

PREFERRED APARTMENT COMMUNITIES INC

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April 10, 2017

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3 2016 ANNUAL REPORT COMPANY PROFILES LETTER TO STOCKHOLDERS FORM 10-K COMPANY INFORMATION
WELCOME PREFERRED APARTMENT COMMUNITIES

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With assets in 25 cities across 9 states, the PAC family of companies provides the full gamut of services for our core business, including Investment Management, Acquisition and Disposition, Asset Management and Property Management. Our guiding philosophy is to provide our residents and tenants with an exceptional experience by offering quality apartment homes and retail centers, superior resident and tenant services, and total customer satisfaction.

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Preferred Apartment Communities, Inc. (NYSE: APTS) is a 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 development 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 a lesser portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, membership or partnership interests in other income-producing property types as determined by our manager as appropriate for us. Preferred Apartment Communities, Inc. has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, commencing with its tax year ended December 31, 2011. COMPANY PROFILES ... As of December 31, 2016, our assets grew to \$2.4 Billion and revenues soared to \$200 Million.

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3 2016 ANNUAL REPORT REFERRED RESIDENTIAL MANAGEMENT, LLC is a subsidiary of Preferred Apartment Advisors, LLC, the external manager for Preferred Apartment Communities, Inc. PRM manages PAC's communities throughout the United States. Its goal is to provide residents an exceptional living experience by offering quality apartment homes, superior resident services and total satisfaction. From its cutting edge amenities, meticulously groomed landscaping and superior maintenance service to its well-trained staff, PRM is committed to creating a higher standard of living that sets its communities apart from all others. REFERRED CAMPUS MANAGEMENT, LLC is a subsidiary of Preferred Apartment Advisors, LLC, the external manager for Preferred Apartment Communities, Inc. PCM is a student housing property management company that provides turn-key property management services to student housing communities utilizing PAC's loan investment program. PCM's goal is to provide residents an extraordinary living experience through superior resident services, innovative technology, cutting edge amenities and meticulously groomed landscaping. REFERRED CAMPUS COMMUNITIES, LLC is a subsidiary of Preferred Apartment Communities, Inc. PCC was formed to acquire off-campus student communities in select targeted university markets with growing enrollments throughout the United States. REFERRED CAPITAL SECURITIES, LLC is focused on the wholesale distribution of securities to broker dealer and registered investment advisory firms located in the United States and its territories. PCS is the distribution platform for Preferred Apartment Communities' Series A Redeemable Preferred Stock and Warrant Offering and mShares Preferred Stock Offering. PCS is a registered broker dealer in all 50 states and territories in the U.S. and a member of the Financial Industry Regulatory Authority (FINRA) and the Security Investment Protection Corporation (SIPC). REFERRED OFFICE PROPERTIES, LLC is a subsidiary of Preferred Apartment Communities, Inc. formed to invest in Class A office properties across the United States. The company sources portfolio assets through acquisitions of operating properties as well as strategic, structured participations in new developments. EW MARKET PROPERTIES, LLC is a subsidiary of Preferred Apartment Communities, Inc. and is focused on the grocery- anchored shopping center sector. New Market's strategy is to aggressively grow its existing portfolio throughout the mid-Atlantic, the Southeast and Texas. New Market targets high quality suburban markets with dominant grocers such as Publix, Kroger, and Tom Thumb. P P P P P N PREFERRED APARTMENT ADVISORS, LLC is the operating arm of Preferred Apartment Communities, which is responsible for the overall operations and controls of our company.

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4 2016 ANNUAL REPORT ASTER AT LELY RESORT NAPLES, FLORIDA "We consider our stockholders as our partners." - John A. Williams
Chief executive officer M U L T I F A M I L Y

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5 2016 ANNUAL REPORT TO OUR STOCKHOLDERS 2016 represents a truly outstanding year for Preferred Apartment Communities. We increased our funds from operation (FFO) 21.6% per share and our core FFO 12.9% per share.¹ We also increased our common stock dividends 12.4% per share compared to last year. On an annualized basis, our common stock dividend growth rate since June 30, 2011, the first quarter-end following our initial public offering (IPO) and commencement of operations in April 2011, is 13.9% per share. Since our IPO, our stockholders' annualized return on investment is 20.25% assuming automatic reinvestment of all dividends. These performance results have far exceeded our goals of a 10% per share increase for earnings and dividend growth and are among the best in the REIT industry, if not the best. During the year we concentrated on enhancing the three key elements forming the foundation of Preferred Apartment Communities: our Product, Associates, and Customers (PAC). We remained laser-focused on our multifamily community operations, including student housing, although we continued to invest a portion of our assets in non-multifamily properties such as grocery-anchored shopping centers and office properties. We strengthened the experience and depth of our management team and refined and implemented a training program for all of our associates designed to make them second to none. We also began implementing a bench-marking system through which we are able to measure the success of our interactions with all of our customers; that is, our residents, tenants, vendors and stockholders. Last, we installed a series of technology enhancements across all levels of our operations that we believe places us in the forefront of having best-in-class financial and operational controls and efficiencies. Demonstration Kitchen at The Encore, Atlanta, GA

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7 2016 ANNUAL REPORT OPERATIONAL RESULTS AND CAPITAL MARKETS ACTIVITIES For 2016, our revenue totaled \$200.1 million, an 83.1% increase over 2015. This revenue growth reflects the success of our property management efforts for our multifamily communities, grocery-anchored shopping centers and office properties, our 86.8% growth in assets to \$2.4 billion compared to 2015, and our unique real estate loan investment program. As of the end of 2016, we owned an aggregate of 59 properties in 25 cities across 9 states. We have continued to focus on our cash flow from operations, and are pleased to report that our cash flow from operations was approximately \$61.7 million for 2016, a 75.1% increase compared to 2015. Moreover, we continue to emphasize our objective to cover the payment of dividends to both our common and preferred stockholders out of our cash flow from operations. We also are pleased to report that our core FFO payout ratio to our common stockholders and unitholders for 2016 was approximately 63.6% and to our preferred stockholders was approximately 55.9%. We believe our payout ratios to our preferred stockholders are the lowest ratios for securities sold through the independent broker dealer and registered investment advisory channels. Our extensive growth activities through acquisitions and our real estate loan investment program are supported, in part, by our multifaceted capital markets activities and our asset divestiture program. COMMON STOCKHOLDERS' ANNUALIZED RETURN ON INVESTMENT: 20.25% Since IPO, April 2011 (ASSUMING AUTOMATIC DIVIDEND REINVESTMENT)

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"Our outstanding performance results for 2016 are a direct reflection of the collaborative strength of the PAC team." - Leonard A. Silverstein
President And Chief Operating Officer BALDWIN PARK ORLANDO, FLORIDA MAY 15 2017

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9 2016 ANNUAL REPORT During 2016, we issued an aggregate of 3,736,641 shares of our common stock through public issuances under our at-the-market stock offering program, through redemptions of our Series A Redeemable Preferred Stock, and through exercises of warrants previously issued along with shares of our Series A Redeemable Preferred Stock. As of the end of 2016, we had 26,498,192 shares of common stock issued and outstanding—approximately 16% more shares than at the end of 2015. We also issued an aggregate of 438,673 shares of our Series A Redeemable Preferred Stock through the independent broker dealer and registered investment advisory channels during 2016. We're pleased to report that, as of February 14, 2017, we completed our \$900 million Series A Redeemable Preferred Stock and Warrant offering. During 2016, we also sold one multifamily community that generated approximately \$10.6 million of net proceeds for our company. We utilized the net proceeds from this transaction for general working capital purposes, including our acquisition and real estate loan investment activities. OUR PRODUCT Preferred Apartment Communities' continued primary focus is to acquire and own Class A multifamily communities typically in MSAs having a population of more than one million residents, with our goal to have the youngest, most modernized communities in the industry. During 2016, we acquired six multifamily communities. As of the end of the year, we owned and managed 24 multifamily communities representing 8,049 units in 16 cities across eight states, and had an additional 5,562 units in our real estate loan investment program pipeline. We continue to finance the acquisition of each community using a single purpose entity through which there are no cross collateralizations of mortgages among the communities for the benefit of our mortgage lenders and no loan guarantees that flow upstream to our operating partnership subsidiary or our company. We recognize that this structure may be somewhat more costly than financing our asset acquisitions through a jumbo loan secured by each asset for which the loan proceeds are utilized. Nevertheless, we firmly believe that this financing structure provides added safety for the benefit of our stockholders and has enabled us to create a fortress-like balance sheet. As part of our business plan, we have continued to invest a portion of our assets in grocery-anchored shopping centers located principally in the top 100 MSAs across the mid-Atlantic, Southeast and Texas. We target high-volume grocery anchors that maintain a significant market share as well as certain specialty grocers that have high volume stores in a particular market. As of the end of 2016, we owned 31 grocery-anchored shopping centers in 16 cities across seven states, having an aggregate purchase price of \$554.8 million and comprising approximately 5.3 million square feet of gross leasable area (GLA). This represents a 169% increase in aggregate purchase price and 158% increase in GLA, respectively, compared to 2015. As of the end of 2016, we owned an aggregate of 24 MULTIFAMILY COMMUNITIES, 51 GROCERY-ANCHORED SHOPPING CENTERS, 3 REAL ESTATE LOAN INVESTMENTS, 9 STUDENT HOUSING COMMUNITY, AND 5 OFFICE BUILDINGS.

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11 2016 ANNUAL REPORT We owned one student housing community at the end of 2016 representing 219 units or 679 beds. At its essence, student housing is a form of multifamily housing, although it's quite apparent the resident population and their needs are different than at our Class A multifamily communities. Nevertheless, our property management execution requires the same sophisticated skillset together with the same high quality customer service, maintenance and landscaping for which our company is known. Toward this end, we established a separate, highly experienced management team whose focus is solely on the student properties that we own and have an option to acquire under our real estate loan investment program. We are seeking to expand this segment of our multifamily portfolio with communities that are consistent with our company's overall standards of excellence. We also have invested a lesser portion of our assets in well-leased office properties having credit worthy tenants with long-term leases. During 2016, we acquired three office properties having an aggregate purchase price of \$277.6 million. These properties are located in two cities across two states, and represent an aggregate of 1.1 million square feet of GLA. Of these three assets, we believe we will reposition one asset into a multi-use property that includes a multifamily community component for which we have already procured the appropriate zoning. We also believe our entry into this market segment will, for the foreseeable future, continue to remain a small portion of our non-multifamily assets. One of our unique business strategies is our real estate loan investment program. Essentially, because of our extensive experience in multifamily and commercial development prior to the formation of Preferred Apartment Communities, we embarked upon a program in 2011, shortly after our IPO, in which our company provides to select developers a portion of the capital stack needed to develop a multifamily community or grocery-anchored shopping center once the developer has contributed the necessary equity for the project and has procured a senior lender to finance the development transaction. Prior to originating a real estate loan investment, we will conduct extensive due diligence on the proposed transaction as if we were the actual developer and owner. As part of our financial commitment for the development of a multifamily community, we provide the developer with detailed specifications related to the project's design and amenity offerings that we expect to be included. Most importantly, we typically receive from the developer an option to acquire the asset upon completion and stabilization at a negotiated price that reflects a discount to the then fair market value of the asset. PAC has created a FORTRESS-LIKE balance sheet.

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THE OVERLOOK CHATTANOOGA, TENNESSEE “2016 was a transformative year in the growth and operational success of our grocery-anchored shopping center initiative.” - Joel t. murPhy Chief exeCutive offiCer, neW mArket ProPerties RE TA IL

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13 2016 ANNUAL REPORT During 2016, we originated 12 real estate loan investments representing an aggregate commitment of \$162.1 million. Under this program, we now have outstanding 31 real estate loan investments aggregating \$411.1 million in commitments as of the end of 2016. Our loan investment program has created a tremendous pipeline of new multifamily communities representing 5,562 units and one grocery-anchored shopping center, aggregating over \$1.0 billion in estimated market value. Included in these multifamily units are real estate loan investments for nine student housing communities representing an aggregate of 2,034 units or 6,261 beds. Through the benefits of our real estate loan investment program and our everyday acquisition and divestiture activity, the average age today of our multifamily communities is only 6.5 years, which we believe is one of the youngest portfolios of any publicly traded REIT. OUR ASSOCIATES The heart of our success is the depth and experience of our management team and the quality of our associates. During 2016, we increased our management bench strength by adding key players throughout our company. Our management team now consists of 16 persons having an aggregate of over 70 years of experience in our industry. In fact, John Williams, our co-founder, Chairman of the Board and Chief Executive Officer, Lenny Silverstein, our co-founder, President and Chief Operating Officer and Director, and Dan DuPree, our Vice Chairman of the Board and Chief Investment Officer, collectively have almost 130 years of experience in our industry. To be successful, however, we need experience and success across all levels of our company. Associate experience and success comes down to four simple principles: hire well, train well, recognize and reward.

Hiring is the lifeblood of any organization. We take hiring our associates very seriously. We seek to hire associates who are bright, who have great interpersonal skills, and who we believe will be additive to the culture we have been creating at Preferred Apartment Communities since our inception. Once hired, though, it is only the beginning. We continuously train our associates at all levels of the company. We have developed a culture throughout our company that is designed to show respect for each other and for our residents, tenants, vendors and stockholders. We have developed methods and processes that have been proven successful over the years for our executive management team and our company. It is critical that everyone, at every level, be properly trained in our way of execution. For example, commencing in 2015 we implemented an annual training program for our associates called, "Soaring to Leadership." This training program is designed to identify high-performing associates and to help educate them on what it takes to become a leader in our company. The goal of this program is to impart to these associates the successful attributes of leadership both to enable them to play a meaningful role in the growth of our company, and to mentor other associates on the qualities needed to be successful. OUR ASSOCIATES ARE AMONG OUR MOST VALUABLE ASSETS.

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SOARING: TO RISE OR ASPIRE TO A HIGHER LEVEL, BEING THE BEST OF THE BEST. WE ARE SOARING TO SUCCESS. WE At PAC
VALUE THE IMPORTANCE OF SOARING. WE APPLY IT IN ALL WE DO ACROSS OUR KEY ELEMENTS forming the foundation of pac
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15 2016 ANNUAL REPORT Soaring to Leadership follows an intensive course program culminating with the participants identifying, developing and executing a business plan for how to improve some aspect of our company. To date, 32 associates have graduated from this program. Everyone likes to be recognized for their achievements. Our associates are no exception. In 2014 we held our first annual Awards Banquet to recognize those associates who have reached the highest levels of success with respect to their job duties and responsibilities. Our award recipients range from property maintenance engineers, to property management, to corporate level associates, to associates charged with capital raising. During our 2016 Awards Banquet held this past December, we distributed awards to 78 associates. Over the last three years, we have had an aggregate of 198 award winners. The Awards Banquet is always a high-energy event and one in which we fly in every associate of our company to Atlanta to attend. We also honor our associates through our new monthly Spotlight Program, which recognizes them for their ongoing contributions, and our Milestone Program, which recognizes them for their years of service and loyalty.

At our Awards Banquet, a select few of our associates are chosen for inclusion in our Eagle Club. PAC's Eagle Club is the highest accolade an associate can attain. These associates have achieved successes well above and beyond what typically would be expected during that year by our executive management team.

The nominees are then rewarded with a group trip with members of our management team during which time they have the opportunity to strengthen their understanding of the culture we are trying to instill and to strengthen their bonds with the other associates and management participating on the trip. We have honored 10 associates as Eagle Club winners, with 16 associates recognized this past December. In summary, based on recent survey results from an independent third party, our associates have indicated that we are successfully implementing our four key associate principles. OUR CUSTOMERS No matter how sophisticated or appealing our company or product is, we cannot achieve the levels of success we desire without focusing on the needs of our customers—our residents, tenants, vendors and stockholders. We strive to have each of our customers experience superb service at all levels. During 2016, we engaged an independent third party to survey our residents at each of our multifamily communities on a variety of topics, including questions related to the quality of our service, interior and exterior amenities, and landscaping. We are quite pleased with the results of our survey. Our residents' response rate to the survey was significantly above the typical response rate and our results exceeded the satisfaction index benchmark for surveys of this type. Now that we have established our own benchmarks, we plan to continue periodic surveys of our residents to gauge our ongoing performance. We also plan to conduct similar surveys in the future across other asset types in our portfolio. From a stockholder perspective, we strive for transparency in our communications, whether as part of our on-line presence, in our press releases and SEC filings, or in our presentations. We are a young company, but a company soaring with significant depth, experience and success. S O A R I N G

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THREE RAVINIA ATLANTA, GEORGIA “With Sunbelt vacancies at 10-year lows and new supply in the market constrained, we believe there is a meaningful opportunity to selectively acquire trophy, well-leased suburban offices.” - dAniel m. duPree Chief investment offiCer O FF IC E

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17 2016 ANNUAL REPORT LOOKING AHEAD As we enter 2017, we are excited about the opportunities that await us. We will continue to focus on our product, associates and customers. We have a robust pipeline of acquisition and real estate loan investment opportunities. We have a number of real estate loan investment opportunities for which we may exercise our purchase options, and we have a variety of capital raising solutions available to us. This past January, for example, we commenced a \$500 million offering of our mShares no-load preferred stock primarily to holders of managed and fee-based accounts. In February, we commenced a \$1.5 billion follow-on offering of our commission-based Series A Redeemable Preferred Stock and Warrants to investors through the independent broker dealer and registered investment advisory channels. We expect our mShares and Series A preferred stock offerings will be completed in approximately three years. We also expect to continue to increase our public float of common stock during 2017 through a combination of public offerings through the New York Stock Exchange, as well as redemptions of our Series A Redeemable Preferred Stock and exercises of warrants previously issued with shares of our Series A Redeemable Preferred Stock. We will continue to focus on safely covering our dividends to all of our stockholders with cash flow from operations, and remain committed to managing our financial risk and to enhancing our brand, "A Preferred Apartment Community." In closing, we wish to thank the many people who have assisted us over the past year in achieving our success, including our associates, our residents and tenants, and above all, our stockholders. We thank you for your continued trust, confidence and support in Preferred Apartment Communities.

1 See our Annual Report on Form 10-K included herein for a reconciliation of FFO and Core FFO to comparable GAAP measures. Pictured from left to right: Lenny Silverstein, John Williams, and Dan DuPree John A. Williams Leonard A. Silverstein Daniel M. DuPree FROM THE OUTSET, WE HAVE SOUGHT TO CREATE STEADY, PREDICTABLE FINANCIAL RESULTS, MUCH LIKE THE OUTCOME IN THE ADAGE, THE TORTOISE AND THE HARE. FROM THE

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-K ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2016 Commission File No. 001-34995 Preferred Apartment Communities, Inc. (Exact name of registrant as specified in its charter) MARYLAND 27-1712193 (State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.) 3284 Northside Parkway NW, Suite 150, Atlanta, GA 30327 (Address of principal executive offices) (Zip Code) Registrant's telephone number, including area code: (770) 818-4100 Securities registered pursuant to Section 12(b) of the Act: Title of each class Name of each exchange on which registered Common Stock, par value \$.01 per share NYSE Securities registered pursuant to Section 12(g) of the Act: None Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K or any amendment to this Form 10-K. 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 Exchange Act Rule 12b-2). 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 Exchange Act Rule 12b-2). Yes No The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2016, the last business day of registrant's most recently completed second fiscal quarter, was \$338,093,464 based on the closing price of the common stock on the NYSE on such date. The number of shares outstanding of the registrant's Common Stock, as of February 20, 2017 was 27,001,669. DOCUMENTS INCORPORATED BY REFERENCE Certain information to be included in the registrant's definitive Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for the registrant's 2017 Annual Meeting of Stockholders is incorporated by reference into PART III of this Annual Report on Form 10-K.

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1 PART I This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled "Forward-Looking Statements" included elsewhere in this Annual Report on Form 10-K. You should also review the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K for a discussion of various risks that could adversely affect us. Unless the context otherwise requires or indicates, references to the "Company", "we", "our" or "us" refers to Preferred Apartment Communities, Inc., a Maryland corporation, together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or our Operating Partnership. Item 1. Business Development of the Company Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009 and has 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. The Company was 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 a lesser portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, membership or partnership interests in other income-producing property types as determined by Preferred Apartment Advisors, LLC, a Delaware limited liability company, or our Manager, as appropriate for us. Our investment guidelines limit our investment in these non-multifamily assets to 20% of our assets subject to increases unanimously approved by our board of directors. On December 12, 2016 our board of directors temporarily suspended this 20% limit. Our board of directors will review and discuss the reinstatement of the 20% limit following a spinoff, sale or distribution of our grocery-anchored shopping centers, if any such transaction occurs. Our consolidated financial statements include the accounts of the Company and Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. The Company controls the Operating Partnership through its sole general partnership interest and has and plans to continue to conduct substantially all its business through the Operating Partnership. For the year ended December 31, 2016, the company held an approximate 96.7% weighted average ownership percentage in the Operating Partnership. Pursuant to the First Amendment to the Fifth Amended and Restated Management Agreement, which was effective January Q, 2016, we replaced the acquisition fee owed to the Manager in connection with acquiring real property with a loan coordination fee that is payable in relation to the amount of new debt financed or outstanding debt assumed secured directly by any of our owned real estate asset or the additional amount of any supplemental financing secured directly any of our owned real estate assets. In addition, the First Amendment to the Management Agreement changes the name of the fee paid on loans originated by the Company from an "acquisition fee" to a "loan origination fee." As referred to herein, the Sixth Amended and Restated Management Agreement, as it may be amended, effective as of June 3, 2016, among the Company, our Operating Partnership and our Manager is referred to as the Management Agreement. We have no employees of our own; our Manager provides all managerial and administrative personnel to us pursuant to the Management Agreement. We also pay asset management fees, general and administrative expense fees, property management fees, construction management fees and leasing fees related to the management of our real estate portfolio (which may be made contingent solely at our discretion and recognized at a later date upon certain conditions), and disposition fees on the sale of a real estate asset. In addition, our Manager has no obligation to provide our board of directors with prior notice of a proposed investment transaction, but leaves intact our Manager's obligation to notify the board of directors within 30 days following completion of an investment transaction. Both our Manager and our Operating Partnership are related parties to us.

