Warrants, which ultimately resulted in cash proceeds to us of approximately \$16.2 million.

Aggregate offering expenses, including selling commissions and dealer manager fees, were approximately \$93.5 million at September 30, 2016. These expenses will be capped at 11.5% of the aggregate gross proceeds of the Primary Series A Offering and the Follow-On Offering. We will reimburse our Manager up to 1.5% of the gross proceeds of these offerings for all organization and offering expenses incurred, excluding selling commissions and dealer manager fees; however, upon approval by the conflicts committee of our board of directors, we may reimburse our Manager for any such expenses incurred above the 1.5% amount as permitted by the Financial Industry Regulatory Authority. To clarify the prospectus for our Follow-On Offering, we will not pay selling commissions, but will pay dealer manager fees, in connection with the sale of Units through any participating broker-dealer that agrees to waive any or all of the selling commissions for such sale. The amount of selling commissions not paid will equal the amount of the selling commissions waived by the participating broker-dealer. The net proceeds to us will not be affected by reducing the commissions payable in connection with such sales.

On May 5, 2016, we filed a registration statement on Form S-3 (File No. 333-211178) for an offering up to \$300 million of equity or debt securities, or the New Shelf Registration Statement, which was declared effective by the SEC on May 17, 2016. On July 18, 2016, we filed a prospectus to our New Shelf Registration Statement to issue and sell up to \$150 million of our Common Stock from time to time in an “at the market” offering, or the New ATM Offering, through Jones Trading Institutional Services LLC, FBR Capital Markets & Co., and Canaccord Genuity Inc., as sales agents. We issued 197,256 shares of Common Stock for net proceeds of approximately \$2.8 million under our New ATM Offering during the three-month period ended September 30, 2016.

On June 9, 2016, we filed a registration statement on Form S-3 (File No. 333-211924) for an offering of up to 2,000,000 Units consisting of 2,000,000 shares of Series A Redeemable Preferred Stock and warrants to purchase 40,000,000 shares of Common Stock, or the New Follow-On Series A Offering. Except as described in the prospectus, the terms of the New Follow-on Series A Offering are substantially similar to those under the Follow-on Offering.

Our ability to raise funds through the issuance of our securities is dependent on, among other things, general market conditions for REIT's, market perceptions about us, and the current trading price of our Common Stock. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the equity and credit markets may not consistently be available on terms that are attractive to us or at all.

The sources to fulfill our long-term liquidity in the future may include borrowings from a number of sources, including repurchase agreements, securitizations, resecuritizations, warehouse facilities and credit facilities (including term loans and revolving facilities), in addition to our Credit Facility. We have utilized, and we intend to continue to utilize, leverage in making our investments in multifamily communities and retail shopping centers. The number of different multifamily communities, retail shopping centers and other investments we will acquire will be affected by numerous factors, including the amount of funds available to us. By operating on a leveraged basis, we will have more funds available for our investments. This will allow us to make more investments than would otherwise be possible, resulting in a larger and more diversified portfolio.

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the fair market value of our tangible assets (including our real estate assets, real estate loans, notes receivable, accounts receivable and cash and cash equivalents) on a portfolio basis. As of September 30, 2016, our outstanding debt (both secured and unsecured) was approximately 54.1% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at September 30, 2016. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. The amount of leverage we will place on particular investments will depend on our Manager's assessment of a variety of factors which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in the portfolio, the availability and cost of financing the asset, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and the health of the commercial real estate market in general. In addition, factors such as our outlook on interest rates, changes in the yield curve slope, the level and volatility of interest rates and their associated credit spreads, the underlying collateral of our assets and our outlook on credit spreads relative to our outlook on interest rate and economic performance could all impact our decision and strategy for financing the target assets. At the date of acquisition of each asset, we anticipate that the investment cost for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. Finally, we intend to acquire all our real estate assets through separate single purpose entities and we intend to finance each of these assets using debt financing techniques for that asset alone without any cross-collateralization to our other real estate assets or any guarantees by us or our Operating Partnership. We intend to have no long-term unsecured debt at the Company or Operating Partnership levels, except for our Credit Facility.

Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our tangible assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our tangible assets, we expect that our board of directors will consider many factors, including without limitation the lending standards of government-sponsored enterprises, such as Fannie Mae and Freddie Mac, for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, and general market conditions. There is no limitation on the amount that we may borrow for any single investment.

Our ability to incur additional debt is dependent on a number of factors, including our credit ratings (if any), the value of our assets, our degree of leverage and borrowing restrictions imposed by lenders. We will continue to monitor the debt markets,

including Fannie Mae and/or Freddie Mac (from both of whom we have obtained single asset secured financing on all of our multifamily communities), and as market conditions permit, access borrowings that are advantageous to us.

If we are unable to obtain financing on favorable terms or at all, we may have to curtail our investment activities, including acquisitions and improvements to real properties, which could limit our growth prospects. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise capital by issuing more securities or borrowing more money. We may be forced to dispose of assets at inopportune times in order to maintain our REIT qualification and Investment Company Act exemption. Our ability to generate cash from asset sales is limited by market conditions and certain rules applicable to REITs. We may not be able to sell a property or properties as quickly as we would like or on terms as favorable as we would like.

Furthermore, if interest rates or other factors at the time of financing result in higher costs of financing, then the interest expense relating to that financed indebtedness would be higher. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operations, cash flow, our ability to pay principal and interest on our debt and our ability to pay distributions to our stockholders. Finally, sellers may be less inclined to offer to sell to us if they believe we may be unable to obtain financing.

As of September 30, 2016, we had long term mortgage indebtedness of approximately \$1.2 billion, all of which was incurred by us in connection with the acquisition or refinancing of our multifamily communities, grocery-anchored shopping centers and office building. In addition, we held loan participation obligations of approximately \$19.6 million and a principal amount owed on the 2016 Term Note of \$11.0 million at September 30, 2016.

As of September 30, 2016, we had approximately \$10.5 million in unrestricted cash and cash equivalents available to meet our short-term and long-term liquidity needs. We believe that our long-term liquidity needs are and will continue to be adequately funded through the sources discussed above.

Off-Balance Sheet Arrangements

As of September 30, 2016, we had 702,823 Warrants outstanding from our sales of Units. The Warrants are exercisable by the holder at an exercise price of 120% of the current market price per share of the Common Stock on the date of issuance of such Warrant with a minimum exercise price of \$9.00 per share. The current market price per share is determined using the volume weighted average closing market price for the 20 trading days prior to the date of issuance of the Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance. As of September 30, 2016, a total of 104,939 Warrants had been exercised for the purchase of 2,098,780 shares of Common Stock and 1,698 Warrants had expired. A remaining total of 280,325 Warrants had passed the initial exercise date and so became potentially exercisable into a total of 5,606,500 shares of Common Stock. The remainder of the Warrants outstanding at September 30, 2016 become potentially exercisable between October 15, 2016 and September 29, 2017 and have exercise prices that range between \$13.10 and \$17.96 per share. If all the Warrants outstanding at September 30, 2016 became exercisable and were exercised, gross proceeds to us would be approximately \$196.1 million and we would as a result issue an additional 14,056,460 shares of Common Stock.

Contractual Obligations

As of September 30, 2016, our contractual obligations consisted of the mortgage notes secured by our acquired properties. At September 30, 2016, our estimated future required payments on these instruments were:

| Total | Less than one year | 1-3 years | 3-5 years | More than five years |
|-------|-----------------------|-----------|-----------|-------------------------|
|-------|-----------------------|-----------|-----------|-------------------------|

Mortgage debt obligations:

| | | | | | |
|-----------|---------------|--------------|--------------|--------------|--------------|
| Interest | \$237,163,947 | \$41,167,032 | \$76,384,643 | \$51,984,480 | \$67,627,792 |
| Principal | 1,276,335,433 | 110,814,068 | 262,348,728 | 257,627,200 | 645,545,437 |

| | | | | | |
|-------|-----------------|---------------|---------------|---------------|---------------|
| Total | \$1,513,499,380 | \$151,981,100 | \$338,733,371 | \$309,611,680 | \$713,173,229 |
|-------|-----------------|---------------|---------------|---------------|---------------|