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2 At December 31, 2016, our portfolio of current and potential real estate assets consisted of: Owned as of December 31, 2016 Potential additions from real estate loan portfolio (1) Total Potential Multifamily communities: Properties 24 15 39 Units 8,049 4,108 12,157 Grocery-anchored shopping centers: Properties 31 1 32 Gross leasable area (square feet) 3,295,491 212,800 (2) 3,508,291 Student housing communities: Properties 1 8 9 Units 219 1,874 2,093 Beds 679 5,693 6,372 Office buildings: Properties 3 — 3 Rentable square feet 1,096,834 — 1,096,834 (1) In conjunction with extending a real estate loan in partial support of the development of a multifamily community or other real estate asset, we will typically receive an option to purchase the property at a fixed discount to our estimate of future market capitalization rates. We evaluate each project individually and we make no assurance that we will acquire any of the underlying properties from our real estate loan portfolio. (2) Square footage represents area covered by our purchase options and excludes 123,590 square feet owned by the grocery anchor. We completed our initial public offering, or the IPO, on April 5, 2011. Our common stock, par value \$.01 per share, or our Common Stock, is traded on the NYSE exchange under the symbol "APTS." Financial Information About Segments We evaluate the performance of our business operations and allocate 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 buildings. Multifamily Communities - consists of the Company's portfolio of owned residential multifamily communities, including its one owned student housing community and the Lenox Portfolio, which includes 47,600 square feet of ground floor retail gross leasable area. Financing - consists of the Company's 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 retail real estate loan. New Market Properties - consists of the Company's portfolio of 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 retail real estate loans. Office Buildings - consists of the Company's three office buildings located in Atlanta, Georgia and Birmingham, Alabama. The financial measures required by Item 101 of Regulation S-K to be presented in Item 1 are included in the Company's consolidated financial statements and notes thereto in Item 15 of this Annual Report on Form 10-K. Investment Strategy We seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy. As, and if, the real estate market and economy continues to stabilize and improve, we intend to

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3 employ efficient management techniques to grow income and create asset value. Our investment strategies may include, without limitation, the following:

- Acquiring Class “A” multifamily assets in performing and stable markets throughout the United States; these properties, we believe, will generate sustainable and growing cash flow from operations sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation. These multifamily assets will generally be located in metropolitan statistical areas, or MSAs, with at least one million people which we expect will generate job growth and where we believe new multifamily development of comparable properties is able to be absorbed at attractive rental rates.
- Acquiring Class “A” multifamily assets that are intended to be financed with longer-term, assumable, fixed-rate debt typically provided by FHA/HUD programs.
- Acquiring Class “A” multifamily assets that present an opportunity to implement a value-add program whereby the properties can be upgraded or improved physically to better take advantage of the market.
- Acquiring grocery-anchored shopping centers, typically anchored by one of the market-dominant grocers in that particular market.
- Acquiring leading Class “A” office buildings in high-growth markets across the U.S.
- Acquiring Class “A” student housing assets at major universities around the United States. These assets will be located proximate to campuses with demonstrated track records of occupancy and rental rates. The universities served by these assets should generally be larger institutions with stated policies of increased enrollment and market trends that indicate new development is being or should be absorbed at attractive rental rates.
- Originating real estate investment loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties, other multifamily related assets, grocery-anchored shopping centers and office buildings.
- It is our policy to acquire any of our target assets primarily for income, and only secondarily for possible capital gain. 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 mezzanine 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.
- We also may invest in real estate related debt, including, but not limited to, newly or previously originated first mortgage loans on multifamily properties that meet our investment criteria, which are performing or non-performing, newly or previously originated mezzanine loans on multifamily properties that meet our investment criteria (second or subsequent mortgages), which are performing or non-performing, and tranches of securitized loans (pools of collateralized mortgaged-backed securities) on multifamily properties that meet our investment criteria, which are performing or non-performing. In connection with our investments in mezzanine debt, we may negotiate the inclusion of exclusive purchase options on the to-be-developed properties. These purchase options may include a fixed purchase price set at the time we enter into the loan, or a purchase price which is calculated as a certain discount from market capitalization rates at the date of exercise of such purchase option. Any asset acquisitions from affiliated third parties have been, and will continue to be, subject to approval by our conflicts committee comprised solely of independent directors. Our Manager's investment committee will periodically review our investment portfolio and its compliance with our investment guidelines and policies, and provide our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. Our investment guidelines, the assets in our portfolio, the decision to utilize leverage, and the appropriate levels of leverage are periodically reviewed by our board of directors as part of their oversight of our Manager. Our board of directors may amend or revise our investment guidelines without a vote of the stockholders. Financing Strategy We intend to finance the acquisition of investments using various sources of capital, as described in the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” included in this Annual Report on Form 10-K. Included in this discussion are details regarding (i) our offering of 900,000 units,

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4 consisting of one share of series A redeemable preferred stock, or Series A Preferred Stock, and one warrant exercisable into 20 shares of Common Stock, or Series A Units, such offering of Series A Units we refer to as our Follow-On Series A Offering, (ii) our offering of up to \$150 million of Common Stock pursuant to our "at the market" offering, or the 2016 ATM Offering, which commenced with the first settlement in August 2016, (iii) our offering of 500,000 shares of our series m preferred stock, or mShares, pursuant to our mShares Offering, and (iv) our \$1.5 Billion Unit Offering. Our mShares Offering was declared effective on December 2, 2016 and our offering of 1,500,000 Series A Units, or our \$1.5 Billion Unit Offering, was declared effective on February 14, 2017. The Series A Preferred Stock and our mShares are collectively referred to as our Preferred Stock. We intend to utilize leverage in making our investments. The number of different 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. See the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K for more information about the risks related to operating on a leveraged basis. We generally 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 December 31, 2016, our outstanding debt (both secured and unsecured) was approximately U4.5% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 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 properties through separate single purpose entities and intend to finance each of these properties using debt financing techniques for that property alone, without any cross-collateralization to our other multifamily communities or any guarantees by us or our Operating Partnership. We have an Amended and Restated Credit Agreement, or Credit Facility, with Key Bank, N.A., or Key Bank. The Credit Facility provides for our \$150.0 million revolving credit facility, or the Revolving Line of Credit, as well as a \$11.0 million term loan, or Term Loan. Other than with regard to our Credit Facility, as of December 31, 2016, we held no debt at the Company or operating partnership levels, had no cross-collateralization of our real estate mortgages, and had no contingent liabilities at the Company or operating partnership levels with regard to our secured mortgage debt on our communities. Leverage may be obtained from a variety of sources, including the Federal Home Loan Mortgage Corporation, or Freddie Mac; the Federal National Mortgage Association, or Fannie Mae; commercial banks; credit companies; the Federal Housing Administration, or FHA, a unit of the Department of Housing and Urban Development, or HUD; insurance companies; pension funds; endowments; financial services companies and other institutions who wish to provide debt financing for our assets. Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our net assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our net assets, we expect that our board of directors will consider many factors, including the lending standards of government-sponsored enterprises, such as Fannie Mae, Freddie Mac and other companies for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, whether we have positive leverage (in that, the board of directors will compare the capitalization rates of our properties to the interest rates on the indebtedness of such properties) and general market and economic conditions. There is no limitation on the amount that we may borrow for any single investment or the number of mortgages that may be placed on any one property.

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5 Marketing and Branding Strategy Our Manager has branded, and intends to brand, all apartment communities owned by us as “A Preferred Apartment Community” which we believe signifies outstanding brand and management standards, and has obtained all rights to the trademarks, including federal registration of the trademarks with the United States Patent and Trademark Office, to secure such brand in connection with such branding. We believe these campaigns will enhance each individual property's presence in relation to other properties within that marketplace. On September 17, 2010, we entered into a trademark license and assignment agreement pursuant to which we granted an exclusive, worldwide, fully-paid, royalty-free license of all our trademarks to our Manager and agreed to assign all of our trademarks to our Manager upon the applications related to our trademarks being successfully converted to use based applications with the United States Patent and Trademark Office. Pursuant to this agreement, in March 2012, we assigned these trademarks to our Manager and concurrently entered into a royalty-free license agreement for these trademarks with us as licensee. Similarly, in March 2012, our Manager entered into a royalty-free license agreement with us as licensee with respect to all other intellectual property of the Manager. The license agreements will terminate automatically upon termination of the Management Agreement, or upon a material breach of a license agreement that remains uncured for more than 30 days after receipt of notice of such breach. Following such termination, we will be required to enter into a new arrangement with our Manager in order to continue our rights to use our Manager's intellectual property. There can be no assurance that we will be able to enter into such arrangements on terms acceptable to us. We have implemented what we believe to be an innovative and unique marketing and branding strategy at each multifamily community that we own by implementing the PAC Concierge, PAC Rewards and PAC Partners programs. We intend to implement this same marketing and branding strategy at each multifamily community we acquire. Our PAC Concierge Program is a complimentary service for residents designed to offer them the type of personal concierge services that one might expect at a high end resort. The concierge services are provided by a professionally trained third party team and is available to our residents 24/7 by telephone, email or web access through our unique resident web portal. Our PAC Rewards program, once communities are enrolled in the program, allows residents to accumulate and redeem reward points for services and upgrades. Residents may accumulate Preferred Rewards, for example, when they sign their lease, pay their rent online, renew their leases, or when a resident's referral signs a new lease. Our PAC Partners program establishes reciprocal relationships between a Preferred Apartment Community and neighborhood businesses to provide our residents with benefits such as discounts, perks and other incentives as an enticement to frequent those businesses and to support the local community. Environmental Regulation We are subject to regulation at the federal, state and municipal levels and are at risk for potential liability should conditions at our properties or our actions or inaction result in damage to the environment or to persons or properties. These conditions could include the potential presence or growth of mold, potential leaks from current or former underground or above-ground storage tanks, breakage or leaks from sewer lines and risks pertaining to the management or disposal of wastes and chemicals. We could be liable for the potential costs of compliance, property damage, restoration and other costs which could occur without regard to our fault or knowledge of such conditions. In the course of acquiring and owning real estate assets, we typically engage an independent environmental consulting firm to perform a phase I environmental assessment (and if appropriate, a phase II assessment) to identify and mitigate these risks as part of our due diligence process. We believe these assessment reports provide a reasonable basis for discovery of potential adverse environmental conditions prior to acquisition. If any potential environmental risks or conditions are discovered during our due diligence process, the potential costs of remediation are assessed carefully and factored into the cost of acquisition, assuming the identified risks and factors are deemed to be manageable and reasonable. Some risks or conditions may be identified that are significant enough to cause us to abandon the possibility of acquiring a given property. As of December 31, 2016, we have no knowledge of any material claims made or pending against us with regard to environmental matters for which we could be found liable, nor are we aware of any potential hazards to the environment related to any of our properties which could reasonably be expected to result in a material loss. Competition The multifamily housing industry is highly fragmented and we compete for residents with a large number of other quality apartment communities in our target markets which are owned by public and private companies, including other REITs, many of which are larger and have more resources than our Company. The number of competitive multifamily properties in a particular

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6 market could adversely affect our ability to lease our multifamily communities, as well as the rents we are able to charge. In addition, other forms of residential properties, including single family housing and town homes, provide housing alternatives to potential residents of quality apartment communities. The factors on which we focus to compete for residents in our multifamily communities include our high level of resident service, the quality of our apartment communities (including our landscaping and amenity offerings), and the desirability of our locations. Resident leases at our apartment communities are priced competitively based on levels of supply and demand within our target markets and we believe our communities offer a compelling value to prospective residents. Similarly, competition for tenants and acquisition of existing centers in the grocery-anchored shopping center sector in our target markets is considerable, consisting of public and private companies, high net worth individuals and family offices. In addition, a significant competitor in this sector are some of the grocery anchors themselves as they acquire land and build their own stores or acquire the entire center where they are the anchor. We are faced with the challenge of maintaining high occupancy rates with a financially stable tenant base. In order to attract quality prospective tenants and retain current tenants upon expiration of their leases, we focus on improving the design and visibility of our centers, building strong relationships with our tenants, and reducing excess operating costs and increasing tenant satisfaction through proactive asset and property management. We target acquisitions in markets with solid surrounding demographics, quality underlying real estate locations, and centers where our asset management approach can provide an environment conducive to creating sales productivity for our tenants.

Available Information The Company makes available all reports which are filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material has been filed with, or furnished to, the SEC for viewing or download free of charge at the Company's website: www.pacaps.com. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, or you may obtain information by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy statements and information statements, and other information, which you may obtain free of charge.

Item 1A. Risk Factors In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating us and our business. Our business, operating results, prospects and financial condition could be materially adversely affected by any of these risks. The risks and uncertainties described below are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that, as of the date of this Annual Report on Form 10-K, we deem immaterial also may harm our business. This "Risk Factors" section contains references to our "capital stock" and to our "stockholders." Unless expressly stated otherwise, the references to our "capital stock" represent our common stock and any class or series of our preferred stock, while the references to our "stockholders" represent holders of our common stock and any class or series of our preferred stock. Unless expressly stated otherwise, the references to our Preferred Stock refer to both our mShares and our Series A Preferred Stock.

Risks Related to an Investment in Our Company Our ability to grow the Company and execute our business strategy may be impaired if we are unable to secure adequate financing. Our ability to grow the Company and execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Currently, we do not have any agreements or letters of intent in place for any debt financing sources other than our Credit Facility and our Term Loan. Recently, domestic and international financial markets have experienced unusual volatility and uncertainty. Debt or equity financing may not be available in sufficient amounts, on favorable terms or at all. Returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure financing on reasonable terms, if at all. Additionally, if we issue additional equity securities to finance our investments instead of incurring debt (through our \$1.5 Billion Unit Offering, offerings through our Shelf Registration Statement, our 2016 ATM Offering, our mShares Offering, or other offerings), the interests of our existing stockholders could be diluted. Distributions paid from sources other than our net cash provided by operating activities, particularly from proceeds of any offerings of our securities, will result in us having fewer funds available for the acquisition of properties and other real estate-

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7 related investments, which may adversely affect our ability to fund future distributions with net cash provided by operating activities and may adversely affect our stockholders' overall return. As we acquire multifamily properties and other real estate assets, we will incur substantial costs to perform due diligence tasks and other costs connected with acquiring these assets. Pursuant to accounting principles generally accepted in the United States of America, or GAAP, regardless of the source of funds to pay acquisition costs, these acquisition costs are accounted for as deductions from total cash provided by operating activities to determine net cash provided by operating activities. The net effect of this could cause our dividend distributions to exceed our net cash provided by operating activities and could have a detrimental effect on our stock price and the value of our stockholders' investments. We have paid distributions from sources other than from net cash provided by operating activities. If we do not generate sufficient net cash provided by operating activities and other sources, such as borrowings, the sale of additional securities, advances from our Manager, our Manager's deferral, suspension and/or waiver of its fees and expense reimbursements, to fund distributions, we may use the proceeds from any offering of our securities. Moreover, our board of directors may change our distribution policy, in its sole discretion, at any time, except for distributions on our Preferred Stock, which would require approval by a supermajority vote of our Common Stockholders. Distributions made from offering proceeds may be a return of capital to stockholders, from which we will have already paid offering expenses in connection with the related offering. We have not established any limit on the amount of proceeds from our securities offerings that may be used to fund distributions, except that, in accordance with our organizational documents and Maryland law, we may not make distributions that would: (1) cause us to be unable to pay our debts as they become due in the usual course of business; (2) cause our total assets to be less than the sum of our total liabilities plus senior liquidation preferences, if any; or (3) jeopardize our ability to qualify as a REIT. If we fund distributions from the proceeds of an offering of our securities, we will have less funds available for acquiring properties or real estate-related investments. As a result, the return our stockholders realize on their investment may be reduced. Funding distributions from borrowings could restrict the amount we can borrow for investments, which may affect our profitability. Funding distributions with the sale of assets or the proceeds of an offering of our securities may affect our ability to generate net cash provided by operating activities. Funding distributions from the sale of our securities could dilute the interest of our common stockholders if we sell shares of our Common Stock or securities convertible or exercisable into shares of our Common Stock to third party investors. Payment of distributions from the mentioned sources could restrict our ability to generate sufficient net cash provided by operating activities, affect our profitability and/or affect the distributions payable to our stockholders upon a liquidity event, any or all of which may have an adverse effect on our stockholders. We may suffer from delays in locating suitable investments, which could adversely affect the return on our stockholders' investment. Our ability to achieve our investment objectives and to make distributions to our stockholders is dependent upon our Manager's performance in the acquisition of, and arranging of financing for, investments, as well as our property manager's performance in the selection of residents and the negotiation of leases and our Manager's performance in the selection of retail tenants and the negotiation of leases. The current market for properties that meet our investment objectives is highly competitive, as is the leasing market for such properties. The more proceeds we raise in current and future offerings of our securities, the greater our challenge will be to invest all the net offering proceeds on attractive terms. Our stockholders will not have the opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. Our stockholders must rely entirely on the oversight of our board of directors, the management ability of our Manager and the performance of our Manager and property manager. We cannot be sure that our Manager will be successful in obtaining suitable investments on financially attractive terms. Additionally, as a public company, we are subject to ongoing reporting requirements under the Exchange Act. Pursuant to the Exchange Act, we may be required to file with the SEC financial statements of properties we acquire and investments we make in real estate-related assets. To the extent any required financial statements are not available or cannot be obtained, we may not be able to acquire the investment. As a result, we may be unable to acquire certain properties or real estate-related assets that otherwise would be a suitable investment. We could suffer delays in our investment acquisitions due to these reporting requirements. Furthermore, if we acquire properties prior to, during, or upon completion of construction, it will typically take several months following completion of construction to rent available space. Therefore, our stockholders could experience delays in the receipt of distributions attributable to those particular properties. Delays we encounter in the selection and acquisition of investments could adversely affect our stockholders' returns. In addition, if we are unable to invest the proceeds of any offering of our securities in real properties and real estate-related assets in a timely manner, we will hold the proceeds of those offerings in an interest-bearing account, invest the proceeds in short-term,

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8 investment-grade investments, which generate lower returns than we anticipate with our target assets, or, ultimately, liquidate. In such an event, our ability to make distributions to our stockholders and the returns to our stockholders would be adversely affected. The cash distributions our stockholders receive may be less frequent or lower in amount than our stockholders expect. Our board of directors will determine the amount and timing of distributions. In making this determination, our directors will consider all relevant factors, including the amount of cash available for distribution, capital expenditure and reserve requirements and general operational requirements. We cannot assure our stockholders that we will continue to generate sufficient available cash flow to fund distributions nor can we assure our stockholders that sufficient cash will be available to make distributions to our stockholders. As we are a growing company, it is more difficult for us to predict the amount of distributions our stockholders may receive and we may be unable to pay, maintain or increase distributions over time. Our inability to acquire properties or real estate-related investments may have a negative effect on our ability to generate sufficient cash flow from operations to pay distributions. Further, if the aggregate amount of our distributions in any given year exceeds our earnings and profits (as determined for U.S. federal income tax purposes), the U.S. federal income tax treatment of the excess amount will be either (i) a return of capital or (ii) a gain from the sale or exchange of property to the extent that a stockholder's tax basis in our Common Stock equals or is reduced to zero as the result of our current or prior year distributions. Upon the sale of any individual property, holders of our Preferred Stock do not have a priority over holders of our Common Stock regarding return of capital. Holders of our Preferred Stock do not have a right to receive a return of capital prior to holders of our Common Stock upon the individual sale of a property. Depending on the price at which such property is sold, it is possible that holders of our Common Stock will receive a return of capital prior to the holders of our Preferred Stock, provided that any accrued but unpaid dividends have been paid in full to holders of Preferred Stock. It is also possible that holders of our Common Stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Preferred Stock receive a return of their capital. Our stockholders' percentage of ownership may become diluted if we issue new shares of stock or other securities, and issuances of additional preferred stock or other securities by us may further subordinate the rights of the holders of our Common Stock. We may make redemptions of Series A Preferred Stock or mShares in shares of our Common Stock. Although the number of redemptions are unknown, the number of shares to be issued in connection with such redemptions will fluctuate based on the price of our Common Stock. Any sales or perceived sales in the public market of shares of our Common Stock issued upon such redemptions could adversely affect the prevailing market prices of shares of our Common Stock. The issuance of Common Stock upon such redemptions or from the exercise of outstanding Warrants also would have the effect of reducing our net income per share. In addition, the existence of Preferred Stock may encourage short selling by market participants because redemptions could depress the market price of our Common Stock. Our board of directors is authorized, without stockholder approval, to cause us to issue additional shares of our Preferred Stock or to raise capital through the issuance of additional preferred stock (including equity or debt securities convertible into preferred stock or our Common Stock), options, warrants and other rights, on such terms and for such consideration as our board of directors in its sole discretion may determine. Any such issuance could result in dilution of the equity of our stockholders. Our board of directors may, in its sole discretion, authorize us to issue Common Stock or other equity or debt securities (a) to persons from whom we purchase multifamily communities, as part or all of the purchase price of the community, or (b) to our Manager in lieu of cash payments required under the Management Agreement or other contract or obligation. Our board of directors, in its sole discretion, may determine the value of any Common Stock or other equity or debt securities issued in consideration of multifamily communities acquired or services provided, or to be provided, to us. Our charter also authorizes our board of directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock in addition to the Preferred Stock (including equity or debt securities convertible into preferred stock) and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class or series of shares so issued. If any additional preferred stock is publicly offered, the terms and conditions of such preferred stock (including any equity or debt securities convertible into preferred stock) will be set forth in a registration statement registering the issuance of such preferred stock or equity or debt securities convertible into preferred stock. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences,

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9 powers and rights senior to the rights of holders of common stock or the Preferred Stock. If we ever create and issue additional preferred stock or equity or debt securities convertible into preferred stock with a distribution preference over our Common Stock or the Preferred Stock, payment of any distribution preferences of such new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our Common Stock and our Preferred Stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage a merger, tender offer, or proxy contest, the assumption of control by a holder of a large block of our securities, or the removal of incumbent management. Stockholders have no rights to buy additional shares of stock or other securities if we issue new shares of stock or other securities. We may issue common stock, convertible debt, preferred stock or warrants pursuant to a subsequent public offering or a private placement, or to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration. Stockholders who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own. In addition, depending on the terms and pricing of any additional offerings and the value of our investments, our stockholders also may experience dilution in the book value and fair market value of, and the amount of distributions paid on, their shares of our Common Stock or Preferred Stock. Our internal control over financial reporting is effective only at the reasonable assurance level, and undetected errors could adversely affect our reputation, results of operations and stock price. The accuracy of our financial reporting depends on the effectiveness of our internal control over financial reporting. Internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements and may not prevent or detect misstatements because of its inherent limitations. These limitations include the possibility of human error, inadequacy or circumvention of internal controls and fraud. If we do not attain and maintain effective internal control over financial reporting or implement controls sufficient to provide reasonable assurance with respect to the preparation and fair presentation of our financial statements, we could be unable to file accurate financial reports on a timely basis, and our reputation, results of operations and stock price could be materially adversely affected. Breaches of our data security could materially harm our business and reputation. We collect and retain certain personal information provided by our residents and tenants. While we have implemented a variety of security measures to protect the confidentiality of this information and periodically review and improve our security measures, there can be no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and loss of this information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance. The properties we operate may not produce the cash flow required to meet our REIT minimum distribution requirements, and we may decide to borrow funds to satisfy such requirements, which could adversely affect our overall financial performance. We may decide to borrow funds in order to meet the REIT minimum distribution requirements even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of certain tax considerations. If we borrow money to meet the REIT minimum distribution requirement or for other working capital needs, our expenses will increase, our net income will be reduced by the amount of interest we pay on the money we borrow and we will be obligated to repay the money we borrow from future earnings or by selling assets, any or all of which may decrease future distributions to our stockholders. To maintain our status as a REIT, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and may reduce our stockholders' overall return. To maintain our qualification as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, the nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investment.

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10 There is no public market for our Preferred Stock or Warrants and we do not expect one to develop. There is no public market for our Preferred Stock or Warrants, and we currently have no plan to list these securities on a securities exchange or to include these shares for quotation on any national securities market. We cannot assure our stockholders as to the liquidity of any trading market that may develop for our Preferred Stock or Warrants. Additionally, our charter contains restrictions on the ownership and transfer of our securities, and these restrictions may inhibit the ability to sell the Preferred Stock or Warrants promptly or at all. Furthermore, the Warrants will expire four years from the date of issuance. If a holder is able to sell the Preferred Stock or Warrants, they may only be able to sell them at a substantial discount from the price paid. Accordingly, our stockholders may be required to bear the financial risk of their investment in the shares of Preferred Stock indefinitely. We will be required to terminate the mShares Offering and the \$1.5 Billion Unit Offering if our Common Stock is no longer listed on the NYSE or another national securities exchange. The classes of Preferred Stock are a "covered security" under the Securities Act and therefore are not subject to registration in the various states in which they may be sold due to their seniority to our Common Stock, which is listed on the NYSE. If our Common Stock is no longer listed on the NYSE or another appropriate exchange, we will be required to register the offering of our Units and mShares in any state in which we subsequently offer the Units and mShares. This would require the termination of the \$1.5 Billion Unit offering and the mShares Offering and could result in our raising an amount of gross proceeds that is substantially less than the amount of the gross proceeds we expect to raise if the maximum offering is sold. This would reduce our ability to purchase additional properties and limit the diversification of our portfolio. The Warrants in our \$1.5 Billion Unit Offering are not "covered securities" under the Securities Act. The Warrants are subject to state registration in those states that do not have any exemption for securities convertible into a listed security and the offering must be declared effective in order to sell the Warrants in these states. Our ability to redeem shares of Preferred Stock for cash may be limited by Maryland law. Under Maryland law, a corporation may redeem stock as long as, after giving effect to the redemption, the corporation is able to pay its debts as they become due in the usual course (the equity solvency test) and its total assets exceed its total liabilities (the balance sheet solvency test). The Company may redeem its shares of Preferred Stock in its choice of either cash or Common Stock. If the Company is insolvent at any time when a redemption of shares of Preferred Stock is required to be made, the Company may not be able to effect such redemption for cash. The Preferred Stock are senior securities, and rank senior to our Common Stock with respect to dividends and payments upon liquidation. The rights of the holders of shares of our Preferred Stock rank senior to the rights of the holders of shares of our Common Stock as to dividends and payments upon liquidation. Unless full cumulative dividends on our shares of Preferred Stock for all past dividend periods have been declared and paid (or set apart for payment), we will not declare or pay dividends with respect to any shares of our Common Stock for any period. Upon liquidation, dissolution or winding up of our Company, the holders of shares of our Preferred Stock are entitled to receive a liquidation preference of \$1,000 per share, or the Stated Value, plus all accrued but unpaid dividends, prior and in preference to any distribution to the holders of shares of our Common Stock or any other class of our equity securities. The Preferred Stock will be subordinate in right of payment to any corporate level debt that we incur in the future, therefore our stockholders' interests could be diluted by the issuance of additional preferred stock, and by other transactions. The Preferred Stock will be subordinate in right of payment to any corporate level debt that we incur in the future. Future debt we incur may include restrictions on our ability to pay dividends on our Preferred Stock. The issuance of additional preferred stock on a parity with or senior to the Preferred Stock would dilute the interests of the holders of the Preferred Stock, and any issuance of preferred stock senior to the Preferred Stock or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on the Preferred Stock. While the terms of the Preferred Stock limit our ability to issue shares of a class or series of preferred stock senior in ranking to the Preferred Stock, such terms do not restrict our ability to authorize or issue shares of a class or series of preferred stock with rights to distributions or upon liquidation that are on parity with the Preferred Stock or to incur additional indebtedness. The articles supplementary of the Preferred Stock do not contain any provision affording the holders of the Preferred Stock protection in the event of a highly leveraged or other transaction, including

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11 a merger or the sale, lease or conveyance of all or substantially all of our assets or business, that might adversely affect the holders of the Preferred Stock. We will be able to call our shares of Preferred Stock for redemption under certain circumstances without our stockholders' consent. We will have the ability to call the outstanding shares of Preferred Stock after ten years following the date of original issuance of such shares of Preferred Stock. At that time, we will have the right to redeem, at our option, the outstanding shares of Preferred Stock, in whole or in part, at 100% of the Stated Value, plus any accrued and unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our Common Stock, based upon the volume weighted average price of our Common Stock for the 20 trading days prior to the redemption.

Risks Related to Our Organization, Structure and Management We are dependent upon our Manager and its affiliates to conduct our operations, and therefore, any adverse changes in the financial health of our Manager or its affiliates, or our relationship with any of them, could hinder our operating performance and the return on our stockholders' investment.

We are an externally advised REIT, which means that our Manager provides our management team and support personnel and administers our day-to-day business operations. We are dependent on our Manager and its affiliates to manage our operations and acquire and manage our portfolio of real estate assets.

Our Manager will make all decisions with respect to the management of our Company, subject to the oversight of our board of directors. Our Manager will depend upon the fees and other compensation that it will receive from us in connection with the purchase, management and sale of our investments to conduct its operations, as well as a line of credit we extended to our manager that is secured by fees we owe them. Any adverse changes in the financial condition of, or our relationship with our Manager or its affiliates could hinder their ability to successfully manage our operations and our portfolio of investments. Our success is dependent on the performance of our Manager. We rely on the management ability of our Manager, subject to the oversight and approval of our board of directors. Accordingly, if our Manager suffers or is distracted by adverse financial or operational problems in connection with its operations or operations unrelated to us, our Manager may be unable to allocate time and/or resources to our operations. If our Manager is unable to allocate sufficient resources to oversee and perform our operations for any reason, we may be unable to achieve our investment objectives or to pay distributions to our stockholders. If our Manager loses or is unable to retain or replace key personnel, our ability to implement our investment strategies could be hindered, which could adversely affect our ability to make distributions and the value of our stockholders' investment. Our success depends to a significant degree upon the contributions of certain of our executive officers and other key personnel of our Manager. In particular, we depend on the skills and expertise of John A. Williams, our Chief Executive Officer, Leonard A. Silverstein, our President and Chief Operating Officer and Daniel M. Dupree, our Chief Investment Officer.

Neither we nor our Manager have an employment agreement with any of our or its key personnel, including Mr. Williams, Mr. Silverstein and Mr. Dupree, and we cannot guarantee that all, or any, of such personnel, will remain affiliated with us or our Manager. If any of our key personnel were to cease their affiliation with our Manager, our operating results could suffer. Our Manager maintains key person life insurance that would provide us with proceeds in the event of the death or disability of Mr. Silverstein. We believe our future success depends upon our Manager's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure our stockholders that our Manager will be successful in attracting and retaining such skilled personnel. If our Manager loses or is unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of our stockholders' investment in our Company may decline. Furthermore, our

Manager may retain independent contractors to provide various services for us, including administrative services, transfer agent services and professional services. Such contractors have no fiduciary duty to our Manager or us and may not perform as expected or desired. Any such services provided by independent contractors will be paid for by us as an operating expense.

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12 Payment of fees and cost reimbursements to our Manager and its affiliates and third parties will reduce cash available for investment and payment of distributions. Our Manager and its affiliates and third parties will perform services for us in connection with, among other things, the offer and sale of our securities, including the performance of legal, accounting and financial reporting in connection therewith, the selection and acquisition of our investments; the management and leasing of our properties; the servicing of our mortgage, bridge, real estate or other loans; the administration of our other investments and the disposition of our assets. They will be paid substantial fees and cost reimbursements for these services. These fees and reimbursements will reduce the amount of cash available for investment or distributions to our stockholders. If our Manager or its affiliates waive certain fees due to them, our results of operations and distributions may be artificially high. From time to time, our Manager and/or its affiliates has agreed, and may agree in the future to waive or defer all or a portion of the acquisition, asset management or other fees, compensation or incentives due to them, pay general administrative expenses or otherwise supplement stockholder returns in order to increase the amount of cash available to make distributions to stockholders. If our Manager and/or its affiliates choose to no longer waive or defer such fees, compensation and incentives or to cease paying general administrative expenses or supplementing stockholder returns, our results of operations will be lower than in previous periods and our stockholders' return on their investment in our Company could be negatively affected. The Maryland General Corporation Law prohibits certain business combinations, which may make it more difficult for us to be acquired. Under the Maryland General Corporation Law, "business combinations" between a Maryland corporation and an "interested stockholder" or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as: (i) any person who beneficially owns 10% or more of the voting power of the then outstanding voting stock of the corporation; or (ii) an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board. After the expiration of the five-year period described above, any business combination between the Maryland corporation and an interested stockholder must generally be recommended by the board of directors of the corporation and approved by the affirmative vote of at least: • 80% of the votes entitled to be cast by holders of the then outstanding shares of voting stock of the corporation; and • two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected, or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under the Maryland General Corporation Law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. The Maryland General Corporation Law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has adopted a resolution exempting any business combination with our Manager or any of its affiliates. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and our Manager or any of its affiliates. As a result, our Manager or any of its affiliates may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

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13 Stockholders have limited control over changes in our policies and operations. Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Holders of our Preferred Stock have limited to no voting rights. Under our charter and the Maryland General Corporation Law, holders of our Common Stock generally have a right to vote only on the following matters: • the election or removal of directors; • the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to: change our name; change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock; increase or decrease the aggregate number of shares of stock that we have the authority to issue; increase or decrease the number of shares of any class or series of stock that we have the authority to issue; and effect certain reverse stock splits; • our liquidation and dissolution; and • our being a party to a merger, consolidation, sale or other disposition of all or substantially all our assets or statutory share exchange. All other matters are subject to the discretion of our board of directors. Our authorized but unissued shares of Common Stock and preferred stock may prevent a change in our control. Our charter authorizes us to issue additional authorized but unissued shares of Common Stock or preferred stock, without stockholder approval, up to 415,066,666 shares. In addition, our board of directors may, without stockholder approval, amend our charter from time to time to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of Common Stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of Common Stock or preferred stock that could delay or prevent a merger, third party tender offer or similar transaction or a change in incumbent management that might involve a premium price for our securities or otherwise be in the best interest of our stockholders. Because of our holding company structure, we depend on our operating subsidiary and its subsidiaries for cash flow and we will be structurally subordinated in right of payment to the obligations of such operating subsidiary and its subsidiaries. We are a holding company with no business operations of our own. Our only significant asset is and will be the general and limited partnership interests in our Operating Partnership. We conduct, and intend to conduct, all our business operations through our Operating Partnership. Accordingly, our only source of cash to pay our obligations is distributions from our Operating Partnership and its subsidiaries of their net earnings and cash flows. We cannot assure our stockholders that our Operating Partnership or its subsidiaries will be able to, or be permitted to, make distributions to us that will enable us to make distributions to our stockholders from cash flows from operations. Each of our Operating Partnership's subsidiaries is or will be a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from such entities. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our Operating Partnership and its subsidiaries will be able to satisfy your claims as stockholders only after all our and our Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full. Our rights and the rights of our stockholders to recover on claims against our directors and officers are limited, which could reduce our stockholders, and our recovery against them if they negligently cause us to incur losses. The Maryland General Corporation Law provides that a director has no liability in such capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. A director who performs his or her duties in accordance with the foregoing standards should not be liable to us or any other person for failure to discharge his or her obligations as a director.

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14 In addition, our charter provides that our directors and officers will not be liable to us or our stockholders for monetary damages unless the director or officer actually received an improper benefit or profit in money, property or services, or is adjudged to be liable to us or our stockholders based on a finding that his or her action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Our charter also requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. With the approval of our board of directors, we may provide such indemnification and advance for expenses to any individual who served a predecessor of the Company in any of the capacities described above and any employee or agent of the Company or a predecessor of the Company, including our Manager and its affiliates. We also are permitted to purchase and we currently maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our Manager and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. This may result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders. If we internalize our management functions, the holders of our previously outstanding Common Stock could be diluted, and we could incur other significant costs associated with internalizing and being self-managed. In the future, our board of directors may consider internalizing the functions performed for us by our Manager by acquiring our Manager's assets. The method by which we could internalize these functions could take many forms. There is no assurance that internalizing our management functions will be beneficial to us and our stockholders. Such an acquisition could also result in dilution of our stockholders if common stock or securities convertible into common stock are issued in the internalization and could reduce earnings per share and funds from operations attributable to common stockholders and unitholders, or FFO, as defined by the National Association of Real Estate Investment Trusts, or NAREIT. For example, we may not realize the perceived benefits or we may not be able to properly integrate a new staff of managers and employees or we may not be able to effectively replicate the services provided previously by our Manager or its affiliates. Internalization transactions involving the acquisition of managers affiliated with entity sponsors have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of time and money defending claims which would reduce the amount of time and funds available for us to invest in properties or other investments and to pay distributions. All these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions. Our stockholders' investment return may be reduced if we are required to register as an investment company under the Investment Company Act. We are not registered, and do not intend to register ourselves or any of our subsidiaries, as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. If we become obligated to register the company or any of our subsidiaries as an investment company, the registered entity would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things, limitations on capital structure, restrictions on specified investments, prohibitions on transactions with affiliates and compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations. We intend to conduct our operations, directly and through wholly owned and majority owned subsidiaries, so that we and each of our subsidiaries are exempt from registration as an investment company under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is not deemed to be an "investment company" if it neither is, nor holds itself out as being, engaged primarily, nor proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is not deemed to be an "investment company" if it neither is engaged, nor proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and does not own or propose to acquire "investment securities" having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis. We believe that we and most, if not all, of our wholly owned and majority owned subsidiaries will not be considered investment companies under either Section 3(a)(1)(A) or Section 3(a)(1)(C) of the Investment Company Act. If we or any of our wholly owned or majority owned subsidiaries would ever inadvertently fall within one of the definitions of "investment company,"

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15 we intend to rely on the exception provided by Section 3(c)(5)(C) of the Investment Company Act. Under Section 3(c)(5)(C), the SEC staff generally requires a company to maintain at least 55% of its assets directly in qualifying assets and at least 80% of qualifying assets in a broader category of real estate related assets to qualify for this exception. Mortgage-related securities may or may not constitute qualifying assets, depending on the characteristics of the mortgage-related securities, including the rights that we have with respect to the underlying loans. The Company's ownership of mortgage-related securities, therefore, is limited by provisions of the Investment Company Act and SEC staff interpretations. The method we use to classify our assets for purposes of the Investment Company Act will be based in large measure upon no-action positions taken by the SEC staff in the past. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than 20 years ago. No assurance can be given that the SEC staff will concur with our classification of our assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify our assets for purposes of qualifying for an exclusion from regulation under the Investment Company Act. If we are required to re-classify our assets, we may no longer be in compliance with the exclusion from the definition of an "investment company" provided by Section 3(c)(5)(C) of the Investment Company Act. A change in the value of any of our assets could cause us or one or more of our wholly owned or majority owned subsidiaries to fall within the definition of "investment company" and negatively affect our ability to maintain our exemption from regulation under the Investment Company Act. To avoid being required to register us or any of our subsidiaries as an investment company under the Investment Company Act, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income- or loss- generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our investment strategy. As part of our Manager's obligations under the Management Agreement, our Manager will agree to refrain from taking any action which, in its sole judgment made in good faith, would subject us to regulation under the Investment Company Act. Failure to maintain an exclusion from registration under the Investment Company Act would require us to significantly restructure our business plan. For example, because affiliate transactions are generally prohibited under the Investment Company Act, we would not be able to enter into transactions with any of our affiliates if we are required to register as an investment company, and we may be required to terminate our Management Agreement and any other agreements with affiliates, which could have a material adverse effect on our ability to operate our business and pay distributions. If we were required to register us as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Risks Related to Conflicts of Interest Our Manager, our executive officers and their affiliates may face competing demands relating to their time, and if inadequate time is devoted to our business, our stockholders' investment may be negatively impacted. We rely on our executive officers and the executive officers and employees of our Manager and its affiliates for the day-to-day operation of our business. These persons also conduct or may conduct in the future day-to-day operations of other programs and entities sponsored by or affiliated with our Manager. Because these persons have or may have such interests in other real estate programs and engage in other business activities, they may experience conflicts of interest in allocating their time and resources among our business and these other activities. The amount of time that our Manager and its affiliates spend on our business will vary from time to time and is expected to be greater while we are raising money and acquiring investments. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. We expect that as our real estate activities expand, our Manager will attempt to hire additional employees who would devote substantially all their time to our business. There is no assurance that our Manager will devote adequate time to our business. If our Manager or any of its respective affiliates suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, it may allocate less time and resources to our operations. If any of the foregoing events occur, the returns on our investments, our ability to make distributions to stockholders and the value of our stockholders' investment may suffer. Our Manager, our executive officers and their affiliates may face conflicts of interest, and these conflicts may not be resolved in our favor, which could negatively impact our stockholders' investment.

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16 Our executive officers and the employees of our Manager and its respective affiliates on whom we rely could make substantial profits as a result of investment opportunities allocated to entities other than us. As a result, these individuals could pursue transactions that may not be in our best interest, which could have a material adverse effect on our operations and our stockholders' investment. Our Manager and its affiliates may be engaged in other activities that could result in potential conflicts of interest with the services that they provide to us. Our Manager and its affiliates will receive substantial fees from us, which could result in our Manager and its affiliates taking actions that are not necessarily in the best interest of our stockholders. Our Manager and its affiliates will receive substantial fees from us, including an asset management fee based on the total value of our assets, and its affiliates will receive fees based on our revenues, which, in each case, could incent our Manager to use higher levels of leverage to finance investments or accumulate assets to increase fees than would otherwise be in our best interests. These fees could influence our Manager's advice to us, as well as the judgment of the affiliates of our Manager who serve as our officers and directors. Therefore, considerations relating to their compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our income and, as a result, our ability to make distributions to stockholders and/or lead to a decline in the value of our stockholders' investment. Properties acquired from affiliates of our Manager may be at a price higher than we would pay if the transaction were the result of arm's-length negotiations. The prices we pay to affiliates of our Manager for our properties may be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties, or if the price to us is in excess of such cost, substantial justification for such excess may exist and such excess may be reasonable and consistent with current market conditions as determined by independent members of the conflicts committee of our board of directors. Substantial justification for a higher price could result from improvements to a property by the affiliate of our Manager or increases in market value of the property during the period of time the property is owned by the affiliate as evidenced by an appraisal of the property. In the event we were to acquire properties from one of our affiliates, our proposed purchase prices will be based upon fair market values determined in good faith by our Manager, utilizing, for example, independent appraisals and competitive bidding if the assets are marketed to the public, with any actual or perceived conflicts of interest approved by independent members of the conflicts committee of our board of directors. These prices may not be the subject of arm's-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm's-length transaction. When acquiring properties from our Manager and its affiliates, we may pay more for particular properties than we would have in an arm's-length transaction, which would reduce our cash available for other investments or distribution to our stockholders. We may purchase real properties from persons with whom affiliates of our Manager have prior business relationships, which may impact the purchase terms, and as a result, affect our stockholders' investment. If we purchase properties from third parties who have sold, or may sell, properties to our Manager or its affiliates, our Manager may experience a conflict between our current interests and its interest in preserving any ongoing business relationship with these sellers. As a result of this conflict, the terms of any transaction between us and such third parties may not reflect the terms that we could receive in the market on an arm's-length basis. If the terms we receive in a transaction are less favorable to us, our results from operations may be adversely affected. The absence of arm's-length bargaining may mean that our agreements may not be as favorable to our stockholders as they otherwise could have been. Any existing or future agreements between us and our Manager or any of its respective affiliates were not and will not be reached through arm's-length negotiations. Thus, such agreements may require us to pay more than we would if we were using unaffiliated third parties. The Management Agreement, the operating partnership agreement of our Operating Partnership and the terms of the compensation to our Manager and its affiliates or distributions to our Manager were not arrived at through arm's-length negotiations. The terms of the Management Agreement, the operating partnership agreement of our Operating Partnership and similar agreements may not solely reflect our stockholders' best interest and may be overly favorable to the other party to such agreements including in terms of the substantial compensation to be paid to or the potential substantial distributions to these parties under these agreements. Our Manager and its affiliates receive fees and other compensation based upon our investments, which may impact operating decisions, and as a result, affect our stockholders' investment.

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17 John A. Williams is our Chief Executive Officer and Chairman of the board of directors and the Chief Executive Officer of our Manager. Leonard A. Silverstein is the Company's President and Chief Operating Officer and a member of the board of directors and the Chief Operating Officer of our Manager. Daniel M. DuPree is our Chief Investment Officer and the Chief Investment Officer of our Manager. As a result, Mr. Williams, Mr. Silverstein and Mr. DuPree have a direct interest in all fees paid to our Manager and are in a position to make decisions about our investments in ways that could maximize fees payable to our Manager and its affiliates. Some compensation is payable to our Manager whether or not there is cash available to make distributions to our stockholders. To the extent this occurs, our Manager and its affiliates benefit from us retaining ownership and leveraging our assets, while our stockholders may be better served by the sale or disposition of, or lack of leverage on, the assets. For example, because asset management fees payable to our Manager are based on total assets under management, including assets purchased using debt, our Manager may have an incentive to incur a high level of leverage in order to increase the total amount of assets under management. In addition, our Manager's ability to receive fees and reimbursements depends on our revenues from continued investment in real properties and real estate-related investments. Therefore, the interest of our Manager and its affiliates in receiving fees may conflict with the interest of our stockholders in earning a return on an investment in our Common Stock or Preferred Stock. If we invest in joint ventures, the objectives of our partners may conflict with our objectives. In accordance with our acquisition strategies, we may make investments in joint ventures or other partnership arrangements between us and affiliates of our Manager or with unaffiliated third parties. We also may purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

- joint venturers may share certain approval rights over major decisions;
- a co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- a co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
- a co-venturer, co-owner or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
- under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture. These events could result in, among other things, exposing us to liabilities of the joint venture in excess of our proportionate share of these liabilities. The partition rights of each owner in a jointly owned property could reduce the value of each portion of the divided property. Moreover, there is an additional risk neither co-venturer will have the power to control the venture, and under certain circumstances, an impasse could be reached regarding matters pertaining to the co-ownership arrangement, which might have a negative influence on the joint venture and decrease potential returns to our stockholders. In addition, the fiduciary obligation that our Manager or our board of directors may owe to our partner in an affiliated transaction may make it more difficult for us to enforce our rights. If we have a right of first refusal or buy/sell right to buy out a co-venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

Risks Related to Investments in Real Estate Our real estate-related investments will be subject to the risks typically associated with real estate, which may have a material effect on our stockholders' investment. Our loans held for investment generally will be directly or indirectly secured by a lien on real property, or the equity interests in an entity that owns real property, that, upon the occurrence of a default on the loan, could result in our acquiring

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18 ownership of the property. We will not know whether the values of the properties ultimately securing our loans will remain at or above the levels existing on the dates of origination of those loans. If the values of the underlying properties decline, our risk will increase because of the lower value of the security associated with such loans. In this manner, real estate values could impact the values of our loan investments. Any investments in mortgage-related securities, collateralized debt obligations and other real estate-related investments (including potential investments in real property) may be similarly affected by real estate property values. Therefore, our investments will be subject to the risks typically associated with real estate. The value of real estate may be adversely affected by a number of risks, including:

- natural disasters, such as hurricanes, earthquakes, floods and sea rise;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, R001;
- adverse changes in national and local economic and real estate conditions;
- an oversupply of (or a reduction in demand for) space in the areas where particular properties are located and the attractiveness of particular properties to prospective residents;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance therewith and the potential for liability under applicable laws;
- costs of complying with applicable environmental requirements and remediation and liabilities associated with environmental conditions affecting real properties; and
- the potential for uninsured or underinsured property losses.

The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental or other income that can be generated net of expenses required to be incurred with respect to the property. Many expenditures associated with properties (such as operating expenses and capital expenditures) cannot be reduced when there is a reduction in income from the properties. These factors may have a material adverse effect on the ability of the borrowers to pay their loans, as well as on the value that we can realize from assets we own or acquire. We may suffer losses that are not covered by insurance. If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits. We intend to obtain comprehensive insurance for our properties, including casualty, liability, fire, extended coverage and rental loss customarily, that is of the type obtained for similar properties and in amounts which our Manager determines are sufficient to cover reasonably foreseeable losses, and with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Material losses may occur in excess of insurance proceeds with respect to any property as insurance proceeds may not provide sufficient resources to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to acts of war, earthquakes, floods, wind, pollution, environmental matters, mold or terrorism which are either uninsurable, not economically insurable, or may be insured subject to material limitations, such as large deductibles or co-payments. In addition, many insurance carriers exclude mold-related claims from standard policies, price mold endorsements at prohibitively high rates or add significant restrictions to such coverage. Because of our inability to obtain specialized coverage at rates that correspond to our perceived level of risk, we may not obtain insurance for acts of terrorism or mold-related claims. We will continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase insurance for terrorism or mold, the cost could have a negative impact on our results of operations. If an uninsured loss or a loss in excess of insured limits occurs on a property, we could lose our capital invested in the property, as well as the anticipated future revenues from the property and, in the case of debt that is recourse to us, would remain obligated for any mortgage debt or other financial obligations related to the property. Any loss of this nature would adversely affect us. Although we intend to adequately insure our properties, we cannot assure that we will successfully do so. Compliance with the governmental laws, regulations and covenants that are applicable to our properties, including permit, license and zoning requirements, may adversely affect our ability to make future acquisitions or renovations, result in significant costs or delays and adversely affect our growth strategy. Our properties are subject to various covenants and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants (some of which may be imposed by community developers), may restrict the use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions

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19 may relate to fire and safety, seismic, asbestos-containing materials abatement or management or hazardous material abatement requirements. We cannot assure our stockholders that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs. Our growth strategy may be materially and adversely affected by our ability to obtain permits, licenses and zoning approvals. Our failure to obtain such permits, licenses and zoning approvals could have a material adverse effect on our business, financial condition and results of operations. Compliance or failure to comply with the Americans with Disabilities Act or other safety regulations and requirements could result in substantial costs. The Americans with Disabilities Act generally requires that public buildings, including "public accommodations," be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties or in properties we acquire, including the removal of access barriers, it could adversely affect our financial condition and results of operations, as well as the amount of cash available for distribution to our stockholders. Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations. Rising expenses could reduce cash flow and funds available for future acquisitions, which may materially affect cash available for distributions. Our real estate assets may be subject to increases in tax rates, assessed property values, utility costs, operating expenses, insurance costs, repairs and maintenance, administrative and other expenses. Some of the leases on our properties may require the resident or tenant to pay all or a portion of utility costs; however, significant utility costs are borne by us. Such increased expenses could adversely affect funds available for future acquisitions or cash available for distributions. Failure to generate sufficient cash flows from operations may reduce distributions to stockholders. We intend to rely primarily on our cash flow from operations to make distributions to our stockholders. The cash flow from equity investments in our real estate assets depends on the amount of revenue generated and expenses incurred in operating our assets. The revenue generated and expenses incurred in operating our assets depends on many factors, some of which are beyond our control. For instance, rents from our properties may not increase as expected or the real estate-related investments we purchase may not generate the anticipated returns. If our investments do not generate revenue sufficient to meet our operating expenses, debt service and capital expenditures, our cash flows and ability to make distributions to our stockholders will be adversely affected. If we purchase assets at a time when the real estate market is experiencing substantial influxes of capital investment and competition for properties, the real estate we purchase may not appreciate or may decrease in value. The real estate market may experience substantial influxes of capital from investors. This substantial flow of capital, combined with significant competition for the acquisition of real estate, may result in inflated purchase prices for such assets and compression of capitalization rates. To the extent we purchase real estate in such an environment, we are subject to the risk that, if the real estate market subsequently ceases to attract the same level of capital investment, or if the number of companies seeking to acquire such assets decreases, our returns will be lower and the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets. We may be unable to sell a property if or when we decide to do so, which could adversely impact our ability to make distributions to our stockholders. In connection with the acquisition of a property, we may agree on restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. Even absent such restrictions, the real estate market is affected by many factors that are beyond our control, including general economic conditions, availability of financing, interest rates and supply and demand. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or real estate-related asset. If we are unable to sell a property or real estate-related asset when we determine to do so, it could have

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20 a significant adverse effect on our cash flow and results of operations. As a result, we may not have funds to make distributions to our stockholders. We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sale to our stockholders may be limited. Real estate investments are relatively illiquid, and as a result, we will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We also will have a limited ability to sell assets in order to fund working capital and similar capital needs. When we sell any of our properties, we may not realize a gain on such sale. We may elect not to distribute any proceeds from the sale of properties to our stockholders and we may use such proceeds to:

- purchase additional properties;
- repay debt, if any;
- buy out the interests of any co-venturers or other partners in any joint venture in which we are a party;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our remaining properties.