The principal amounts payable in the above chart include the principal amount due of \$82.0 million on our Revolving Line of Credit at September 30, 2016, as well as \$11.0 million principal amount outstanding on our Term Loan. Accrued interest as of September 30, 2016 on our debt instruments was \$3,490,151. In addition to the amounts in the above table, we had unfunded real

estate loan commitment amounts totaling approximately \$54.4 million, including unfunded real estate loan participation obligations of approximately \$0.5 million at September 30, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk. All our floating-rate debt is tied to the 30-day LIBOR. As of September 30, 2016, we have variable rate mortgages on our Avenues at Creekside, Citi Lakes, Avalon Park and Baldwin Park (Avalon Park and Baldwin Park both have two mortgages) multifamily communities, and on our Royal Lakes Marketplace and Cherokee Plaza grocery-anchored shopping centers, with an aggregate principal amount of approximately \$263.9 million. Two of these mortgages have LIBOR effectively capped at 5.0% and 4.33% (all-in rates of 6.6% and 6.5%) under Freddie Mac's capped adjustable-rate mortgage program. Our Revolving Line of Credit accrues interest at a spread over LIBOR of 2.0% to 3.5%, depending upon our leverage ratio; this combined rate is uncapped. As of September 30, 2016, the spread over LIBOR approximated 3.5%, for an all-in rate of approximately 3.9%. Because of the short term nature of this instrument, we believe our interest rate risk is minimal. We have no business operations which subject us to trading risk.

We have and will continue to manage interest rate risk as follows:

- maintain a reasonable ratio of fixed-rate, long-term debt to total debt so that floating-rate exposure is kept at an acceptable level;

- place interest rate caps on floating-rate debt where appropriate; and

- take advantage of favorable market conditions for long-term debt and/or equity financings.

We use various financial models and advisors to achieve our objectives.

If interest rates under our floating-rate LIBOR-based indebtedness fluctuated by 100 basis points, our interest costs, based on outstanding borrowings at September 30, 2016, would increase by approximately \$2.5 million on an annualized basis, or decrease by approximately \$1.2 million on an annualized basis. The difference between the interest expense amounts related to an increase or decrease in our floating-rate interest cost is because LIBOR was 0.53% at September 30, 2016, therefore we have limited the estimate of how much our interest costs may decrease because we use a floor of 0% for LIBOR.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

Management of the Company evaluated, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Accounting Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of September 30, 2016, the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Accounting Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting.

As required by the Exchange Act Rule 13a-15(d), the Company's Chief Executive Officer and Chief Accounting Officer evaluated the Company's internal control over financial reporting to determine whether any change occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect,

the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during such period.

78

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

At the end of the period covered by this Quarterly Report on Form 10-Q, we and our subsidiaries were not a party currently subject to any material pending legal proceedings.

Item 1A. Risk Factors

Our performance is subject to risks associated with our office properties and the office property industry.

Our economic performance from our office properties is subject to the risk that if our office properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our stockholders will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
- competition from other office buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office space;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let office space;
- changes in space utilization by our office tenants due to technology, economic conditions and business culture;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs; and
- declines in the financial condition of our office tenants and our ability to collect rents from our office tenants.

We face considerable competition in the office leasing market and may be unable to renew existing office leases or re-let office space on terms similar to the existing leases, or we may expend significant capital in our efforts to re-let office space, which may adversely affect our operating results.

Every year, we compete with a number of other developers, owners, and operators of office and office-oriented properties to renew office leases with our existing tenants and to attract new office tenants. To the extent that we are able to renew office leases that are scheduled to expire in the short-term or re-let such office space to new tenants, heightened competition resulting from adverse market conditions may require us to utilize rent concessions and tenant improvements to a greater extent than we historically have. In addition, competition for credit worthy office tenants is intense and we may have difficulty competing with competitors, especially those who have purchased office properties at discounted prices allowing them to offer office space at reduced rental rates.