We may not make a profit if we sell a property, which could adversely impact our ability to make cash distributions to our stockholders. The prices that we can obtain when we determine to sell a property will depend on many factors that are presently unknown, including the property's operating performance, tax treatment of real estate investments, demographic trends in the area and available financing. There is a risk that we will not recover all or a portion of our investment in a property. Accordingly, our stockholders' ability to recover all or any portion of their investment under such circumstances will depend on the amount of funds so realized and claims to be satisfied therefrom. Our ability to sell our properties also may be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to ensure that we avoid such characterization we may be required to hold our properties for a minimum period of time and comply with certain other requirements in the Code, or possibly hold some properties through taxable REIT subsidiaries, or TRSs, that must pay full corporate-level income taxes. We may incur foreseen or unforeseen liabilities in connection with properties we acquire. Our anticipated acquisition activities are subject to many risks. We may acquire properties that are subject to liabilities or that have problems relating to their environmental condition, state of title, physical condition or compliance with zoning laws, building codes or other legal requirements. In each case, our acquisition may be without any, or with only limited, recourse with respect to unknown liabilities or conditions. As a result, if any liability were asserted against us relating to those properties or entities, or if any adverse condition existed with respect to the properties or entities, we might have to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results. However, some of these liabilities may be covered by insurance. In addition, we typically perform customary due diligence regarding each property or entity we acquire. We also attempt to obtain appropriate representations and undertakings (including, where appropriate, indemnification) from the sellers of the properties or entities we acquire, although it is possible that the sellers may not have the resources to satisfy any applicable undertakings or indemnification obligations if a claim is made. Unknown liabilities to third parties with respect to properties or entities acquired might include, without limitation:

- liabilities for property damage and remediation of undisclosed environmental contamination;
- claims by residents or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Such liabilities could cause losses that adversely affect our ability to make distributions to our stockholders. The costs of compliance with environmental laws and regulations and other governmental laws and regulations may adversely affect our income and the cash available for any distributions. All real property and the operations conducted on real property are subject to certain federal, state and local laws and

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21 regulations relating to environmental protection and human health and safety. Such federal laws might include: the National Environmental Policy Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Solid Waste Disposal Act as amended by the Resource Conservation and Recovery Act; the Federal Water Pollution Control Act; the Federal Clean Air Act; the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act; and the Hazard Communication Act. These laws and regulations generally govern wastewater discharges, air emissions, the regulation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination, including of off-site third party owned disposal sites. As is the case with community and neighborhood shopping centers, some of our centers had on-site dry cleaning and/or on-site gasoline retail facilities and these prior uses could potentially increase our environmental liability exposure. Some of these laws and regulations may impose joint and several liability on residents, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of certain regulated substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent the property or to use the property as collateral for future borrowing. Indoor air quality issues, including the presence of mold, have been highlighted in the media and the industry is seeing claims from lessees rising. Due to the recent increase in the prevalence of mold claims and given that the law relating to the regulation of mold is unsettled and subject to change, we could incur losses from claims relating to the presence of, or exposure to, mold or other microbial organisms, particularly if we are unable to maintain adequate insurance to cover such losses. We also may incur unexpected expenses relating to the abatement of mold on properties that we acquire.

Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure our stockholders that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the activities of residents, existing conditions of the land, operations in the vicinity of the properties, or the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply. Failure to comply with applicable laws and regulations could result in fines and/or damages, suspension of personnel of our Manager and/or other sanctions. Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or regulated substances on, under, in or about such property. The costs of investigation, removal or remediation of such substances could be substantial. Those laws may impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and compliance with those restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles govern the presence, maintenance, removal and disposal of certain building materials, including mold, asbestos and lead-based paint. The cost of defending against such claims of liability, of compliance with environmental requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, the amounts available for distribution to our stockholders. We cannot assure our stockholders that properties which we acquire will not have any material environmental conditions, liabilities or compliance concerns. Accordingly, we have no way of determining at this time the magnitude of any potential liability to which we may be subject arising out of environmental conditions or violations with respect to the properties we may purchase. We may be unable to secure funds for future capital improvements, which could adversely impact our ability to make distributions to our stockholders. When residents or tenants do not renew their leases or otherwise vacate their space, in order to attract replacement residents or tenants, we may be required to expend funds for capital improvements to the vacated apartment units or leased spaces and common areas. In addition, we may require substantial funds to renovate a property in order to sell it, upgrade it or reposition it in the market. If we have insufficient capital reserves, we will have to obtain financing from other sources. We typically establish capital reserves in an amount we, in our discretion, believe is necessary. A lender also may require escrow of capital reserves separately maintained from any reserves we establish. If these reserves or any reserves otherwise established are designated for

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22 other uses or are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure our stockholders that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, certain reserves required by lenders may be designated for specific uses and may not be available for capital purposes such as future capital improvements. Additional borrowing will increase our interest expense; therefore, our financial condition and our ability to make distributions to our stockholders may be adversely affected. We may not have control over costs arising from rehabilitation of properties. We may elect to acquire properties which require rehabilitation. In particular, we have acquired, and may continue to acquire, "affordable" properties that we will rehabilitate and convert to market rate properties. Consequently, we may retain independent general contractors to perform the actual physical rehabilitation work and will be subject to risks in connection with a contractor's ability to control the rehabilitation costs, the timing of completion of rehabilitation, and a contractor's ability to build and rehabilitate in conformity with plans and specifications. The profitability of our acquisitions is uncertain. We intend to acquire properties selectively. Acquisition of properties entails risks that investments will fail to perform in accordance with expectations. In undertaking these acquisitions, we will incur certain risks, including the expenditure of funds on, and the devotion of management's time to, transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired property up to our standards may prove inaccurate. Competition with third parties in acquiring properties and other assets may reduce our profitability and the returns to our stockholders. We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships and other entities engaged in real estate investment activities. Many of these entities have significant financial and other resources, including operating experience, allowing them to compete effectively with us. Competitors with substantially greater financial resources than us may be able to accept more risk than we can effectively manage. In addition, those competitors that are not REITs may be at an advantage to the extent they can utilize working capital to finance projects, while we (and our competitors that are REITs) will be required by the annual distribution provisions under the Code to distribute significant amounts of cash from operations to our stockholders. Some or all of our properties have incurred, and will incur, vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return to our stockholders. Our properties have incurred, and will incur, vacancies. If vacancies of a significant level continue for a long period of time, we may suffer reduced revenues resulting in lower cash distributions to our stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property. We are dependent on a significant portion of our investments in a single asset class, making our profitability more vulnerable to a downturn or slowdown in the sector or other economic factors. We expect to concentrate the largest portion of our investments in the multifamily sector. As a result, we will be subject to risks inherent in investments in a single type of property. A downturn or slowdown in the demand for multifamily housing may have more pronounced effects on our cash available for distribution or on the value of our assets than if we had more fully diversified our investments. We may rely significantly on repayment guarantors of our real estate loan investments and, therefore, could be subject to credit concentration that makes us more susceptible to adverse events with respect to such guarantors. The repayment of amounts owed to us under certain of our real estate loan investments may be partially guaranteed by the principals of the borrowers. If it were necessary to enforce a guaranty of completion or a guaranty of repayment, our rights under such enforcement are limited by rights held by the senior lender pursuant to intercreditor agreements we have in place. Therefore, the failure to perform by the borrowers and such guarantors is likely to have a material adverse effect on our results of operations and financial condition.

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23 We are subject to geographic concentrations that make us more susceptible to adverse events with respect to certain geographic areas. We are subject to geographic concentrations, the most significant carrying values of which are as follows as of December 31, R016: Carrying value of real estate assets and real estate related loans, in millions: Percentage Florida \$ 632.5 28.8% Georgia 597.7 27.2% Texas 373.4 17.0% Tennessee 189.6 8.6% North Carolina 76.4 3.5% Alabama 75.9 3.5% Pennsylvania 68.2 3.1% South Carolina 54.5 2.5% California 49.3 2.2% Kansas 45.1 2.1% Virginia 26.1 1.2% Mississippi 5.7 0.3% Total \$ 2,194.4 100.0% Any economic downturn or other adverse condition in one or more of these states, or in any other state in which we may have a significant concentration in the future, could result in a material reduction of our cash flows or material losses to us. Failure to succeed in new markets or sectors may have adverse consequences on our performance. We may make acquisitions outside of our existing market areas if appropriate opportunities arise. Our Manager's or any of its affiliates' historical experience in their existing markets does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local market conditions, to identify appropriate acquisition opportunities, to hire and retain key personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred. Acquiring or attempting to acquire multiple properties in a single transaction may adversely affect our operations. We are likely to acquire multiple properties in a single transaction. Such portfolio acquisitions are more complex and expensive than single-property acquisitions, and the risk that a multiple-property acquisition does not close may be greater than in a single-property acquisition. Portfolio acquisitions also may result in us owning investments in geographically dispersed markets, placing additional demands on our ability to manage the properties in the portfolio. In addition, a seller may require that a group of properties be purchased as a package even though we may not want to purchase one or more properties in the portfolio. In these situations, if we are unable to identify another person or entity to acquire the unwanted properties, we may be required to operate, or attempt to dispose of, these properties. We may be required to accumulate a large amount of cash in order to acquire multiple properties in a single transaction. We would expect that the returns that we can earn on such cash will be less than the ultimate returns on real property, and therefore, accumulating such cash could reduce our funds available for distributions. Any of the foregoing events may have an adverse effect on our operations. If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser. If we decide to sell any of our properties, we intend to use our commercially reasonable efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law, which could negatively impact distributions to our stockholders. There are no limitations or restrictions on our ability to take such purchase money obligations.

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24 We may, therefore, take a purchase money obligation secured by a mortgage as full or partial payment for the purchase price of a property. The terms of payment to us generally will be affected by custom in the area where the property being sold is located and the then prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property are actually paid, sold or refinanced, or we have otherwise disposed of such promissory notes or other property. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. If any purchaser defaults under a financing arrangement with us, it could negatively impact our ability to make distributions to our stockholders. Our revenue and net income may vary significantly from one period to another due to investments in opportunity-oriented properties and portfolio acquisitions, which could increase the variability of our cash available for distributions.

We may make investments in opportunity-oriented properties in various phases of development, redevelopment or repositioning and portfolio acquisitions, which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when our projects in development or redevelopment or those with significant capital requirements increase without a corresponding increase in stable revenue-producing properties, our revenues and net income likely will decrease. Many factors may have a negative impact on the level of revenues or net income produced by our portfolio of investments, including higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project. Further, our net income and stockholders' equity could be negatively affected during periods with large portfolio acquisitions, which generally require large cash outlays and may require the incurrence of additional financing. Any such reduction in our revenues and net income during such periods could cause a resulting decrease in our cash available for distributions during the same periods.

We may obtain properties with lock-out provisions, or agree to such provisions in connection with obtaining financing, which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties. We may agree to obtain certain properties from contributors who contribute their direct or indirect interest in such properties to our Operating Partnership in exchange for operating partnership units and agree to restrictions on sales or refinancing, called "lock-out" provisions, that are intended to preserve favorable tax treatment for the contributors of such properties and otherwise agree to provide the indemnities to contributions. Additionally, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Furthermore, we may agree to make a certain amount of debt available for these contributors to guarantee in order to preserve their favorable tax treatment. Lock-out provisions and the consequences of related tax indemnities could materially restrict us from selling, conveying, transferring otherwise disposing of all or any portion of the interest in these properties in a taxable transaction or from refinancing properties. This would affect our ability to turn our investments into cash and thus affect cash available to make distributions to our stockholders. Lock-out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of our stockholders, and therefore, might have an adverse impact on the value of our capital stock. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders. Risks Associated with

Debt Financing We have significant debt, which could have important adverse consequences. As of December 31, 2016, we had outstanding debt of approximately \$1.5 billion. This indebtedness could have important consequences, including: • if a property is mortgaged to secure payment of indebtedness, and if we are unable to meet our mortgage obligations, we could sustain a loss as a result of foreclosure on the mortgaged property; • our vulnerability to general adverse economic and industry conditions is increased; and • our flexibility in planning for, or reacting to, changes in business and industry conditions is limited. The mortgages on our properties subject to secured debt, our Revolving Credit Facility and our Term Loan contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants, including maintenance of certain financial ratios. Maintaining compliance with these provisions could limit our financial flexibility. A default

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25 in these provisions, if uncured, could require us to repay the indebtedness before the scheduled maturity date, which could adversely affect our liquidity and increase our financing costs. We may be unable to renew, repay, or refinance our outstanding debt. We are subject to the risk that indebtedness on our properties or our unsecured indebtedness will not be renewed, repaid, or refinanced when due or the terms of any renewal or refinancing will not be as favorable as the existing terms of such indebtedness. If we are unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of the properties on disadvantageous terms, which might result in losses to us. Such losses could have a material adverse effect on us and our ability to make distributions to our stockholders and pay amounts due on our debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose on the property, appoint a receiver and exercise rights under an assignment of rents and leases, or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Code. We plan to incur additional mortgage indebtedness and other borrowings, which may increase our business risks. We intend to acquire properties subject to existing financing or by borrowing new funds. In addition, we may incur or increase our mortgage debt by obtaining loans secured by selected, or by all of our, real properties to obtain funds to acquire additional real properties and/or make capital improvements to properties. We also may borrow funds, if necessary, to satisfy the requirement that we generally distribute to stockholders as dividends at least 90% of our annual REIT taxable income (excluding net capital gain), or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT. We intend to incur mortgage debt on a particular property only if we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow requiring us to use cash from other sources to make the mortgage payments on the property, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and our loss of the property securing the loan which is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may, in some circumstances, give a guaranty on behalf of an entity that owns one or more of our properties. In these cases, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one property may be affected by a default. Any mortgage debt which we place on properties may contain clauses providing for prepayment penalties. If a lender invokes these penalties upon the sale of a property or the prepayment of a mortgage on a property, the cost to us to sell the property could increase substantially, and may even be prohibitive. This could lead to a reduction in our income, which would reduce cash available for distribution to stockholders and may prevent us from borrowing more money. We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on the Preferred Stock and our Common Stock. Our governing documents do not have limitations on the amount of leverage we may use. As of December 31, 2016, we and our subsidiaries had outstanding approximately \$1.5 billion of indebtedness. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay dividends due to debt covenant restrictions and/or resulting lower amounts of cash from operating activities. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to the Preferred Stock and our Common Stock if we incur additional indebtedness. Interest-only indebtedness may increase our risk of default and ultimately may reduce our funds available for distributions to our stockholders. We also may finance our property acquisitions using interest-only mortgage indebtedness for all or a portion of the term. During the interest-only period, the amount of each scheduled payment will be less than that of a traditional amortizing mortgage loan. The principal balance of the mortgage loan will not be reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the interest-only period, we will be required either to make scheduled payments of amortized principal and interest or to make a lump-sum or "balloon" payment at maturity. These required principal or balloon payments will increase the amount of our scheduled payments and may increase our risk of default under the

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26 related mortgage loan. If the mortgage loan has an adjustable interest rate, the amount of our scheduled payments also may increase at a time of rising interest rates. Increased payments and substantial principal or balloon maturity payments or prepayment penalties will reduce the funds available for distribution to our stockholders because cash otherwise available for distribution will be required to pay principal and interest associated with these mortgage loans. While our intention and practice has been to place interest rate caps on our floating rate mortgages, these caps will be at rates above current rates. We may change our operational policies (including our investment guidelines, strategies and policies and the targeted assets in which we invest) with the approval of our board of directors but without stockholder consent or notice at any time, which may adversely affect the market value of our capital stock, our results of operations and cash flows and our ability to pay dividends to our stockholders. Our board of directors determines our operational policies and may amend or revise our policies (including our policies with respect to the targeted assets in which we invest, dispositions, growth, operations, indebtedness, capitalization and dividends) or approve transactions that deviate from these policies at any time, without a vote of, or notice to, our stockholders. We may change our investment guidelines and our strategy at any time with the approval of our board of directors, but without the consent of, or notice to, our stockholders, which could result in us making investments that are different in type from, and possibly riskier than, the investments we currently invest in. For example, on December 12, 2016, our board of directors suspended the 20% limit on non-multifamily assets in our investment guidelines. If mortgage debt is unavailable at reasonable rates, it may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flows from operations and the amount of cash distributions we can make. If we are unable to borrow monies on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase, and the return on the properties we do purchase may be lower. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. As such, we may find it difficult, costly or impossible to refinance indebtedness which is maturing. If any of these events occur, our interest cost would increase as a result, which would reduce our cash flow. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise capital by issuing more stock or borrowing more money. If we are unable to refinance maturing indebtedness with respect to a particular property and are unable to pay the same, then the lender may foreclose on such property. Financial and real estate market disruptions could adversely affect the multifamily property sector's ability to obtain financing from Freddie Mac and Fannie Mae, which could adversely impact us. Fannie Mae, Freddie Mac and HUD/FHA are major sources of financing for the multifamily sector and both have historically experienced losses due to credit-related expenses, securities impairments and fair value losses. If new U.S. government regulations (i) heighten these agencies' underwriting standards, (ii) adversely affect interest rates, or (iii) reduce the amount of capital they can make available to the multifamily sector, it could reduce or remove entirely a vital resource for multifamily financing. Any potential reduction in loans, guarantees and credit-enhancement arrangements from these agencies could jeopardize the effectiveness of the multifamily sector's available financing and decrease the amount of available liquidity and credit that could be used to acquire and diversify our portfolio of multifamily assets. Volatility in and regulation of the commercial mortgage-backed securities market has limited and may continue to impact the pricing of secured debt. As a result of the past crisis in the residential mortgage-backed securities markets, the most recent global recession and some concerns over the ability to refinance or repay existing commercial mortgage-backed securities as they come due, liquidity previously provided by the commercial mortgage-backed securities and collateralized debt obligations markets has significantly decreased. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act imposes significant new regulations related to the mortgage backed securities industry and market participants, which has contributed to uncertainty in the market. The volatility in the commercial mortgage-backed securities market could result in the following adverse effects on our incurrence of secured debt, which could have a materially negative impact on our financial condition, results of operations, cash flow and cash available for distribution:

- General availability of loans
- higher loan spreads;

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27 • tighter loan covenants; • reduced loan to value ratios and resulting borrower proceeds; and • higher amortization and reserve requirements. The Company could be negatively impacted by the condition of Fannie Mae or Freddie Mac and by changes in government support for multi-family housing. Fannie Mae and Freddie Mac are a major source of financing for multi-family real estate in the United States. The Company utilizes loan programs sponsored by these entities as a key source of capital to finance its growth and its operations. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. In December 2009, the U.S. Treasury increased its financial support for these conservatorships. In February 2011, the Obama administration released its blueprint for winding down Fannie Mae and Freddie Mac and for reforming the system of housing finance. In June 2013, a bipartisan group of senators proposed an overhaul of the housing finance system which would wind down Fannie Mae and Freddie Mac within five years; in August 2013, President Obama announced his support for this legislation. This legislation was ultimately abandoned. Any decision or action by the U.S. government to eliminate or downscale Fannie Mae or Freddie Mac or to reduce government support for multi-family housing more generally may adversely affect interest rates, capital availability, development of multi-family communities and the value of multi-family residential real estate and, as a result, may adversely affect the Company and its growth and operations. High levels of debt or increases in interest rates could increase the amount of our loan payments, which could reduce the cash available for distribution to stockholders. As mentioned above, we incur and expect to continue to incur debt. Higher debt levels would cause us to incur higher interest charges, which would result in higher debt service payments and could be accompanied by restrictive covenants. Interest we pay could reduce cash available for distribution to stockholders. Additionally, if we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flow and our ability to make distributions to our stockholders. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss. Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders. In providing financing to us, a lender may impose restrictions on us that affect our ability to incur additional debt, make certain investments, reduce liquidity below certain levels, make distributions to our stockholders and otherwise affect our distribution and operating policies. In general, we expect our loan agreements to restrict our ability to encumber or otherwise transfer our interest in the respective property without the prior consent of the lender. Such loan documents may contain other negative covenants that may limit our ability to discontinue insurance coverage, replace our Manager or impose other limitations. Any such restriction or limitation may have an adverse effect on our operations and our ability to make distributions to our stockholders. Further, such restrictions could make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT.

Risks Related to Our Real Estate-Related Investments

Our investments in, or originations of, senior debt or subordinate debt and our investments in membership or partnership interests in entities that own real estate assets will be subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses. We may invest in, or originate, senior debt or subordinate debt and invest in membership or partnership interests in entities that own real estate assets. These investments will involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities may not be collateralized and also may be subordinated to the entity's other obligations. We are likely to invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

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28 These investments also will subject us to the risks inherent with real estate investments referred to previously, including the risks described with respect to multifamily and retail properties and other real estate-related investments and similar risks, including: • risks of delinquency and foreclosure, and risks of loss in the event thereof; • the dependence upon the successful operation of, and net income from, real property; • risks generally incident to interests in real property; and • risks specific to the type and use of a particular property. These risks may adversely affect the value of our investments in entities that own real estate assets and the ability of our borrowers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses. Our real estate loan assets will involve greater risks of loss than senior loans secured by income-producing properties. We may originate (in connection with a forward purchase or option to purchase contract or otherwise) or acquire real estate loans in entities that own or are developing multifamily properties or other real estate-related investments which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the loan may become unsecured as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our real estate loan. If a borrower defaults on our real estate loan or debt senior to our loan, or in the event of a borrower bankruptcy, our real estate loan will be satisfied only after the senior debt. We may be unable to enforce guaranties of payment and/or performance given as security for some real estate loans. As a result, we may not recover some or all of our initial expenditure. Our real estate loans partially finance the construction of real estate projects and so involve additional risks inherent in the construction process, such as adherence to budgets and construction schedules. In addition, subordinate loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our real estate loans would result in operating losses for us and may limit our ability to make distributions to our stockholders. Risks Related to our Investments in Multifamily Communities We face competition from other acquirers of apartment communities for investment opportunities, both of which may limit our profitability and returns to our stockholders. The competition for apartment communities may significantly increase the price we must pay for assets we seek to acquire, and our competitors may succeed in acquiring those assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger apartment REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increase the prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for our properties, our business, financial condition and results of operations and our ability to pay distributions to our stockholders may be materially and adversely affected. Economic conditions may adversely affect the multifamily real estate market and our income. A multifamily property's income and value may be adversely affected by international, national and regional economic conditions. Currently, the U.S. real estate market is enjoying a relatively strong market with generally positive conditions in most sectors. International markets are experiencing increased levels of volatility due to a combination of many factors, including decreased economic growth, especially in China, limited access to credit markets, tremendous volatility in the equity markets both domestically and internationally. If such conditions persist, the real estate industry may experience a significant decline in business caused by a reduction in overall renters. The current economy and improved unemployment rates also may also deteriorate due to these and other economic factors. If the economy domestically or abroad does experience a meaningful downturn it could have an adverse effect on our operations if they cause the residents occupying the multifamily properties we acquire to cease making rent payments to us.

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29 In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, availability of "for sale" properties, competition from other similar properties, our ability to provide adequate maintenance, insurance and management services, increased operating costs (including real estate taxes), the attractiveness and location of the property and changes in market rental rates may adversely affect a property's income and value. The continued rise in energy costs could result in higher operating costs, which may adversely affect our results from operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. The risks that may adversely affect conditions in those markets include: layoffs, business closings, relocations of significant local employers and other events negatively impacting local employment rates and the local economy; an oversupply of, or a lack of demand for, apartments; a decline in household formation; the inability or unwillingness of residents to pay rent increases; and rent control, rent stabilization and other housing laws, which could prevent us from raising rents. We cannot predict if the current strength in the multifamily real estate market will continue. Therefore, to the extent that there are adverse economic conditions in the multifamily market, such conditions could result in a reduction of our income and cash available for distributions and thus affect the amount of distributions we can make to our stockholders. We must comply with the Fair Housing Amendments Act of 1988, or the FHAA, and failure to comply may affect cash available for distributions. We must comply with the FHAA, which requires that apartment communities first occupied after March 13, 1991 be accessible to handicapped residents and visitors. Compliance with the FHAA could require removal of structural barriers to handicapped access in a community, including the interiors of apartment units covered under the FHAA. Recently there has been heightened scrutiny of multifamily housing communities for compliance with the requirements of the FHAA and the ADA and an increasing number of substantial enforcement actions and private lawsuits have been brought against apartment communities to ensure compliance with these requirements. Noncompliance with the FHAA could result in the imposition of fines, awards of damages to private litigants, payment of attorneys' fees and other costs to plaintiffs, substantial litigation costs and substantial costs of remediation. Short-term apartment leases expose us to the effects of declining market rent, which could adversely impact our ability to make distributions to our stockholders. We expect that most of our apartment leases will be for terms of thirteen months or less. Because these leases generally permit the residents to leave at the end of the lease term without any penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms. We will face competition from other apartment communities and the affordability of single-family homes, which may limit our profitability and the returns to our stockholders. The multifamily apartment industry is highly competitive. This competition could reduce occupancy levels and revenues at our multifamily communities, which would adversely affect our operations. Our competitors include those in other apartment communities both in the immediate vicinity where our multifamily communities will be located and the broader geographic market. Such competition also may result in overbuilding of apartment communities, causing an increase in the number of apartment units available and potentially decreasing our occupancy and apartment rental rates. We also may be required to expend substantial sums to attract new residents. The resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property. In addition, increases in operating costs due to inflation may not be offset by increased apartment rental rates. Further, costs associated with real estate investment, such as utilities and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment. These events would cause a significant decrease in cash flow and could cause us to reduce the amount of distributions to our stockholders. Furthermore, apartment communities we acquire most likely compete, or will compete, with numerous housing alternatives in attracting residents, including single- and multi-family homes available to rent or purchase. Competitive housing in a particular area and the increasing affordability of single- and multi-family homes available to rent or buy caused by declining mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our residents, lease apartment units and increase or maintain rental rates. The foregoing factors may encourage potential renters to purchase residences rather than renting an apartment, thereby causing a decline in the pool of available renters for our properties.

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30 Risks Related to our Retail Investments Downturns in the retail industry likely will have a direct adverse impact on our grocery-anchored revenues and cash flow. Our retail properties currently owned and planned for acquisition consist primarily of grocery-anchored shopping centers. Our retail performance therefore is generally linked to economic conditions in the market for retail space. The market for retail space could be adversely affected by any of the following:

- weakness in the national, regional and local economies, and declines in consumer confidence 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;
- increased diversification of product offerings by grocery anchors can lead to increased competition, declining same store sales and store closings;
- increase in e-commerce and alternative distribution channels may negatively affect out tenant sales or decrease the square footage our tenants require;
- 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.

To the extent that any of these conditions occur, they are likely to impact market rents for retail space, occupancy in our retail properties, our ability to sell, acquire or develop retail properties, and our cash available for distributions to stockholders. Competition may impede our ability to renew retail leases or re-let retail spaces as leases expire, which could harm our business and operating results. We face competition from similar retail centers and other types of shopping venues within our market areas that may affect our ability to renew leases or re-let space as leases expire at our grocery-anchored shopping centers. Certain national retail chain bankruptcies and resulting store closings/lease disaffirmations have generally resulted in increased available retail space which, in turn, has resulted in increased competitive pressure to renew retail tenant leases upon expiration and to find new retail tenants for vacant space at such properties. In addition, any new competitive retail properties that are developed within the market areas of our existing grocery-anchored shopping centers may result in increased competition for customer traffic and creditworthy retail tenants. Increased competition for retail tenants may require us to make tenant and/or capital improvements to retail properties beyond those that we would otherwise have planned to make. Any unbudgeted tenant and/or capital improvements we undertake may reduce cash that would otherwise be available for distributions to our stockholders. Ultimately, if we are unable to renew leases or re-let space as retail leases expire or renew or re-let such spaces at lower rental rates, our business and operations could be negatively impacted. Loss of revenues from significant retail tenants could reduce distributions to our stockholders. For our currently owned and planned acquisitions of grocery-anchored shopping centers, we derive or will derive significant revenues from anchor tenants such as Publix, Kroger, Wal-Mart, Safeway, Sprouts, BJ's Wholesale Club, The Fresh Market and Bi-Lo. Distributions to our stockholders could be adversely affected by the loss of revenues in the event a significant retail tenant:

- becomes bankrupt or insolvent;
- experiences a downturn in its business;
- materially defaults on its leases;
- does not renew its leases as they expire; or
- renews at lower rental rates.

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31 Vacated anchor space, including space owned by the anchor, can also reduce rental revenues generated by the shopping center because of the loss of the departed anchor tenant's customer drawing power. The closing of one or more anchor stores at a center or occupancy falling below a certain percentage could adversely affect the financial performance of the center, adversely affect the operations of other tenants and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit such actions. We may be unable to collect balances due from retail tenants in bankruptcy. Although minimum rent is supported by lease contracts of varying term, retail tenants who file bankruptcy have the legal right to reject any or all of their leases and close related stores. In the event that a retail tenant with a significant number of leases in our shopping centers files bankruptcy and rejects its leases, we could experience a significant reduction in our retail revenues and may not be able to collect all pre-petition amounts owed by that party. Our Common Area Maintenance ("CAM") contributions may not allow us to recover the majority of our operating expenses from retail tenants. CAM costs typically include allocable energy costs, repairs, maintenance and capital improvements to common areas, janitorial services, administrative, property and liability insurance costs and security costs. The amount of CAM charges we bill to our retail tenants may not allow us to recover or pass on all these operating expenses to tenants, which may reduce operating cash flow from our retail properties. Operating expenses may remain constant or increase even if occupancy and income at our centers may decrease, negatively affecting our financial performance. Costs associated with our operations, such as real estate and personal property taxes, insurance, and mortgage payments, generally are not reduced even as occupancy or rental rates decrease, tenants fail to pay base and additional rent or other circumstances cause a reduction in income from the center. As a result, our financial performance, cash flow from operations from the center and our ability to make distributions to our stockholders may be adversely affected. In addition, inflation could result in increased operating costs for us and our tenants, which may adversely affect our financial performance and ability to make distributions to our stockholders. Risks Related to our Office Building Investments

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

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32 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.

Material U.S. Federal Income Tax Considerations If we fail to maintain our qualification as a REIT, we will be subjected to tax on our income and the amount of distributions we make to our stockholders will be less. We elected to be taxed as a REIT, commencing with our tax year ended December 31, 2011. A REIT generally is not taxed at the corporate level on income and gains it distributes to its stockholders on a timely basis. If we were to fail to qualify as a REIT in any taxable year:

- we would not be allowed to deduct our distributions to our stockholders when computing our taxable income;
- we would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and possibly increased state and local taxes;
- we could be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;
- we would have less cash to make distributions to our stockholders; and
- we might be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations we may incur as a result of our disqualification.

Although we intend to operate in a manner intended to qualify as a REIT, it is possible that we may inadvertently terminate our REIT election or that future economic, market, legal, tax or other considerations may cause our board of directors to determine to revoke our REIT election. Even if we qualify as a REIT, we expect to incur some taxes, such as state and local taxes, taxes imposed on certain subsidiaries and potential U.S. federal excise taxes.

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33 We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the market price of our Common Stock. In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to REITs. Additional changes to the tax laws are likely to continue to occur. Although REITs generally receive better tax treatment than entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a regular corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate the REIT election we have made and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders. If the Operating Partnership fails to maintain its status as a partnership, its income may be subject to taxation. We intend to maintain the status of the Operating Partnership as a partnership for U.S. federal income tax purposes. However, if the IRS were to successfully challenge the status of the Operating Partnership as a partnership for such purposes, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that the Operating Partnership could make to us. This also would result in our losing REIT status, and becoming subject to a corporate level tax on our own income, and would substantially reduce our cash available to pay distributions and the yield to our stockholders. In addition, if any of the partnerships or limited liability companies through which the Operating Partnership owns its properties, in whole or in part, loses its characterization as a partnership and is not otherwise disregarded for U.S. federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the Operating Partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain our REIT qualification. Our investments in certain debt instruments may cause us to recognize income for U.S. federal income tax purposes even though no cash payments have been received on the debt instruments, and certain modifications of such debt by us could cause the modified debt to not qualify as a good REIT asset, thereby jeopardizing our REIT qualification. Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may acquire assets, including debt securities requiring us to accrue original issue discount, or OID, or recognize market discount income, that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. In addition, if a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. We may also be required under the terms of the indebtedness that we incur to use cash received from interest payments to make principal payment on that indebtedness, with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders. As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, we may be required to (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, (3) distribute amounts that would otherwise be used for future acquisitions or used to repay debt, or (4) make a taxable distribution of our shares of Common Stock as part of a distribution in which stockholders may elect to receive shares of Common Stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements. The failure of a subordinate loan to qualify as a real estate asset could adversely affect our ability to maintain our qualification as a REIT. In general, in order for a loan to be treated as a qualifying real estate asset producing qualifying income for purposes of the REIT asset and income tests, the loan must be secured by real property. We may originate (in connection with a forward purchase or option to purchase contract) or acquire subordinate loans that are not directly secured by real property but instead secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a subordinate loan that is not secured by real estate would, if it meets each of the requirements contained in the Revenue Procedure, be treated by the IRS as a qualifying real estate asset. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law and in many cases it may not be possible for us to meet all the requirements of the safe harbor. We cannot provide assurance

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34 that any subordinate loan in which we invest would be treated as a qualifying asset producing qualifying income for REIT qualification purposes. If any such loan fails either the REIT income or asset tests, we may be disqualified as a REIT. Furthermore, if we participate in any appreciation in value of real property securing a mortgage loan and the IRS characterizes such "shared appreciation mortgage" as equity rather than debt, for example, because of a large interest in cash flow of the borrower, we may be required to recognize income, gains and other items with respect to the real property for U.S. federal income tax purposes. This could affect our ability to maintain our qualification as a REIT. The share ownership restrictions of the Code for REITs and the 9.8% share ownership limit in our charter may inhibit market activity in our shares of stock and restrict our business combination opportunities. In order to maintain our qualification as a REIT, five or fewer individuals, as defined in the Code, may not own, actually or constructively, more than 50% in value of our issued and outstanding shares of stock at any time during the last half of each taxable year, other than the first year for which a REIT election is made. Attribution rules in the Code determine if any individual or entity actually or constructively owns our shares of stock under this requirement. Additionally, at least 100 persons must beneficially own our shares of stock during at least 335 days of a taxable year for each taxable year, other than the first year for which a REIT election is made. To help insure that we meet these tests, among other purposes, our charter restricts the acquisition and ownership of our shares of stock. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT while we so qualify. Unless exempted by our board of directors, for so long as we qualify as a REIT, our charter prohibits, among other limitations on ownership and transfer of shares of our stock, any person from beneficially or constructively owning (applying certain attribution rules under the Code) more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of our shares of stock. Our board of directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8% of the value of our outstanding shares would result in the termination of our qualification as a REIT. These restrictions on transferability and ownership will not apply, however, if our board of directors determines that it is no longer in our best interest to continue to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to continue to so qualify as a REIT. These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our stock or otherwise be in the best interest of our stockholders. Item 1B. Unresolved Staff Comments None.

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35 Item 2. Properties At December 31, 2016, we were the owner of the following 24 multifamily communities and one student housing community, which comprise our multifamily segment:

Property	Location	Year constructed	Number of Units	Average Unit Size (sq. ft.)
Summit Crossing	(1) Atlanta, GA	2007	485	1,053
Stone Rise	Philadelphia, PA	2008	216	1,079
McNeil Ranch	Austin, TX	1999	192	1,071
Ashford Park	Atlanta, GA	1992	408	1,008
Lake Cameron	Raleigh, NC	1997	328	940
Enclave at Vista Ridge	Dallas, TX	2003	300	1,079
Sandstone Creek	Kansas City, KS	2000	364	1,135
Stoneridge Farms at the Hunt Club	Nashville, TN	2002	364	1,153
Vineyards	Houston, TX	2003	369	1,122
Aster at Lely Resort	Naples, FL	2015	308	979
CityPark View	Charlotte, NC	2014	284	948
Avenues at Cypress	Houston, TX	2014	240	1,166
Venue at Lakewood Ranch	Sarasota, FL	2015	237	1,001
Avenues at Creekside	San Antonio, TX	2014	395	974
Citi Lakes	Orlando, FL	2014	346	984
Avenues at Northpointe	Houston, TX	2013	280	1,154
Lenox Portfolio	Nashville, TN	(2)	474	886
Stone Creek	Houston, TX	2009	246	852
Overton Rise	Atlanta, GA	2015	294	1,018
Village at Baldwin Park	Orlando, FL	2008	528	1,069
Crosstown Walk	Tampa, FL	2014	342	980
525 Avalon Park	Orlando, FL	2008	487	1,394
Sorrel	Jacksonville, FL	2015	290	1,048
7,777	Student housing community:			
North by Northwest	Tallahassee, FL	2012	219	1,137
Joint venture:	City Vista	(3)		
Pittsburgh, PA	2014	272	1,023	8,268

(1) The second phase of our Summit Crossing community (140 units) was completed in 2013. The combined first and second phases are managed as a single property. (2) The Lenox Portfolio consists of three properties, two of which were completed in 2009 (291 units) and the third in 2015 (183 units). (3) We own approximately 96% of the joint venture that controls the City Vista multifamily community. Our communities are equipped with an array of amenities believed to be sufficient to position Preferred Apartment Communities as attractive residential rental options within each local market. Such amenities can include, but are not limited to, one or more swimming pools, a clubhouse with a business center, tennis courts and laundry facilities. Unit-specific amenities can include high-end appliances, tile kitchen backsplashes, washer and dryers or washer and dryer hookups and ceiling fans. Resident lease terms are generally twelve months in duration.

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36 At December 31, 2016, we were the sole owner of the following 31 grocery-anchored shopping centers, which comprise our New Market Properties segment:

Property name	Location	Year built	GLA (1)	Percent leased (2)	Grocery anchor tenant
Woodstock Crossing	Atlanta, GA	1994	66,122	92.6%	Kroger
Cherokee Plaza	Atlanta, GA	1958	102,864	100.0%	Kroger
Lakeland Plaza	Atlanta, GA	1990	301,711	93.9%	Sprouts
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	93.2%	Publix
Summit Point	Atlanta, GA	2004	111,970	81.5%	Publix
Thompson Bridge Commons	Atlanta, GA	2001	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	95.2%	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	100.0%	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	93.6%	The Fresh Market
Shoppes of Parkland	Miami-Ft. Lauderdale, FL	2000	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	98.4%	Publix
Champions Village	Houston, TX	1973	383,093	79.1%	Randalls
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	100.0%	H.E.B.
Sweetgrass Corner	Charleston, SC	1999	89,124	98.6%	Bi-Lo
Anderson Central	Greenville Spartanburg, SC	1999	223,211	97.1%	Walmart
Fairview Market	Greenville Spartanburg, SC	1998	53,888	94.2%	Publix
Rosewood Shopping Center	Columbia, SC	2002	36,887	90.2%	Publix
Heritage Station	Raleigh, NC	2004	72,946	100.0%	Harris Teeter
Southgate Village	Birmingham, AL	1988	75,092	100.0%	Publix

(1) Gross leasable area, or GLA, represents the total amount of property square footage that can be leased to tenants. The total excludes approximately 47,600 square feet of ground floor retail GLA in the Lenox Portfolio. (2) Percent leased represents the percentage of GLA that is leased, including noncancelable lease agreements that have been signed but which have not yet commenced. Our retail leases have original lease terms which generally range from three to seven years for spaces under 5,000 square feet and from 10 to 20 years for spaces over 10,000 square feet. Anchor leases generally contain renewal options for one or more additional periods whereas in-line tenant leases may or may not have renewal options. With the exception of anchor leases, the leases generally contain contractual increases in base rent rates over the lease term and the base rent rates for renewal periods are generally based upon the rental rate for the primary term, which may be adjusted for inflation or market conditions. Anchor leases generally do not contain contractual increases in base rent rates over the lease term and the renewal periods. Our leases generally provide for the payment of fixed monthly rentals and may also provide for the payment of additional rent based upon a percentage of the tenant's gross sales above a certain threshold level ("percentage rent"). Our leases also generally include tenant reimbursements for common area expenses, insurance, and real estate taxes. Utilities are generally paid by tenants either directly through separate meters or through payment of tenant reimbursements. The foregoing general description of the characteristics of the leases in our centers is not intended to describe all leases and material variations in lease terms may exist. Our grocery anchor tenants comprised 52.1% of our portfolio GLA at December 31, 2016. Our small in-line tenants represent general retail, consumer services, healthcare providers, and restaurants; none of our small in-line tenants individually constitute more than 1.0% of our portfolio GLA as of December 31, 2016. The following table summarizes our grocery anchor tenants by GLA as of December 31, 2016:

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37 Grocery Anchor Tenant GLA % of GLA within retail portfolio Publix 758,702 23.0% Kroger 338,481 10.3% Walmart 183,211 5.6% BJ's Wholesale Club 108,532 3.3% Randalls 61,604 1.9% Bi-Lo 59,824 1.8% Harris Teeter 57,723 1.8% H.E.B. 54,276 1.6% Tom Thumb 43,600 1.3% Sprouts 29,855 0.9% The Fresh Market 20,400 0.6% 1,716,208 52.1% The following table summarizes New Market Properties' contractual lease expirations for the next ten years and thereafter, assuming no tenants exercise their renewal options:

Total retail portfolio GLA	Number of leases	Leased GLA	Percent of leased GLA	Month to month	
11 28,425	0.9%	2017 74 148,921	4.8%	2018 87 331,988	10.8%
2019 73 632,376	20.7%	2020 67 383,745	12.5%	2021 65 336,008	11.0%
2022 23 128,398	4.2%	2023 6 23,839	0.8%	2024 14 317,813	10.4%
2025 14 212,072	6.9%	2026 5 70,661	2.3%	2027+ 13 447,279	14.7%
452 3,061,525	100%	At December 31, 2016, we were the sole owner of the following 3 office properties, which comprise our office buildings segment:			

Property name Location Office space, square feet Percent leased at 12/31/2016
 Brookwood Office Birmingham, AL 169,489 100.0%
 Galleria 75 Atlanta, GA 110,597 88.0%
 Three Ravinia Atlanta, GA 816,748 98.4%
 1,096,834

Our office building leases have original lease terms which generally range from 5 to 15 years and generally contain contractual, annual base rental rate escalations ranging from 2% to 3%. These leases may be structured as "gross" where the tenant's base rental rate is all inclusive and there is no additional obligation to reimburse building operating expenses, "net" or "NNN" where in addition to base rent the tenant is also responsible for its pro rata share of reimbursable building operating expenses, or "modified gross" where in addition to base rent the tenant is also responsible for its pro rata share of reimbursable building operating expense increases over a base year amount (typically calculated as the actual reimbursable operating expenses in year one of the original lease term).

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38 One significant tenant comprised 44.9% of our Office Building portfolio rentable square feet at December 31, 2016. The following table summarizes contractual lease expirations within our Office Buildings segment for the next ten years and thereafter, assuming no tenants exercise their renewal options:

Office buildings portfolio	Rentable square feet	Percent of rentable square feet	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027+	
	40,098	3.8%	26,740	2.5%	13,044	1.2%	91,615	8.7%	215,742	20.5%	7,030	0.7%	34,441	3.3%
	19,147	1.8%	47,870	4.6%	—	—%	555,635	52.9%	1,051,362	100.0%				

Details regarding the mortgage debt on our properties may be found in the consolidated financial statements within this Annual Report on Form 10-K. Our corporate headquarters is located at 3284 Northside Parkway NW, Suite 150, Atlanta, Georgia 30327. Item 3. Legal Proceedings

Neither we nor our subsidiaries nor, to our knowledge, our Manager is currently subject to any legal proceedings that we or our Manager consider to be material. To our knowledge, none of our communities are currently subject to any legal proceeding that we consider material. Item 4. Mine Safety Disclosures Not applicable. PART II Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Market Information Our Common Stock (symbol "APTS") was traded on the NYSE MKT (formerly known as the NYSE Amex) until July Q7, 2015, when it began trading on the New York Stock Exchange. The following table sets forth the historical quarterly price data pertaining to our Common Stock, and per-share dividend distributions declared on our Common Stock for 2015 and 2016: Quarter ended: High Low Close Dividends

Quarter ended:	High	Low	Close	Dividends
3/31/2015	\$ 11.03	\$ 9.21	\$ 10.82	\$ 0.175
6/30/2015	\$ 11.60	\$ 9.95	\$ 9.95	\$ 0.18
9/30/2015	\$ 11.70	\$ 9.82	\$ 10.88	\$ 0.18
12/31/2015	\$ 13.66	\$ 10.43	\$ 13.08	\$ 0.1925

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39 Quarter ended: High Low Close Dividends 3/31/2016 \$ 12.83 \$ 12.58 \$ 12.68 \$ 0.1925 6/30/2016 \$ 14.74 \$ 14.31 \$ 14.72 \$ 0.2025 9/30/2016 \$ 13.59 \$ 13.34 \$ 13.51 \$ 0.2025 12/31/2016 \$ 14.96 \$ 14.57 \$ 14.91 \$ 0.22 As of December 31, 2016, there were approximately 12,600 holders of record of our Common Stock. This total excludes an unknown number of holders of 12,395,175 shares of Common Stock in street name at non-responding brokerage firms. Dividends We have declared and subsequently paid cash dividends on shares of our Common Stock for each quarter since our IPO in 2011. Since we have elected to be taxed as a REIT effective with our tax year ended December 31, 2011, we are required to, and intend to, distribute at least 90% of our REIT taxable income (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) to maintain such status. Dividends are declared with the action and approval of our board of directors and any future distributions are made at our board of director's discretion. Our dividend paying capacity is primarily dependent upon cash generated from our multifamily communities, grocery-anchored shopping centers and office buildings, interest income on our real estate loans and cash needs for capital expenditures, both foreseen and unforeseen, among other factors. Risks inherent in our ability to pay dividends are further described in the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K. Equity Compensation Plan The following table sets forth information as of December 31, 2016 regarding our equity compensation plans and our Common Stock authorized for issuance under the plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders	(1) 466,940 (2) N/A	1,241,482	Equity compensation plans not approved by stockholders — N/A —
Total	466,940	N/A	1,241,482

(1) Includes our 2011 Stock Incentive Plan, as amended, or the 2011 Plan, that authorized a maximum of 2,617,500 shares of our Common Stock for issue under the 2011 Plan. Awards may be made in the form of issuances of Common Stock, restricted stock, stock appreciation rights, performance shares, incentive stock options, non-qualified stock options, or other forms. Eligibility criteria, amounts and all terms governing awards pursuant to the 2011 Plan, such as vesting periods and voting and dividend rights on unvested awards, are determined by our the compensation committee of our board of directors. (2) Represents 466,940 Class A Units of our Operating Partnership, or Class A Units, which are exchangeable for shares of our Common Stock on a one-for-one basis, or cash, as elected by our Operating Partnership. Excluded 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.

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40 Shareholder Return Performance Graph The following stock performance graph and related information shall not be deemed "soliciting material" or "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings under the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing. The chart above presents comparative investment results of a hypothetical initial investment of \$1,000 on January 1, 2012 in: (i) our Common Stock, ticker symbol "APTS;" (ii) the MSCI U. S. REIT Index, an index of equity REIT constituent companies that derive the majority of their revenue from real estate rental activities; and (iii) the S&P Small Cap 600 Index, a broad equity index comprised of constituent companies with capitalization levels that approximate ours. The total return results assume automatic reinvestment of dividends and no transaction costs. Value of initial investment on: 1/1/2012 12/31/2012 12/31/2013 12/31/2014 12/31/2015 12/31/2016 APTS Common Stock \$ 1,000 \$ 1,353 \$ 1,494 \$ 1,827 \$ 2,804 \$ 3,393 MSCI U. S. REIT Index \$ 1,000 \$ 1,178 \$ 1,207 \$ 1,573 \$ 1,613 \$ 1,752 S&P Small Cap 600 Index \$ 1,000 \$ 1,148 \$ 1,603 \$ 1,675 \$ 1,618 \$ 2,019 Sales of Unregistered Securities There were no previously unreported sales of unregistered securities by the Company during the fiscal year ended 2016.