If our competitors offer office accommodations at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants upon expiration of their existing office leases. Even if our tenants renew their leases or we are able to re-let the office space, the terms and other costs of renewal or re-letting, including the cost of required renovations, increased tenant improvement allowances, leasing commissions, declining rental rates, and other potential concessions, may be less favorable than the terms of our current leases and could require significant capital expenditures. If we are unable to renew office leases or re-let office space in a reasonable time, or if rental rates decline or tenant improvement, leasing commissions, or other costs increase, our financial condition, cash flows, ability to pay distributions to our stockholders, and ability to satisfy our debt service obligations could be adversely affected.

We face potential adverse effects from major office tenants' bankruptcies or insolvencies.

The bankruptcy or insolvency of a major office tenant may adversely affect the income produced by our office properties. Our office tenants could file for bankruptcy protection or become insolvent in the future. We cannot evict an office tenant solely because of its bankruptcy. On the other hand, a bankrupt office tenant may reject and terminate its lease with us. In such case, our claim against the bankrupt office tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the office lease, and, even so, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flow and results of operations.

In order to maintain and/or increase the quality of our office properties and successfully compete against other office properties, we regularly must spend money to maintain, repair, renovate and improve our office properties, which could negatively impact our financial condition and results of operations.

If our office properties are not as attractive to customers due to physical condition as office properties owned by our competitors, we could lose customers or suffer lower rental rates. As a result, we may from time to time be required to make significant capital expenditures to maintain or enhance the competitiveness of our office properties. There can be no assurances that any such expenditures would result in higher occupancy or higher rental rates or deter existing customers from relocating to office properties owned by our competitors.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PREFERRED
APARTMENT
COMMUNITIES, INC.

Date: November

7, By: /s/ John A. Williams
2016

John A. Williams
Chief Executive Officer

Date: November

7, By: /s/ Michael J. Cronin
2016

Michael J. Cronin
Executive Vice President,
Chief Accounting Officer
and Treasurer

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EXHIBIT INDEX

Exhibit

| Number | Description |
|--------|---|
| 10.1 | Fourth Amended and Restated Credit Agreement dated as of August 5, 2016 among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P., the lenders party (1)thereto and KeyBank National Association |
| 10.2 | Fourth Amended and Restated Guaranty dated as of August 5, 2016 by and among Preferred Apartment (1)Communities, Inc., each of the guarantors party thereto and KeyBank National Association |
| 10.3 | Fourth Amended and Restated Pledge and Security Agreement dated as of August 5, 2016 among Preferred Apartment Communities Operating Partnership, L.P., (the "Borrower"), each of the (1)subsidiaries of the Borrower party thereto and KeyBank National Association |
| 10.4 | (2) Form of Buy-Sell Agreement with KeyBank National Association |
| 10.5 | (3) Amendment No. 1 to the Sixth Amended and Restated Management Agreement, effective as of August 29, 2016, and entered into as of October 5, 2016 among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC |
| 10.6 | (4) First Amendment to Agreement of Sale and Purchase between HR Venture Properties I LLC and New Market Properties, LLC dated as of July 8, 2016 (TX) |
| 10.7 | (4) Second Amendment to Agreement of Sale and Purchase between HR Venture Properties I LLC and New Market Properties, LLC dated as of July 11, 2016 (TX) |
| 10.8 | (4) Third Amendment to Agreement of Sale and Purchase between HR Venture Properties I LLC and New Market Properties, LLC dated as of July 12, 2016 (TX) |
| 12.1 | * Statements Re Computations of Ratios |
| 31.1 | * Certification of John A. Williams, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | * Certification of Michael J. Cronin, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | * Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | * Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | * XBRL (eXtensible Business Reporting Language). The following materials from Preferred Apartment Communities, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2016, formatted in XBRL: (i) Consolidated balance sheets at September 30, 2016 and December 31, 2015, (ii) consolidated statements of operations for the three months and nine months ended September 30, 2016 and 2015, (iii) consolidated statement of stockholders' equity, (iv) consolidated statement of cash flows and (v) notes to consolidated financial statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purpose of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. * Filed herewith (1) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 10, 2016 |

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(2) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 17, 2015

(3) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 5, 2016

(4) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on July 15, 2016