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41 Item 6. Selected Financial Data The following table sets forth selected financial and operating data on a historical basis and should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. Twelve months ended December 31, 2016 2015 2014 2013 2012

Total revenues	\$ 200,118,915	\$ 109,305,512	\$ 56,536,370	\$ 32,133,491	\$ 12,491,235
Net (loss) income	\$ (9,843,414)	\$ (2,425,989)	\$ 2,127,203	\$ (4,205,492)	\$ (146,630)
Net loss per share of Common Stock available to common stockholders, basic and diluted	\$ (2.11)	\$ (0.95)	\$ (0.31)	\$ (1.59)	\$ (0.12)
Weighted average number of shares of Common Stock outstanding, basic and diluted	23,969,494	22,182,971	17,399,147	9,456,228	5,172,260
Cash dividends declared per share of Common Stock	\$ 0.8175	\$ 0.7275	\$ 0.655	\$ 0.605	\$ 0.545
Total assets	\$ 2,420,832,602	\$ 1,295,529,033	\$ 691,382,907	\$ 340,119,848	\$ 122,826,243
Long term debt	\$ 1,327,878,112	\$ 696,945,291	\$ 354,418,668	\$ 140,516,000	\$ 55,637,000
Revolving credit facility	\$ 127,500,000	\$ 34,500,000	\$ 24,500,000	\$ 29,390,000	\$ 14,801,197
Total liabilities	\$ 1,535,571,440	\$ 770,075,243	\$ 399,801,033	\$ 174,067,129	\$ 72,768,668
Preferred Stock (par value outstanding)	\$ 9,144	\$ 4,830	\$ 1,928	\$ 893	\$ 198
Total equity	\$ 885,261,162	\$ 525,453,790	\$ 291,581,874	\$ 166,052,719	\$ 50,057,575
Cash flows provided by (used in):					
Operating activities	\$ 61,661,469	\$ 35,221,423	\$ 15,436,062	\$ 8,686,070	\$ 4,178,941
Investing activities	\$ (1,126,583,594)	\$ (533,510,211)	\$ (356,423,742)	\$ (137,725,734)	\$ (32,536,608)
Financing activities	\$ 1,074,804,307	\$ 497,615,123	\$ 334,920,519	\$ 135,246,586	\$ 26,783,156
Funds from operations ("FFO")(1)	\$ 22,385,563	\$ 16,701,905	\$ 10,967,373	\$ (33,080)	\$ 2,957,754
Core funds from operations ("Core FFO")(1)	\$ 32,390,826	\$ 25,952,326	\$ 18,373,674	\$ 9,128,980	\$ 2,960,259
Adjusted funds from operations ("AFFO")(1)	\$ 26,594,910	\$ 21,783,083	\$ 14,771,490	\$ 7,809,761	\$ 3,415,973

(1) See "Reconciliation of FFO, Core FFO and AFFO to Net Income (Loss) Attributable to Common Stockholders" and "Definitions of Non-GAAP Measures" in the Results of Operations section within "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Annual Report on Form 10-K.

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42 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Developments During 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 these acquired properties was approximately \$416.9 million, including our investment in the joint venture of approximately \$12.5 million. We sold our Trail Creek multifamily community located in Hampton, Virginia during 2016 and recorded a gain on the disposition of approximately \$4.3 million. In addition, we acquired three office buildings located in Atlanta, Georgia and Birmingham, Alabama comprising approximately 1.1 million rentable square feet and 17 grocery-anchored shopping centers located in throughout Texas and the Southeastern U.S., comprising approximately 2.0 million aggregate square feet of gross leasable area. During 2016, we converted two bridge loans to real estate loans, with an aggregate loan commitment amount of approximately \$22.5 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. We also originated six new real estate investment loans and three member loans with an aggregate loan commitment amount of approximately \$148.9 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 new student housing communities in Charlotte, North Carolina and College Station, Texas and multifamily communities in Tampa, Florida and Birmingham, Alabama. Also, during 2016, we originated three land acquisition loans of an aggregate of \$13.2 million in support of a mixed use project in Atlanta, Georgia and one multifamily community in each of Atlanta, Georgia and Fort Myers, Florida. See Item 1. Business for details regarding our owned and potential additions to our real estate portfolio at December 31, 2016. As of December 31, 2016, we had cumulatively issued 924,855 units and collected net proceeds of approximately \$833.1 million from our Primary Series A Offering and our Follow-On Series A Offering. Our Follow-On Series A Offering sold its entire allotment of \$900 million Units and was closed on February 14, 2017. Our new equity offerings are discussed in detail in the Liquidity and Capital Resources section of this Management's Discussion and Analysis of Financial Condition and Results of Operations. During the year ended December 31, 2016, we issued approximately 1.7 million shares of Common Stock pursuant to our at the market offering, or ATM Offering, and collected net proceeds of approximately \$23.0 million. In addition, during this same period, we issued 1.7 million shares of Common Stock upon the exercise of Warrants issued in our Primary Series A Offering and our Follow-On Series A Offering and collected net proceeds of approximately \$18.2 million from those exercises.

Forward-looking Statements Certain statements contained in this Annual Report on Form 10-K, 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;

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43 • 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 this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K. 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 this Annual Report on Form 10-K for the year ended December 31, 2016 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 Annual Report on Form 10-K.

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44 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 also may acquire or originate senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by Preferred Apartment Advisors, LLC, or our Manager, as appropriate for us. Our investment guidelines limit our investment in these non-multifamily assets to 20% of our assets, subject to increases unanimously approved by our board of directors. On December 12, 2016, our board of directors temporarily suspended this 20% limit. Our board of directors will review and discuss the reinstatement of the 20% limit following a spinoff, sale or distribution of our grocery-anchored shopping centers, if any such transaction occurs. 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 96.8% interest as of December 31, 2016. New Market Properties, LLC owns and conducts the business of our grocery-anchored shopping centers. Preferred Office Properties, LLC owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities, LLC was formed to acquire off-campus student housing communities. Each of these entities are wholly-owned subsidiaries of the Operating Partnership.

Industry Outlook We believe continued, albeit potentially sporadic, improvement in the United States' economy will continue for 2017, with continued job growth and improvements in consumer confidence. The new presidential administration certainly creates more uncertainty in the direction and trajectory of economic growth. 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 nationwide, has been relatively measured in most of our markets. Nationally, new multifamily construction is currently at or 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. It may even be the case that new supply peaks in 2017 and these constraints cause a decline in new multifamily "starts" in 2018 and 2019. As an offset, the new administration may loosen banking regulation standards, which have caused a decline in available capital for

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45 new construction. Any relaxing of these regulations could lead to more capital for new multifamily development and an increase in supply. We believe that a potential reversal in the recent trend of 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 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 properties, 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 the new US President and how his policies may affect domestic and international markets, investors have been wary in their approach to debt markets. Recent US bond market movements have increased indexes by 75-100 bps without a meaningful change in spreads from the government-sponsored entity, or GSE, lenders. As the year goes on, we may well see a decline in spreads as the investment community becomes more comfortable with the direction of the market and the US economy. 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 a difficult regulatory environment and high underwriting standards for commercial banks will continue to create a choppy market for new construction financing. In addition, we believe the continued hesitance 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. We also believe there will be a continued boost to 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. This generation has a higher statistical propensity to rent their home and stay a renter deeper into their life-cycle, resulting in an increase in demand for rental housing. This combination of factors should generally result in gradual increases in market rents, lower concessions and opportunities for increases in ancillary fee income.

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.

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46 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. ASU 2017-01, which was released in January 2017, clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We adopted ASU 2017-01 as of January 1, 2017 and believe our future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing communities will generally qualify as asset acquisitions. Pursuant to ASU R017-01, certain qualifying acquisition costs will be capitalized and amortized rather than expensed as incurred. 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 recorded the acquisition of income-producing real estate as a business combination. In conjunction with our adoption of ASU 2017-01, future acquisitions will require judgment to properly classify these acquisitions as asset acquisitions or business acquisitions. 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 for multifamily communities 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. 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

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47 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 acquire land and to provide partial financing for the development of multifamily residential communities, student housing communities, grocery-anchored shopping centers and office buildings 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 and office building suites 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 and office building 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.

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48 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.

Equity Compensation We calculate the fair value of equity compensation instruments such as Class B Units 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, utilizing a Monte Carlo simulation model, which is performed by an independent third party. The compensation expense is recognized on a straight-line basis over the vesting period(s) and forfeitures are recognized as they occur.

New Accounting Pronouncements In May 2014, the FASB issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and may be applied using either a full retrospective or a modified approach upon adoption. The Company is currently evaluating the pending guidance but does not believe the adoption of ASU 2014-09 will have a material impact on its results of operations or financial condition, primarily because most of its revenue is rental operations, to which this standard is not applicable. The Company does provide significant non-rental services to its residents and tenants related to ancillary services and common area reimbursements. We do not believe that the adoption of ASU 2014-09 will materially impact the accounting for these revenues; however, we are continuing to evaluate the accounting impact.

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 requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter, early adoption is permitted. Our adoption of this guidance on December 31, 2016 did not have an impact to the consolidated financial statements or material impact on our disclosures.

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. We do not believe the adoption of ASU 2016-01 will have a material impact on our results of operations or financial condition.

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

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49 standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. We do not believe the adoption of ASU 2016-02 will have a material impact on our results of operations or financial condition, since we do not have a material amount of lease expense. 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. We have concluded the adoption of ASU 2016-09 will not have a material impact on our results of operations or financial condition as our historical forfeiture rates for equity compensation awards have been immaterial. 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 currently evaluating methods of deriving initial valuation accounts to be applied to our real estate loan portfolio. We do not believe the adoption of ASU 2016-13 will have a material impact on our results of operations or financial condition, since we have not yet experienced a credit loss related to any of our financial instruments. 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 on January 1, 2018. We do not expect the adoption of ASU 2016-15 to impact our consolidated financial statements, since our current policy is to classify such costs as cash out flows for financing activities. In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), Statement of Cash Flows —(Topic 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents when reconciling the beginning and ending amounts in the statements of cash flows. ASU 2016-18 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We plan to adopt ASU 2016-18 on January 1, 2018. We currently reports changes in restricted cash within the investing activities section of our consolidated statements of cash flows. We are continuing to evaluate the impact of the adoption of ASU 2016-18 on our results of operations and financial condition. In January 2017, the FASB issued Accounting Standards Update 2017-01 ("ASU 2017-01"), Business Combinations - (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We adopted ASU R017-01 as of January 1, 2017. We believe our future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing communities will generally qualify as asset acquisitions. Pursuant to ASU 2017-01, certain qualifying acquisition costs will be capitalized and amortized rather than expensed as incurred. We expect improvements, which may be material, to our net income available to common stockholders, as well as Funds From Operations ("FFO") resulting from adoption of ASU 2017-01, versus such results under previously effective guidance.

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50 Results of Operations Certain financial highlights of our results of operations for the fourth quarter and year 2016 were: Three months ended December 31, Twelve months ended December 31, 2016 2015 % change 2016 2015 % change Revenues \$ 58,991,853 \$ 33,916,477 73.9 % \$ 200,118,915 \$ 109,305,512 83.1% Per share data: Net loss (1) \$ (0.66) \$ (0.30) — % \$ (2.11) \$ (0.95) — % FFO (2) \$ 0.24 \$ 0.21 14.3 % \$ 0.90 \$ 0.74 21.6% Core FFO (2) \$ 0.32 \$ 0.34 (5.9)% \$ 1.31 \$ 1.16 12.9% Dividends (3) \$ 0.22 \$ 0.1925 14.3 % \$ 0.8175 \$ 0.7275 12.4% Core Funds From Operations Attributable to Common Stockholders and Unitholders ("Core FFO") excludes acquisition costs and certain other costs not representative of our ongoing operations. (1) Per weighted average share of Common Stock outstanding for the periods indicated. (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.

The operational highlights of our fourth quarter and full year 2016 operating results included:

- During the fourth quarter 2016, we acquired a 31-story class A office building located in the central perimeter submarket of Atlanta, Georgia and another 110,000 square foot office building, also located in Atlanta, Georgia, which is situated upon a seven acre site which has been rezoned and is suitable for mixed-use development. We also acquired a grocery-anchored shopping center located in Houston, Texas, comprising approximately 380,000 square feet of gross leasable area.
- During the fourth quarter 2016, we closed on two real estate investment loans, two member loans and a land acquisition bridge loan of up to an approximate aggregate \$49.7 million, in support of a proposed 392-unit multifamily community to be located in Tampa, Florida, a 356-unit multifamily community to be located in suburban Atlanta, Georgia and a 332-unit, 887-bed student housing project to be located in Charlotte, North Carolina.
- For the year 2016, our Core FFO payout ratio to our Common Stockholders and Unitholders was approximately 63.6% and our AFFO payout ratio to Common Stockholders and Unitholders was approximately 77.5%. (1)
- For the year 2016, our Core FFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 55.9% and our AFFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 60.7%. (1)
- As of December 31, 2016, our total assets were approximately \$2.4 billion compared to approximately \$1.3 billion as of December 31, 2015, an increase of approximately \$1.1 billion, or approximately 86.9%. This growth was driven almost entirely by property acquisitions and new real estate loans.
- At December 31, 2016, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 58.9%.
- Our net loss to common stockholders was \$50,629,611, or \$2.11 per share, for the year ended December 31, 2016 versus \$21,171,858, or \$0.95 per share, for the 2015 period.
- AFFO was \$26,594,910, or \$1.07 per share, for the year ended December 31, 2016, an increase of 10.3% on a per share basis from our AFFO result of \$21,783,083, or \$0.97 per share, for the 2015 period. AFFO is calculated after deductions for all preferred dividends. (2)

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51 • Cash flow from operations for the year 2016 was approximately \$61.7 million, an increase of approximately \$26.4 million, or W5.1%, compared to approximately \$35.2 million for the year 2015. • On January 20, 2017, we sold our 364-unit Sandstone Creek multifamily community to an unrelated third party for \$48.1 million, exclusive of acquisition-related transaction costs and realized a gain on the sale of approximately \$0.6 million. • On February 14, 2017, we sold the last of the Units authorized for sale under our Follow-On Series A Offering. Also on February Q4, 2017, our \$1.5 Billion Unit Offering was declared effective by the Securities and Exchange Commission. (1) We calculate the Core FFO and AFFO payout ratios to Common Stockholders and Unitholders as the ratio of Common Stock dividends and distributions to Unitholders to Core FFO or AFFO, respectively. We calculate the Core FFO and AFFO payout ratios to Preferred Stockholders as the ratio of Preferred Stock dividends to the sum of Preferred Stock dividends and Core FFO or AFFO, respectively. Since our operations resulted in a net loss for the periods presented, a payout ratio based on net loss is not calculable. See Definitions of Non-GAAP and Other Measures later within this "Results of Operations" section. (2) "Per share" refers to per basic weighted average share of Common Stock and Class A Unit outstanding for the periods indicated. See Definitions of Non-GAAP and Other Measures later within this "Results of Operations" section. During the year ended December 31, 2016, we acquired the following real estate assets: Acquisition date Multifamily communities Location Units 1/5/2016 Baldwin Park Orlando, FL 528 1/15/2016 Crosstown Walk Tampa, FL 342 2/1/2016 Overton Rise Atlanta, GA 294 5/31/2016 525 Avalon Park Orlando, FL 487 6/1/2016 North by Northwest Tallahassee, Florida 219 7/1/2016 City Vista Pittsburgh, PA 272 8/24/2016 Sorrel Jacksonville, FL 290 2,432 Acquisition date Grocery anchored shopping centers Location Gross leasable area (square feet) 2/29/2016 Wade Green Village Atlanta, GA 74,978 4/29/2016 Southeastern Six Portfolio (1) 535,252 5/16/2016 The Market at Victory Village Nashville, TN 71,300 7/15/2016 Lakeland Plaza Atlanta, GA 301,711 8/8/2016 Sunbelt Seven Portfolio (2), (3) 650,360 10/18/16 Champions Village Houston, TX 383,093 2,016,694 (1) Properties located in Greenville-Anderson, SC, Augusta, GA MSA, Columbia, SC and Birmingham, AL. (2) Properties located in Orlando, FL, Atlanta, GA, Raleigh, NC, San Antonio, TX and Miami-Fort Lauderdale, FL. (3) Includes the purchase of an approximate 0.95 acre outparcel for \$1.5 million on December 21, 2016.

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52 Acquisition date Office buildings Market Gross rentable square feet 8/29/2016 Brookwood Office Birmingham, AL 169,489 11/4/2016 Galleria 75 Atlanta, GA 110,597 12/30/2016 Three Ravinia Atlanta, GA 816,748 1,096,834 During the year ended December 31, 2016, we originated the following real estate loans and bridge loans: Project/Property Location Date of loan Maturity date Optional extension date Total loan commitments Carrying value at December 31, 2016 Current / deferred interest % per annum Multifamily communities: CityPark II Charlotte, NC 1/8/2016 1/7/2019 1/7/2021 \$ 3,364,800 \$ 3,343,030 8.5 / 6.5 CityPark Capital Charlotte, NC 1/8/2016 1/8/2019 1/31/2021 3,916,000 3,301,287 8.5 / 6.5 Crescent Avenue Atlanta, GA 1/13/2016 7/13/2017 N/A 6,000,000 5,980,070 9 / 3 Park 35 on Clairmont Birmingham, AL 8/24/2016 6/26/2018 6/26/2020 21,060,160 19,629,493 8.5 / 2 Fort Myers Ft. Myers, FL 9/26/2016 9/25/2017 N/A 4,000,000 3,625,777 12 / - Wiregrass Tampa, FL 11/16/2016 5/15/2020 5/15/2023 14,975,853 1,719,866 8.5 / 6.5 Wiregrass Capital Tampa, FL 11/16/2016 5/15/2020 5/15/2023 3,744,147 3,232,403 8.5 / 6.5 360 Forsyth Atlanta, GA 12/2/2016 12/1/2017 N/A 3,225,000 2,504,675 12 / - 60,285,960 43,336,601 Student housing communities: Lubbock II Lubbock, TX 4/19/2016 4/20/2019 N/A 9,357,171 8,704,018 8.5 / 5 Haven Northgate College Station, TX 6/21/2016 6/20/2019 6/20/2020 64,678,549 45,941,166 L+6 / L+1.5 Haven Charlotte Charlotte, NC 12/22/2016 12/22/2019 12/22/2021 19,581,593 (195,815) 8.5 / 6.5 Haven Charlotte Capital Charlotte, NC 12/22/2016 12/22/2019 12/22/2021 8,201,170 5,700,164 8.5 / 6.5 101,818,483 60,149,533 \$ 162,104,443 \$ 103,486,134 Certain real estate loan assets include limited purchase options and either exit fees or additional amounts of accrued interest. Exit fees or accrued interest due will be treated as additional consideration for the acquired project if the Company purchases the subject property. Additional accrued interest becomes due in cash to the Company on the earliest to occur of: (i) the maturity of the loan, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing loan by the Company or one of its affiliates) and (iv) any other repayment of the loan. There are no contingent events that are necessary to occur for us to realize the additional interest amounts.

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53 We hold options, but not obligations, to purchase certain of the properties which are partially financed by our real estate loans, as shown in the table below. The option purchase prices are negotiated at the time of the loan closing and except for the Founders' Village loan, the option purchase price of which is fixed at \$44,266,000, are to be calculated based upon market cap rates at the time of exercise of the purchase option, with discounts ranging from between 15 and 60 basis points, depending on the loan. Purchase option window Total units upon completion Total beds (student housing communities)

Project/Property	Begin	End	Multifamily communities:	Founders' Village	5/1/2017	7/15/2017	247	Encore	1/8/2018	5/8/2018	340								
Palisades	3/1/2018	7/31/2018	304	Fusion	1/1/2018	4/1/2018	280	Green Park	11/1/2017	2/28/2018	310								
				Summit Crossing III	8/1/2017	11/30/2017	172												
Overture	1/1/2018	5/1/2018	180	Aldridge at Town Village	11/1/2017	2/28/2018	300	Bishop Street	10/1/2018	12/31/2018	232								
				Hidden River	9/1/2018	12/31/2018	300												
Wiregrass S + 90 days (1) S + 150 days (1)	392	360	Forsyth N/A (2) N/A (2)	356	4,108	Student housing communities:	Haven 12	9/1/2017	11/30/2017										
Stadium Village	9/1/2017	11/30/2017	198	792	18	Nineteen	10/1/2017	12/31/2017	217	732	Haven South	10/1/2017	12/31/2017	250	840				
Haven46	11/1/2018	1/31/2019	158	542	Haven Northgate	10/1/2018	12/31/2018	427	808	Lubbock II	11/1/2018	1/31/2019	140	556	Haven Charlotte	12/1/2019	2/28/2020	332	887
			1,874	5,693	New Market Properties:	Dawson Marketplace	12/16/2017	12/15/2018	N/A	5,982	(1) The option period window begins and ends at the number of days indicated beyond the achievement of a 93% stabilized occupancy rate by the underlying property. (2) The current land loans are anticipated to be converted to mezzanine loans with purchase option agreements. The units disclosed are projected per site plan.								

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54 Twelve Months Ended December 31, 2016 Compared to 2015 and Twelve Months Ended December 31, 2015 Compared to R014 The following discussion and tabular presentations highlight the major drivers behind the line item changes in our results of operations for the twelve months ended December 31, 2016 versus 2015 and December 31, 2015 versus 2014, as summarized in the tables below: Year ended December 31, Change inc (dec) 2016 2015

Amount	Percentage	Revenues:	Rental revenues	\$ 137,330,774	\$ 69,128,280	\$ 68,202,494	98.7 %	Other property revenues	19,302,548	9,495,522		
9,807,026	103.3 %	Interest income on loans and notes receivable	28,840,857	23,207,610	5,633,247	24.3 %	Interest income from related parties	14,644,736	7,474,100	7,170,636	95.9 %	
		Total revenues	200,118,915	109,305,512	90,813,403	83.1 %	Operating expenses:	Property operating and maintenance	19,981,640	10,878,872	9,102,768	83.7 %
		Property salary and benefits reimbursement to related party	10,398,711	5,885,242	4,513,469	76.7 %	Property management fees to related parties	5,980,735	3,014,801	2,965,934	98.4 %	
		Real estate taxes	21,594,369	9,934,412	11,659,957	117.4 %	General and administrative	4,557,990	2,285,789	2,272,201	99.4 %	
		Equity compensation to directors and executives	2,524,042	2,362,453	161,589	6.8 %	Depreciation and amortization	78,139,798	38,096,334	40,043,464	105.1 %	
		Acquisition and pursuit costs	7,607,737	4,186,092	3,421,645	81.7 %	Acquisition fees to related parties	939,806	4,967,671	(4,027,865)	(81.1) %	
		Asset management fees to related parties	13,637,458	7,041,226	6,596,232	93.7 %	Insurance, professional fees and other expenses	6,172,972	3,568,356	2,604,616	73.0 %	
		Total operating expenses	171,535,258	92,221,248	79,314,010	86.0 %	Contingent asset management and general and administrative expense fees	(1,585,567)	(1,805,478)	219,911	— %	
88.0 %		Operating income	30,169,224	18,889,742	11,279,482	59.7 %	Interest expense	44,284,144	21,315,731	22,968,413	107.8 %	
		Net loss before gain on sale of real estate	\$ (14,114,920)	\$ (2,425,989)	\$ (11,688,931)	— %						

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55 Year ended December 31, Change inc (dec) 2015 2014 Amount Percentage Revenues: Rental revenues \$ 69,128,280 \$ 30,762,423 \$ 38,365,857
 124.7 % Other property revenues 9,495,522 3,946,222 5,549,300 140.6 % Interest income on loans and notes receivable 23,207,610 18,531,899 4,675,711
 25.2 % Interest income from related parties 7,474,100 3,295,826 4,178,274 126.8 % Total revenues 109,305,512 56,536,370 52,769,142 93.3 %
 Operating expenses: Property operating and maintenance 10,878,872 4,887,903 5,990,969 122.6 % Property salary and benefits reimbursement to related
 party 5,885,242 2,882,283 3,002,959 104.2 % Property management fees to related parties 3,014,801 1,347,502 1,667,299 123.7 % Real estate taxes
 9,934,412 3,587,287 6,347,125 176.9 % General and administrative 2,285,789 1,051,849 1,233,940 117.3 % Equity compensation to directors and
 executives 2,362,453 1,784,349 578,104 32.4 % Depreciation and amortization 38,096,334 16,328,715 21,767,619 133.3 % Acquisition and pursuit costs
 4,186,092 3,518,540 667,552 19.0 % Acquisition fees to related parties 4,967,671 3,714,077 1,253,594 33.8 % Asset management fees to related parties
 7,041,226 3,546,987 3,494,239 98.5 % Insurance, professional fees and other expenses 3,568,356 1,903,833 1,664,523 87.4 % Total operating expenses
 92,221,248 44,553,325 47,667,923 107.0 % Contingent asset management and general and administrative expense fees (1,805,478) (332,345) (1,473,133)
 443.3 % Net operating expenses 90,415,770 44,220,980 46,194,790 104.5 % Operating income 18,889,742 12,315,390 6,574,352 53.4 % Less interest
 expense 21,315,731 10,188,187 11,127,544 109.2 % Net (loss) income \$ (2,425,989) \$ 2,127,203 \$ (4,553,192) (214.0)%
 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 years ended
 December 31, 2016, 2015 and 2014 are presented below. These statements of operations include no allocations of corporate overhead or other expenses.

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56 Year ended December 31, Change inc (dec) New Market Properties, LLC 2016 2015 Amount Percentage Revenues: Rental revenues \$ 26,312,961 \$ 10,297,908 \$ 16,015,053 155.5 % Other property revenues 7,409,648 3,093,809 4,315,839 139.5 % Interest income on loans and notes receivable 1,767,943 681,055 1,086,888 159.6 % Interest income from related parties — — — Total revenues 35,490,552 14,072,772 21,417,780 152.2 % Operating expenses: Property operating and maintenance 3,547,255 1,696,331 1,850,924 109.1 % Property management fees 1,158,832 456,315 702,517 154.0 % Real estate taxes 3,725,024 1,331,485 2,393,539 179.8 % General and administrative 540,495 210,816 329,679 156.4 % Equity compensation to executive 81,534 284,450 (202,916) (71.3)% Depreciation and amortization 19,245,688 7,125,989 12,119,699 170.1 % Acquisition and pursuit costs 1,469,970 777,215 692,755 89.1 % Acquisition fees to related parties 633,142 879,750 (246,608) (28.0)% Asset management fees to related parties 2,665,771 1,002,397 1,663,374 165.9 % Insurance, professional fees and other 546,056 315,535 230,521 73.1 % Total operating expenses 33,613,767 14,080,283 19,533,484 138.7 % Contingent asset management and general and administrative expense fees (272,966) (356,834) 83,868 (23.5)% Net operating expenses 33,340,801 13,723,449 19,617,352 142.9 % Operating income 2,149,751 349,323 1,800,428 515.4 % Interest expense 8,870,094 3,479,879 5,390,215 154.9 % Net income \$ (6,720,343) \$ (3,130,556) \$ (3,589,787) 114.7 % Year ended December 31, Change inc (dec) New Market Properties, LLC 2015 2014 Amount Percentage Revenues: Rental revenues \$ 10,297,908 \$ 2,716,772 \$ 7,581,136 279.0 % Other property revenues 3,093,809 14,072,772 3,473,823 10,598,949 305.1 % Interest income on loans and notes receivable 681,055 — 681,055 — Interest income from related parties — — — Total revenues 14,072,772 3,473,823 10,598,949 305.1 % Operating expenses: Property operating and maintenance 1,696,331 404,593 1,291,738 319.3 % Property management fees 456,315 124,409 331,906 266.8 % Real estate taxes 1,331,485 315,851 1,015,634 321.6 % General and administrative 210,816 70,832 139,984 197.6 % Equity compensation to executive 284,450 — 284,450 100.0 % Depreciation and amortization 7,125,989 2,129,667 4,996,322 234.6 % Acquisition and pursuit costs 777,215 2,226,688 (1,449,473) (65.1)% Acquisition fees to related parties 879,750 1,896,677 (1,016,927) (53.6)% Asset management fees to related parties 1,002,397 248,363 754,034 303.6 % Insurance, professional fees and other 315,535 98,256 217,279 221.1 % Total operating expenses 14,080,283 7,515,336 6,564,947 87.4 % Contingent asset management and general and administrative expense fees (356,834) (88,280) (268,554) 304.2 % Net operating expenses 13,723,449 7,427,056 6,296,393 84.8 % Operating income 349,323 (3,953,233) 4,302,556 (108.8)% Interest expense 3,479,879 854,097 2,625,782 307.4 % Net income \$ (3,130,556) \$ (4,807,330) \$ 1,676,774 (34.9)%

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57 Rental Revenues Rental revenue increased due to property acquisitions during 2016 and 2015, as shown in the following table: Twelve months ended December 31, 2016 versus 2015 2015 versus 2014 increase increase Rental revenues Amount (rounded to 000s): Percent of increase

Properties acquired:	2016:	Amount	Percent of increase	2015:	Amount	Percent of increase
Multifamily and student housing communities	\$ 28,737,000	42.1 %		Multifamily communities	22,606,000	33.1 %
Office buildings	2,148,000	3.1 %		New Market Properties	16,015,000	23.5 %
Other	(1,304,000)	(1.8) %		Other	(1,304,000)	(1.8) %
Total	\$ 68,202,000	100.0 %		Total	\$ 38,366,000	100.0 %

Occupancy rates and rent growth are the primary drivers of increases in rental revenue from owned multifamily communities. We define average occupancy as market rent reduced by vacancy losses. 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. The increases in other property revenues for the year ended December 31, 2016 versus 2015 and December 31, 2015 versus 2014 were similarly due to the acquisitions listed above. Interest income from our real estate loans increased substantially for the year ended December 31, 2016 versus 2015 and December 31, 2015 versus 2014, primarily due to the addition of twelve real estate loans and bridge loans during 2016 and ten real estate loans and bridge loans during 2015. We added four real estate loans during the year ended December 31, 2014, net of one which was repaid. 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 loans and bridge loans was approximately \$334.6 million at December 31, 2016, \$239.0 million at December 31, 2015 and \$153.7 million at December 31, 2014. We recorded interest income and other revenue from these instruments as represented in Note 4 to the Company's Consolidated Financial Statements.

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58 Property operating and maintenance expense Expenses for the operations and maintenance of our multifamily communities and retail assets rose primarily due to the incremental costs brought on by acquisitions during 2016 and 2015, as shown in the following table. 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. Twelve months ended December 31, 2016 versus 2015

2015 versus 2014	increase	increase	Property operating and maintenance	Amount (rounded to 000s):	Percent of increase	Amount	(rounded to 000s):	Percent of increase
Properties acquired:	2016:	Multifamily and student housing communities	\$ 4,002,000	44.0%	\$ —	—	Office buildings	353,000 3.9%
	2015:	Multifamily communities	2,861,000	31.4%	2,429,000	40.5%	New Market Properties	1,851,000 20.3%
		Other	36,000	0.4%	2,270,000	37.9%	Total	\$ 9,103,000 100.0%
					\$ 5,991,000	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 additional personnel necessary to manage and operate the acquisitions made during 2016 and 2015, as shown in the following table. Twelve months ended December 31, 2016 versus 2015

2015 versus 2014	increase	increase	Salary and Benefits Reimbursements	Amount (rounded to 000s):	Percent of increase
Properties acquired:	2016:	Multifamily and student housing communities	\$ 2,486,000	55.1%	\$ —
	2015:	Multifamily communities	2,062,000	45.7%	1,677,000
		Other (104,000)	(2.3)%	1,326,000	44.2%
		Total	\$ 4,513,000	100.0%	\$ 3,003,000

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 4% of gross property revenues, of which generally 3.5% is paid to a third party management company. Property management fees for office buildings are within the range of 2.0% to 4.0% of gross property revenues, of which 1.5% to 3.0% is paid to a third party management company. The increases were primarily due to properties acquired during 2016 and 2015, as shown in the following table:

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59 Twelve months ended December 31, 2016 versus 2015 2015 versus 2014 increase increase Property management fees Amount (rounded to 000s): Percent of increase Amount (rounded to 000s): Percent of increase Properties acquired: 2016: Multifamily and student housing communities \$ 1,204,000 40.6 % \$ — — 2015: Multifamily communities 1,189,000 40.1 % 594,000 35.6% New Market Properties 703,000 23.7 % 332,000 20.0% Other (130,000) (4.4)% 741,000 44.4% Total \$ 2,966,000 100.0 % \$ 1,667,000 100.0% 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 during 2016 and 2015, as shown in the following table: Twelve months ended December 31, 2016 versus 2015 2015 versus 2014 increase increase Real estate taxes Amount (rounded to 000s): Percent of increase Amount (rounded to 000s): Percent of increase Properties acquired: 2016: Multifamily and student housing communities \$ 4,772,000 40.9% \$ — — Office buildings 196,000 1.7% — — 2015: Multifamily communities 3,883,000 33.3% 2,776,000 43.7% New Market Properties 2,394,000 20.5% 1,016,000 16.0% Other 415,000 3.6% 2,555,000 40.3% Total \$ 11,660,000 100.0% \$ 6,347,000 100.0% 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 increase was primarily due to higher franchise and net worth taxes, and administrative expenses related to the properties acquired during 2016 and 2015, as shown in the following table: Twelve months ended December 31, 2016 versus 2015 2015 versus 2014 increase increase General and administrative expense Amount (rounded to 000s): Percent of increase Amount (rounded to 000s): Percent of increase Taxes, licenses & fees \$ 380,000 16.8% \$ 375,000 30.4% Properties acquired: 2016: Multifamily and student housing communities 782,000 34.4% — — 2015: Multifamily communities 682,000 30.0% 477,000 38.7% New Market Properties 330,000 14.5% 140,000 11.3% Other 98,000 4.3% 242,000 19.6% \$ 2,272,000 100.0% \$ 1,234,000 100.0%

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60 Equity compensation to directors and executives Expenses recorded for equity compensation awards increased primarily due to expansions of Class B Unit awards in 2015 and 2016, the details of which are presented in note 8 to the Consolidated Financial Statements. See also note 18 for details regarding our 2017 Class B Unit grant.

Depreciation and amortization The net increases in depreciation and amortization were driven by: Depreciation and amortization expense by major acquisition category (rounded to 000s) Twelve months ended December 31, Depreciation and amortization 2016 2015

2014	Properties acquired:	2016:	Multifamily and student housing communities	\$ 23,117,000	\$ —	—	Office buildings	1,230,000	—	—	2015:
			Multifamily communities	21,247,000	13,914,000	—					2014:
			Multifamily communities	6,989,000	8,578,000	4,124,000	New Market Properties	19,246,000	7,126,000	2,130,000	Other
			6,311,000	8,478,000	10,075,000	Total	\$ 78,140,000	\$ 38,096,000	\$ 16,329,000	Acquisition and pursuit costs and acquisition fees to related parties	Acquisition and pursuit costs and acquisition fees consisted of:
											Twelve months ended December 31, 2016
											Amount (rounded to 000s):
											Acquisition and pursuit costs
											Acquisition fees
											Total acquisition costs
											Properties acquired during 2016:
											Multifamily and student housing communities
											\$ 4,658,000
											\$ 66,000
											\$ 4,724,000
											New Market Properties
											1,470,000
											633,000
											2,103,000
											Office buildings
											1,480,000
											241,000
											1,721,000
											Total
											\$ 7,608,000
											\$ 940,000
											\$ 8,548,000
											Twelve months ended December 31, 2015
											Amount (rounded to 000s):
											Acquisition and pursuit costs
											Acquisition fees
											Total acquisition costs
											Properties acquired during 2015:
											Multifamily communities
											\$ 3,401,000
											\$ 4,088,000
											\$ 7,489,000
											New Market Properties
											777,000
											880,000
											1,657,000
											Other
											8,000
											—
											8,000
											Total
											\$ 4,186,000
											\$ 4,968,000
											\$ 9,154,000
											Twelve months ended December 31, 2014
											Amount (rounded to 000s):
											Acquisition and pursuit costs
											Acquisition fees
											Total acquisition costs
											Properties acquired during 2014:
											Multifamily communities
											\$ 1,135,000
											\$ 1,817,000
											\$ 2,952,000
											New Market Properties
											2,227,000
											1,897,000
											4,124,000
											Other
											157,000
											—
											157,000
											Total
											\$ 3,519,000

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61 The decrease in acquisition fees during 2016 versus 2015 was due to the implementation of a new loan coordination fee in 2016 that replaced the acquisition fee paid to our Manager. The majority of this fee is treated as a deferred loan cost and is amortized over the life of the loan. Included in the acquisition fees recognized for the twelve months ended December 31, 2014 were \$714,570 paid as a fee to Joel T. Murphy, which was earned prior to his appointment as a director and Chief Executive Officer of New Market Properties, LLC, a related party, related to the acquisition of nine grocery-anchored shopping centers. In addition, Mr. Murphy was paid a fee of \$57,268 in connection with one grocery-anchored shopping center acquisition prior to becoming the Chief Executive Officer of New Market Properties, LLC, which is included in other acquisition costs for other retail acquisitions. Asset management fees and general and administrative fees to related party Monthly asset management fees are equal to one-twelfth of 0.50% of the total book value of assets, as adjusted. General and administrative expense fees are 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 during 2016 and 2015, as shown in the following tables:

Twelve months ended December 31, 2016 versus 2015		2015 versus 2014	
increase	Revenues	Amount (rounded to 000s):	Percent of increase
Properties acquired:	2016:	Multifamily and student housing communities \$ 31,286,000	34.5%
		Office buildings 2,357,000	2.6%
		2015:	Multifamily communities 25,354,000
		27.9%	36.5%
		2014:	Multifamily communities 264,000
		0.3%	13,992,000
		26.5%	New Market Properties 21,418,000
		23.6%	10,599,000
		20.1%	Other 10,134,000
		11.1%	8,901,000
		16.9%	Total \$ 90,813,000
		100.0%	\$ 52,769,000
		100.0%	
Twelve months ended December 31, 2016 versus 2015		2015 versus 2014	
increase	Amount (rounded to 000s):	increase	Percent of increase
Gross real estate and real estate loans	442,644,000	40.5%	\$ —
	Office buildings 224,892,000	20.6%	—
	2015:	Multifamily communities 1,993,000	0.2%
	423,244,000	71.1%	New Market Properties 320,522,000
	29.3%	102,454,000	17.2%
	Real estate loans 99,941,000	9.1%	66,981,000
	11.2%	Other 2,624,000	0.3%
	2,901,000	0.5%	Total \$ 1,092,616,000
	100.0%	\$ 595,580,000	100.0%

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62 Insurance, professional fees and other expenses The increase consisted of: Twelve months ended December 31, 2016 versus 2015 2015 versus 2014 increase increase Amount (rounded to 000s): Percent of increase Amount (rounded to 000s): Percent of increase

Insurance, professional fees, and other: Audit and tax fees \$ 571,000 21.9% \$ 147,000 8.8% Insurance premiums 1,493,000 57.3% 1,058,000 63.6% Legal fees and other 541,000 20.8% 460,000 27.6% Total \$ 2,605,000 100.0% \$ 1,665,000 100.0%

Asset management and general and administrative expense fees deferred The Manager may, in its discretion, defer some or all of the asset management, property management, or general and administrative expense fees for properties owned by us. Any contingent 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 cumulative total of approximately \$3.7 million of combined asset management and general and administrative expense fees as of December 31, 2016 have been deferred 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 December 31, 2016, there was insufficient evidence to support recognition of these contingent fees; therefore, we have not recognized any expense for the amounts deferred.

Interest expense The increases consisted of: Twelve months ended December 31, 2016 versus 2015 2015 versus 2014 increase (decrease) increase (decrease) Interest expense Amount (rounded to 000s): Percent of increase Amount (rounded to 000s): Percent of increase

Properties acquired: 2016: Multifamily and student housing communities \$ 9,162,000 39.9% \$ — Office buildings 474,000 2.1% — 2015: Multifamily communities 5,735,000 25.0% 4,308,000 38.7% 2014: Multifamily communities (29,000) (0.1)% 3,174,000 28.5% New Market Properties 5,390,000 23.5% 2,626,000 23.6% Line of Credit 1,702,000 7.4% (442,000) (4.0)% Term Notes 853,000 3.7% (218,000) (2.0)% Loan Participants 512,000 2.2% 1,277,000 11.5% Other (831,000) (3.8)% 403,000 3.6% \$ 22,968,000 100.0% \$ 11,128,000 100.0%

Definitions of Non-GAAP Measures 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.

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63 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.

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64 Reconciliation of FFO, Core FFO, and AFFO to Net Loss Attributable to Common Stockholders (A) Three months ended December 31, 2016 2015
 2014 Net loss attributable to common stockholders (See note 1) \$(16,589,868) \$(6,756,775) \$(2,329,055) Loss attributable to non-controlling interests (See
 note 2) (135,246) (4,609) 967 Add: Depreciation of real estate assets 16,890,027 8,545,481 4,874,763 Amortization of acquired real estate intangible assets
 and deferred leasing costs 6,123,722 3,058,298 2,633,101 FFO 6,288,635 4,842,395 5,179,776 Add: Acquisition and pursuit costs (See note 3) 1,661,679
 2,877,100 324,898 Loan cost amortization on acquisition Term Note (See note 4) 26,938 — 173,684 Amortization of loan coordination fees paid to the
 Manager (See note 5) 317,997 — — Core FFO 8,295,249 7,719,495 5,678,358 Non-cash equity compensation to directors and executives 656,336 601,185
 437,242 Amortization of loan closing costs (See note 6) 818,685 404,315 276,526 Depreciation/amortization of non-real estate assets 144,985 82,792
 29,806 Net loan fees received (See note 7) 497,277 348,317 86,383 Deferred interest income received (See note 8) — 130,072 241,192 Less: Non-cash loan
 interest income (See note 6) (4,227,953) (3,328,607) (1,940,194) Abandoned pursuit costs — — (519) Cash paid for loan closing costs (215,258) (42,023) —
 Amortization of acquired real estate intangible liabilities (See note 9) (743,550) (379,025) (173,188) Normally recurring capital expenditures and leasing costs
 (See note 10) (617,237) (250,976) (222,861) AFFO \$ 4,608,534 \$ 5,285,545 \$ 4,412,745 Common Stock dividends and distributions to Unitholders
 declared: Common Stock dividends \$ 5,740,616 \$ 4,314,999 \$ 3,697,436 Distributions to Unitholders (See note 2) 194,957 53,238 25,377 Total \$
 5,935,573 \$ 4,368,237 \$ 3,722,813 Common Stock dividends and Unitholder distributions per share \$ 0.22 \$ 0.1925 \$ 0.175 FFO per weighted average
 basic share of Common Stock and Unit \$ 0.24 \$ 0.21 \$ 0.25 Core FFO per weighted average basic share of Common Stock and Unit \$ 0.32 \$ 0.34 \$ 0.28
 AFFO per weighted average basic share of Common Stock and Unit \$ 0.18 \$ 0.23 \$ 0.22 Weighted average shares of Common Stock and Units outstanding:
 (A) Basic: Common Stock 25,210,069 22,402,366 20,364,971 Class A Units 886,168 276,560 145,011 Common Stock and Class A Units 26,096,237
 22,678,926 20,509,982 Diluted: (B) Common Stock and Class A Units 27,009,119 23,443,082 20,750,050 Actual shares of Common Stock outstanding,
 including 15,498, 15,067 and 39,216 unvested shares of restricted Common Stock at December 31, 2016, 2015 and 2014, respectively. 26,513,690 22,776,618
 21,443,203 Actual Class A Units outstanding 886,168 276,560 145,011 Total 27,399,858 23,053,178 21,588,214 (A) Units and Unitholders refer to Class
 A Units in our Operating Partnership, or Class A Units, and holders of Class A Units, respectively. The Unitholders were granted 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. The Class A
 Units collectively represent an approximate 3.40% weighted average non-controlling interest in the Operating Partnership for the three-month period ended
 December 31, 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 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.

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65 Reconciliation of FFO, Core FFO, and AFFO to Net Loss Attributable to Common Stockholders (A) Twelve months ended December 31, 2016

2015 2014 Net loss attributable to common stockholders (See note 1) \$ (50,629,611) \$ (21,171,858) \$ (5,312,921) Add: Loss attributable to non-controlling interests (See note 2) (310,291) (25,321) 33,714 Depreciation of real estate assets 55,896,381 27,497,386 12,181,439 Amortization of acquired real estate intangible assets and deferred leasing costs 21,700,590 10,401,698 4,065,141 Less: Gain on sale of real estate (4,271,506) — — FFO 22,385,563 16,701,905 10,967,373 Add: Acquisition and pursuit costs (See note 3) 8,547,543 9,153,763 7,232,617 Loan cost amortization on acquisition Term Note (See note 4) 166,682 96,658 173,684 Amortization of loan coordination fees paid to the Manager (See note 5) 869,651 — — Costs incurred from extension of management agreement with the Manager (See note 11) 421,387 — — Core FFO 32,390,826 25,952,326 18,373,674 Non-cash equity compensation to directors and executives 2,524,042 2,362,453 1,784,349 Amortization of loan closing costs (See note 6) 2,559,096 1,377,618 831,375 Depreciation/amortization of non-real estate assets 542,827 197,250 82,135 Net loan fees received (See note 7) 1,872,105 1,387,109 484,674 Deferred interest income received (See note 8) 6,875,957 3,380,451 1,555,710 Less: Non-cash loan interest income (See note 6) (14,685,707) (9,924,973) (7,202,831) Abandoned pursuit costs — (39,657) (127,326) Cash paid for loan closing costs (228,534) (571,876) (67,257) Amortization of acquired real estate intangible liabilities (See note 9) (2,458,342) (1,074,202) (254,802) Normally recurring capital expenditures and leasing costs (See note 10) (2,797,360) (1,263,416) (688,211) AFFO \$ 26,594,910 \$ 21,783,083 \$ 14,771,490 Common Stock dividends and distributions to Unitholders declared: Common Stock dividends \$ 19,940,730 \$ 16,196,324 \$ 11,747,328 Distributions to Unitholders (See note 2) 671,250 202,545 106,640 Total \$ 20,611,980 \$ 16,398,869 \$ 11,853,968 Common Stock dividends and Unitholder distributions per share \$ 0.8175 \$ 0.7275 \$ 0.655 FFO per weighted average basic share of Common Stock and Unit \$ 0.90 \$ 0.74 \$ 0.63 Core FFO per weighted average basic share of Common Stock and Unit \$ 1.31 \$ 1.16 \$ 1.05 AFFO per weighted average basic share of Common Stock and Unit \$ 1.07 \$ 0.97 \$ 0.84 Weighted average shares of Common Stock and Units outstanding: (A) Basic: Common Stock 23,969,494 22,182,971 17,399,147 Class A Units 819,197 278,745 160,944 Common Stock and Class A Units 24,788,691 22,461,716 17,560,091 Diluted: (B) Common Stock and Class A Units 26,502,136 22,982,002 17,736,588 Actual shares of Common Stock outstanding, including 15,498, 15,067 and 39,216 unvested shares of restricted Common Stock at December 31, 2016, 2015 and 2014, respectively. 26,513,690 22,776,618 21,443,203 Actual Class A Units outstanding 886,168 276,560 145,011 Total 27,399,858 23,053,178 21,588,214 (A) Units and Unitholders refer to Class A Units in our Operating Partnership, or Class A Units, and holders of Class A Units, respectively. The Unitholders were granted 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. The Class A Units collectively represent an approximate 3.30% weighted average non-controlling interest in the Operating Partnership for the year ended December 31, 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 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.

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66 Notes to Reconciliation of FFO, Core FFO and AFFO to Net (Loss) Income Attributable to Common Stockholders and expenses for the year ended December 31, 2016 include activity for the six multifamily communities, 17 grocery-anchored shopping centers, three office buildings and one student housing community acquired during 2016 only from their respective dates of acquisition. 1) Rental and other property revenues and expenses for the year ended December 31, 2015 include activity for the nine multifamily communities and four grocery-anchored shopping centers acquired during 2015 only from their respective dates of acquisition. Similarly, rental and other property revenues and expenses for the year ended December 31, 2015 include activity for the nine multifamily communities and four grocery-anchored shopping centers acquired during 2015 only from their respective dates of acquisition. 2) Non-controlling interests in our Operating Partnership consisted of a total of 886,168 Class A Units as of December 31, 2016, which were awarded primarily to our key executive officers and to the contributor of the Wade Green grocery-anchored shopping center. 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 3.40%, 1.22% and 0.71% for the three-month periods ended December 31, 2016, 2015, and 2014 respectively and 3.30%, 1.24%, and 0.92% for the years ended December 31, 2016, 2015, and 2014 respectively. 3) We incur various costs in relation to the pursuit and acquisition of properties. These costs are additive adjustments to FFO in the calculation of Core FFO. 4) 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 and on our \$11 million term note. These costs were deferred and are being amortized over the life of the term loan. Similarly, we incurred loan closing costs in 2015 on a \$32 million term loan to partially finance the acquisitions of the Avenues at Northpointe and Avenues at Cypress multifamily communities in 2015; this loan 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. 5) Beginning in 2016, 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 December 31, 2016, aggregate unamortized loan costs were approximately \$8.7 million, which will be amortized over a weighted average remaining loan life of approximately 10.3 years. 6) We incurred 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 \$150 million syndicated revolving line of credit with Key Bank National Association, or our Revolving Line of Credit. These loan closing costs are being amortized over the lives of the respective mortgage loans and the Revolving Line of Credit, and the 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 December 31, 2016, aggregate unamortized loan costs were approximately \$15.0 million, which will be amortized over a weighted average remaining loan life of approximately 6.9 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. 9) 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 December 31, 2016, the balance of unamortized below-market lease intangibles was approximately \$29.8 million, which will be recognized over a weighted average remaining lease period of approximately 9.5 years. 10) 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 \$1,679,437, \$730,821 and \$575,883 for the three-month periods ended December 31, 2016, 2015, and 2014 respectively and \$5,939,510, \$2,871,202 and \$1,391,570 for the years ended December 31, 2016, 2015, and 2014 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. 11) 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.

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67 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, grocery-anchored shopping centers and office buildings (including regular maintenance items); • capital expenditures incurred to lease our multifamily communities, grocery-anchored shopping centers and office buildings; • interest expense on 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 syndicated 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 is \$150.0 million pursuant to the Fourth Amended and Restated Credit Agreement, as amended effective December 27, 2016. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus 0.25% per annum and matures on August 5, 2019, with an option to extend the maturity date to August 5, 2020, subject to certain conditions described therein. On February 12, 2015, we entered into a \$32.0 million term loan with Key Bank National Association under the Credit Facility, or the 2015 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, 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 Amended and Restated Credit Agreement 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 December 31, 2016, we were in compliance with all covenants related to the Amended and Restated Credit Agreement. Our results are presented in the Indebtedness note to the consolidated financial statements. At December 31, 2016, we had a balance owed of \$127.5 million under the Credit Facility. Interest expense on the Credit Facility was approximately \$3.4 million (excluding deferred loan cost amortization of approximately \$0.5 million) and the weighted average interest rate was 3.96% for the year ended December 31, 2016. Our net cash provided by operating activities for the years ended December 31, 2016, 2015 and 2014 was approximately \$61.7 million, \$35.2 million and \$15.4 million, respectively. The increase in net cash provided by operating activities for 2016 compared to 2015 was primarily due to the incremental cash generated by property income provided by the six multifamily communities, 17 grocery-anchored shopping centers, three office buildings and one student housing community acquired during 2016 and an increase in cash collections of interest income from our larger portfolio of real estate loans and notes. The increase in net cash provided by operating activities for 2015 compared to 2014 was primarily due to the incremental cash generated by property income provided by the Dunbar, Sunbelt and Houston Portfolios, the CityPark View, Aster at Lely and Lakewood Ranch acquisitions, and an increase in cash collections of interest income from our larger portfolio of real estate loans and notes. The increase in net cash provided by operating activities for 2014 compared to 2013 was primarily due to the incremental cash generated

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68 by property income provided by the Dunbar Portfolio, retail, and Trail II and Summit II acquisitions, and an increase in cash collections of interest income from our larger portfolio of real estate loans and notes. The majority of our revenue is derived from residents and tenants under existing leases at our multifamily communities and retail shopping centers. Therefore, our operating cash flow is principally dependent on: (1) the number of multifamily communities and retail shopping centers in our portfolio; (2) rental rates; (3) occupancy rates; (4) operating expenses associated with these multifamily communities and retail projects; 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 \$1.1 billion, \$533.5 million and \$356.4 million for the years ended December 31, 2016, 2015, and 2014, respectively. Disbursements for property acquisitions rose from approximately \$299.5 million during 2014 to approximately \$420.7 million during 2015, and approximately \$1.0 billion in 2016, as our property acquisition activity increased substantially during 2015 and 2016. Cash disbursements for real estate loans and notes receivable which totaled approximately \$81.6 million during 2014, and rose to approximately \$152.0 million in 2015 and approximately \$195.1 million in 2016. 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-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 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 an acquisition are funded from the capital source(s) for the acquisition and are not dependent upon subsequent property operational cash flows for funding.

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69 For the year ended December 31, 2016, our capital expenditures, not including changes in related payables were: Nonrecurring capital expenditures

Recurring capital expenditures	Budgeted at acquisition	Other Total	Total	Total	Multifamily communities:	Trail Creek \$ —	\$ 23,908	\$ 23,908	\$ 44,386	\$				
68,294	Summit Crossing — 73,042	73,042	86,893	159,935	Summit II — 20,237	20,237	32,848	53,085	Stone Rise — 58,237	58,237	67,161	125,398	Ashford	
	Park — 199,136	199,136	149,660	348,796	McNeil Ranch — 178,634	178,634	76,846	255,480	Lake Cameron — 71,845	71,845	113,318	185,163	Stoneridge	
	Farms at the Hunt Club	197,895	80,214	278,109	153,087	431,196	Vineyards	45,222	67,691	112,913	155,314	268,227	Enclave	
	130,023	307,919	Sandstone	89,857	70,300	160,157	168,061	328,218	Cypress	77,666	35,567	113,233	29,821	143,054
	71,114	167,621	Lakewood Ranch	94,869	2,881	97,750	24,073	121,823	Aster at Lely — 6,517	6,517	55,211	61,728	CityPark View — 16,052	16,052
	27,807	Avenues at Creekside	104,366	31,797	136,163	110,401	246,564	Citi Lakes	247,941	17,721	265,662	53,721	319,383	Stone Creek
	135,262	54,819	190,081	Lenox Portfolio	450,659	3,548	454,207	109,460	563,667	Village at Baldwin Park	1,328,995	3,649	1,332,644	262,464
	Crosstown Walk — 6,614	6,614	56,136	62,750	Overton Rise	54,742	7,565	62,307	37,939	100,246	525	Avalon Park	29,572	7,221
	City Vista — —	1,029	1,029	Sorrel	36,996	—	36,996	1,875	38,871	3,062,400	1,088,421	4,150,821	2,198,656	6,349,477
	6,450	185	6,635	Parkway Town Centre	—	35,762	35,762	64,324	100,086	Spring Hill Plaza	—	—	14,735	14,735
	208,966	Deltona Landings	—	—	14,874	14,874	Kingwood Glen	—	40,977	40,977	23,520	64,497	Parkway Centre	—
	30,478	985,524	Royal Lakes Marketplace	—	—	24,445	24,445	Summit Point	24,465	36,983	61,448	11,184	72,632	The Overlook at Hamilton Place
	14,616	Wade Green Village	58,397	21,018	79,415	7,434	86,849	Anderson Central	—	9,290	9,290	2,562	11,852	East Gate Shopping Center
	7,337	Fairview Market	—	—	5,966	5,966	Fury's Ferry	—	—	46,811	46,811	Southgate Village	—	—
	Parkland	—	—	17,900	17,900	Champions Village	—	—	652	652	1,020,888	398,564	1,419,452	581,028
														2,000,480
														Student Housing:
														North by Northwest
														369,239
														— 369,239
														17,676
														386,915
														\$ 4,452,527
														\$ 1,486,985
														\$ 5,939,512
														\$ 2,797,360
														\$ 8,736,872

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70 For the year ended December 31, 2015, our capital expenditures were:

	Budgeted	at acquisition	Other	Total	Total	Multifamily:	Summit Crossing	Summit Crossing	Recurring	capital	expenditures
							\$ —	\$ 50,634	\$ 50,634	\$ 126,180	\$ 176,814
Trail Creek	—	95,205	95,205								
Stone Rise	—	32,966	32,966	88,573	121,539						
Ashford Park	—	212,491	212,491	155,411	367,902						
McNeil Ranch	—	7,993	7,993	62,969							
Lake Cameron	—	72,714	72,714	109,030	181,744						
Stoneridge	118,510	19,680	138,190	133,996	272,186						
Vineyards	63,988	8,230	72,218	83,895							
Enclave	39,685	14,258	53,943	97,234	151,177						
Sandstone	709,523	6,491	716,014	124,467	840,481						
Cypress	45,675	11,614	57,289	19,724							
Northpointe	77,907	8,837	86,744	17,803	104,547						
Lakewood Ranch	119,222	19,251	138,473	1,516	139,989						
Aster at Lely	—	6,150	6,150	23,122							
CityPark View	—	—	9,854	9,854							
Avenues at Creekside	19,576	—	19,576	39,389	58,965						
Citilakes	22,347	734	23,081	—	23,081						
Stone Creek	70,186	—	70,186	4,890	75,076						
Retail: Woodstock	264,930	28,803	293,733	736	294,469						
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								
Kingwood Glen	326,207	7,307	333,514	27,899	361,413						
Powder Springs	—	—	8,371	8,371							
Sweetgrass	—	—	98	98							
Independence Square	—	7,307	7,307								
Royal Lakes	—	—	7,521	7,521							
	970,118	47,217	1,017,335	55,753	1,073,088						
			\$ 2,256,737	\$ 614,465	\$ 2,871,202						
			\$ 1,263,416	\$ 4,134,618							

Net cash provided by financing activities was approximately \$1.1 billion, \$497.6 million and \$334.9 million for the years ended December 31, 2016, 2015 and 2014, respectively. During the 2016 period, our significant financing cash sources were approximately \$622.4 million of net proceeds from the mortgage financing transactions and approximately \$390.9 million of net proceeds from our Follow-On Series A Offering. During the 2015 period, our significant financing cash sources were approximately \$256.9 million of net proceeds from the mortgage financing transactions and approximately \$262.5 million of net proceeds from our Follow-On Series A Offering. During the 2014 period, our significant financing cash sources were the receipt of approximately \$227.6 million in net proceeds from the mortgage financing transactions related to our property acquisitions, \$93.7 million of net proceeds from our Follow-On Series A Offering, proceeds from our Term Loan of \$44.25 million, and net proceeds from our At-the-Market offering of approximately \$49.0 million.

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71 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 (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) 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 Preferred Stock, through net cash generated from operating results. Our board of directors reviews the Preferred Stock dividend monthly to determine whether we have funds legally available for payment of such dividends in cash, and there can be no assurance that the Preferred Stock dividends will consistently be paid in cash. 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 Preferred Stock dividend payments to increase at a rate that approximates the rate at which we issue new Units from our \$1.5 Billion Unit Offering. Our fourth quarter 2016 Common Stock dividend declaration of \$0.22 per share represented an overall increase of 76.0% from our initial Common Stock dividend per share of \$0.125 following our IPO, or an annualized dividend growth rate of approximately 13.9% over the same period. Our board of directors reviews the proposed Common Stock dividend declarations quarterly, and there can be no assurance that the current dividend level will be maintained. We believe that our short-term liquidity needs are and will continue to be adequately funded. For the years ended December 31, 2016, 2015 and 2014, our aggregate dividends and distributions paid totaled approximately \$58.0 million, \$33.1 million and \$17.5 million, respectively. Excluding the impact of approximately \$7.2 million of acquisition costs incurred for the 2014 period, our cash flows from operating activities were sufficient to fund our cash dividend distributions for those respective periods. We expect our cash flow from operations for future periods to be sufficient to fund both our quarterly Common Stock dividends and our monthly Preferred Stock dividends, with the possible exceptions of periods in which we incur significant debt extinguishment charges.

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 \$1.5 Billion Unit Offering, our mShares Offering (both as defined below), 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 \$1.5 Billion Unit Offering, details of which are described below. 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 November 18, 2011, the SEC declared effective our registration statement on Form S-11 (registration number S33-176604), or the Registration Statement, for our Primary Series A Offering. The price per Unit is \$1,000. The Preferred Stock ranks senior to the Common Stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution and winding up. Holders of the Preferred Stock are entitled to receive, when and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Preferred Stock at an annual rate of six percent (6%) of the Stated Value, which is \$1,000. Dividends on each share of Preferred Stock will begin accruing on the date of issuance. On June 26, 2014, we 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

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72 is no redemption fee. Any redemptions are entitled to any accrued but unpaid dividends. 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. On October 11, 2013, the SEC declared effective our registration statement on Form S-3 (File No. 333-183355), as the same may be amended from time to time, or our Follow-On Series A Registration Statement, for an offering of up to 900,000 Units, with each Unit consisting of one share of our Series A Redeemable Preferred Stock, stated value \$1,000 per share, or Preferred Stock, and one warrant, or Warrant, to purchase 20 shares of our Common Stock to be offered from time to time on a "reasonable best efforts" basis. The offering under the Follow-On Series A Registration Statement is referred to herein as the Follow-On Series A Offering, and, except as described in its prospectus, the terms of the Follow-On Series A Offering are substantially similar to the terms of the Primary Series A Offering. We commenced sales for the Follow-On Series A Offering on January 1, 2014. A total of 835,447 Units were issued and sold from that date through December 31, 2016 under the Follow-On Series A Offering. As of February 14, 2017, we had issued all 900,000 Units from our Follow-On Series A Offering. On February 14, 2017, we terminated the Follow-On Series A Offering and on the same day, the Company's registration statement on Form S-3 (Registration No. 333-211924), as the same may be amended from time to time, or our \$1.5 Billion Follow-On Registration Statement, was declared effective by the SEC. This \$1.5 Billion Follow-on Registration Statement allows us to offer up to a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock, or our \$1.5 Billion Unit Offering. The price per Unit is \$1,000. The Units are being offered by Preferred Capital Securities, LLC, or PCS, on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the \$1.5 Billion Unit Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes. Except as described in its prospectus, the terms of the \$1.5 Billion Unit Offering are substantially similar to the terms of the Follow-On Series A Offering. Aggregate offering expenses, including selling commissions and dealer manager fees, will be capped at 11.5% of the aggregate gross proceeds of the \$1.5 Billion Unit Offering, of which 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. On December 2, 2016, the Company's registration statement on Form S-3 (Registration No. 333-214531), as the same may be amended from time to time, or our mShares Registration Statement, was declared effective by the SEC. The mShares Registration Statement allows us to offer up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock, or mShares, par value \$0.01 per share, or the mShares Offering. The price per mShare is \$1,000. The mShares are being offered by PCS on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the mShares Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes. Pursuant to FINRA Rule 2310(b)(5), which became effective April 11, 2016, and as described in Regulatory Notice 15-02, we have prepared for our stockholders an estimate of the per share value of our Preferred Stock as of December 31, 2016. This estimate is based on dividing (i) the value of our assets less contractual liabilities as of December 31, 2016, by (ii) the number of shares of Preferred Stock outstanding as of that date. We used two different methodologies for this purpose: a direct capitalization appraised value analysis and a consolidated balance sheet analysis. Both of these methodologies were prepared with the material assistance and confirmation of third party valuation experts pursuant to FINRA Rule 2310(b)(5) and NASD Rule 2340(c). We believe both methodologies conform to standard industry practices. Based on the foregoing, we have determined that the estimated value as of December 31, 2016 of our Preferred Stock is \$1,000 per share. Under the direct capitalization appraised value analysis, we determined our potential gross income that could be expected from rents and other income received from the properties that we owned as of December 31, 2016. We then estimated for vacancies and collection losses, which amount we then subtracted from potential gross income to arrive at effective gross income. We subtracted estimated operating expenses from effective gross income to arrive at net operating income, and current market capitalization rates were determined for each of the properties. The capitalization rate of each property was then divided by its net operating income to determine a fair market value for each property. For any property owned for less than 12 months, we used the market value of that property as reflected in the third party appraisal we had received at the time of acquisition of that property. The fair market value of all the properties was then added to the value of our other assets (i.e., the value of our cash on hand and other financial assets as reflected on our audited consolidated financial statements for the year ended December 31, 2016) to

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73 determine the aggregate market value of our assets. We then subtracted our contractual liabilities from the aggregate market value of our assets, and divided the difference by the number of shares of our Preferred Stock outstanding as of December 31, 2016 to determine our estimated per share value of our Preferred Stock as of that date. Under the balance sheet approach, we subtracted our contractual liabilities from the aggregate of the gross value of our real estate plus the value of our other assets (i.e., the value of our cash on hand and other financial assets as reflected on our audited consolidated financial statements for the year ended December 31, 2016), and divided the difference by the number of shares of our Preferred Stock outstanding as of December 31, 2016 to determine our estimated per share value of our Preferred Stock as of that date. Our consolidated financial statements are included in our Annual Report on Form 10-K for the year ended December 31, 2016, which were prepared in conformity with accounting principles generally accepted in the United States and upon which we received an unqualified opinion from our independent registered public accounting firm, PricewaterhouseCoopers, LLP. On May 17, 2013, we filed a registration statement on Form S-3 (File No. 333-188677), or our Shelf Registration Statement, which was declared effective by the SEC on July 19, 2013. The Shelf Registration Statement allowed us to offer equity or debt securities in an amount of up to \$200 million and expired on July 19, 2016. On February 28, 2014, we filed a prospectus supplement to our 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 2014 ATM Offering, through MLV & Co. LLC, or the Agent. Since the commencement of the 2014 ATM Offering with the first settlement in April 2014, through July 19, 2016, the date the 2014 ATM Offering expired, approximately 6.5 million shares of Common Stock were issued and sold at an average price of \$8.62 per share and collected net proceeds of approximately \$54.4 million. 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, or 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 (a) to repay outstanding amounts under our existing senior secured revolving credit facility and (b) for other general corporate purposes, which includes making investments in accordance with the Company's investment objectives. Through December 31, 2016, we issued and sold approximately 1.7 million shares of our Common Stock for gross proceeds of approximately \$23.4 million. Our ability to raise funds through the issuance of our securities is dependent on, among other things, general market conditions for REITs, 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 Revolving 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 December 31, 2016, our outstanding debt (both secured and unsecured) was approximately 54.5% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 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

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74 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 Revolving Line of Credit. 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 December 31, 2016, we had long term mortgage indebtedness of approximately \$1.3 billion, all of which was incurred by us in connection with the acquisition or refinancing of our real estate properties. As of December 31, 2016, we had approximately \$12.3 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 December 31, 2016, we had 807,438 outstanding Warrants 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. The current market price per share is determined using the volume weighted average closing market price for the 90 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 December 31, 2016, a total of 114,009 Warrants had been exercised into 2,280,180 shares of Common stock and a remaining 368,765 Warrants had passed the initial exercise date and so became potentially exercisable into a total of 7,375,300 shares of Common Stock. The remainder of the Warrants outstanding at December 31, 2016 become potentially exercisable between January 15, 2016 and December 30, 2016 and have exercise prices that range between \$13.88 and \$17.96 per share. If all the Warrants outstanding at December 31, 2016 became exercisable and were exercised, gross proceeds to us would be approximately \$230.0 million and we would as a result issue an additional 16,148,760 shares of Common Stock.

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75 Contractual Obligations As of December 31, 2016, our contractual obligations consisted of the mortgage notes secured by our acquired properties and the Revolving Credit Facility. Based on the London Interbank Offered Rate, or LIBOR, being charged at December 31, 2016 of 0.77%, 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	\$ 341,912,691	\$ 47,430,796	\$ 87,483,399	\$ 63,294,987	\$ 143,703,509
Principal	1,327,878,112	18,610,066	374,078,376	228,099,859	707,089,811
Line of Credit:					
Interest	214,216	214,216	—	—	—
Principal	138,500,000	138,500,000	—	—	—
Total	\$ 1,808,505,019	\$ 204,755,078	\$ 461,561,775	\$ 291,394,846	\$ 850,793,320

In addition, we had unfunded real estate loan balances totaling approximately \$76.5 million at December 31, 2016. Item 7A. 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 December 31, 2016, we have variable rate mortgages on our Avenues at Creekside, Citi Lakes, Royal Lakes Marketplace, Baldwin Park, Avalon Park, Cherokee Plaza and Champions Village properties with a principal amount of approximately \$290.7 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. The Royal Lakes Marketplace, Cherokee Plaza and Champions Village mortgages of \$9.8 million, \$26.0 million and \$27.4 million, respectively, are uncapped. Our Revolving Line of Credit accrued interest at a spread over LIBOR of 0.77% as of December 31, 2016; this combined rate is uncapped. 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 December 31, 2016, would increase by approximately \$2.76 million on an annualized basis, or decrease by approximately \$1.95 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 0.77% at December 31, 2016, therefore we have limited the estimate of how much our interest costs may decrease because we use a floor of 0% for LIBOR.

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76 Item 8. Financial Statements and Supplementary Data The following documents are located in Part IV, Item 15 of this Annual Report on Form 10-K: Consolidated Balance Sheets as of December 31, 2016 and 2015 Consolidated Statements of Operations for the years ended December 31, 2016, 2015, and 2014 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016, 2015, and 2014 Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 Notes to Consolidated Financial Statements Schedule III- Real Estate Investments and Accumulated Depreciation as of December 31, 2016 Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure None. Item 9A. Controls and Procedures Management's Report on Internal Control over Financial Reporting The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934 (Exchange Act) as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: •Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; •Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and/or the board of directors of the Company; and •Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria described in Internal Control - Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded the Company's internal control over financial reporting was effective as of December 31, 2016. The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report included in this Annual Report on Form 10-K.

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77 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 December 31, 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 December 31, 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. Item 9B. Other Information None. PART III Item 10. Directors, Executive Officers and Corporate Governance Information required by this item regarding our directors and officers is incorporated herein by reference to our proxy statement, or our 2017 Proxy Statement, to be filed with the SEC with regard to our 2017 Annual Meeting of Shareholders. Item 11. Executive Compensation Information required by this item regarding our officers is incorporated herein by reference to our 2017 Proxy Statement to be filed with the SEC. Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Information required by this item regarding our officers is incorporated herein by reference to our 2017 Proxy Statement to be filed with the SEC. Item 13. Certain Relationships and Related Transactions and Director Independence Information required by this item regarding our officers and directors is incorporated herein by reference to our 2017 Proxy Statement to be filed with the SEC. Item 14. Principal Accounting Fees and Services Information required by this item is incorporated herein by reference to our 2017 Proxy Statement to be filed with the SEC.

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78 PART IV Item 15. Exhibits and Financial Statement Schedules (a)(1) Financial Statements Report of Independent Registered Public Accounting Firm Consolidated Balance Sheets as of December 31, 2016 and 2015 F-1 Consolidated Statements of Operations for the years ended December 31, 2016, 2015, and 2014 F-2 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016, 2015, and 2014 F-3 Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 F-5 Notes to Consolidated Financial Statements F-7 (a)(2) Schedule III- Real Estate Investments and Accumulated Depreciation as of December 31, 2016 F-46 (a)(3) Exhibits The exhibits listed on the accompanying Index to Exhibits are filed as a part of this report. Item 16. Form 10-K Summary None.

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79 Report of Independent Registered Public Accounting Firm To the Board of Directors and Stockholders of Preferred Apartment Communities, Inc.: In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) and Item 15(a)(2) present fairly, in all material respects, the financial position of Preferred Apartment Communities, Inc. and its subsidiaries (the "Company") at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item Q5(a)(1) and Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. /s/ PricewaterhouseCoopers LLP Atlanta, GA March 1, 2017

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The accompanying notes are an integral part of these consolidated financial statements. F-1 Preferred Apartment Communities, Inc. Consolidated Balance Sheets

	December 31, 2016	December 31, 2015	Assets	Real estate Land	\$ 299,547,501	\$ 141,729,264	Building and improvements	1,499,129,649			
733,417,442	Tenant improvements	37,806,472	5,781,199	Furniture, fixtures, and equipment	126,357,742	86,092,408	Construction in progress	2,645,634			
609,400	Gross real estate	1,965,486,998	967,629,713	Less: accumulated depreciation	(103,814,894)	(48,155,874)	Net real estate	1,861,672,104			
919,473,839	Property held for sale —	33,817,081	Real estate loans, net of deferred fee income	201,855,604	180,688,293	Real estate loans to related parties, net	130,905,464	57,313,465			
Total real estate and real estate loans, net	2,194,433,172	1,191,292,678	Cash and cash equivalents	12,321,787	2,439,605	Restricted cash	55,392,984	12,539,440			
Notes receivable	15,499,699	18,489,247	Note receivable and revolving line of credit from related party	22,115,976	19,454,486	Accrued interest receivable on real estate loans	21,894,549	14,294,648			
Acquired intangible assets, net of amortization of \$46,396,254 and \$27,032,157	79,156,400	19,381,473	Deferred loan costs on Revolving Line of Credit, net of amortization of \$422,873 and \$791,002	1,768,779	488,770	Deferred offering costs	2,677,023	5,834,304			
Tenant receivables (net of allowance of \$663,912 and \$434,773) and other assets	15,572,233	11,314,382	Total assets	\$ 2,420,832,602	\$ 1,295,529,033	Liabilities and equity	Liabilities	Mortgage notes payable, principal amount	\$ 1,327,878,112	\$ 668,836,291	
Less: deferred loan costs, net of amortization of \$4,899,106 and \$2,021,696 (22,007,641) (8,099,517)	Mortgage notes payable, net of deferred loan costs	1,305,870,471	660,736,774	Mortgage note held for sale —	28,109,000	Revolving line of credit	127,500,000	34,500,000	Term note payable	11,000,000	
Less: deferred loan costs, net of amortization (40,095) —	Term note payable, net of deferred loan costs	10,959,905	Real estate loan participation obligation	20,761,819	13,544,160	Accounts payable and accrued expenses	20,814,910	12,644,818	Accrued interest payable	3,541,640	1,803,389
Dividends and partnership distributions payable	10,159,629	6,647,507	Acquired below market lease intangibles, net of amortization of \$3,771,393 and \$1,578,205	29,774,033	9,253,450	Security deposits and other liabilities	6,189,033	2,836,145	Total liabilities	1,535,571,440	770,075,243
Commitments and contingencies (Note 11)	Equity	Stockholders' equity	Series A Redeemable Preferred Stock, \$0.01 par value per share; 3,050,000 shares authorized; 924,855 and 486,182 shares issued; 914,422 and 482,964 shares outstanding at December 31, 2016 and 2015, respectively	9,144	4,830	Common Stock, \$0.01 par value per share; 400,066,666 shares authorized; 26,498,192 and 22,761,551 shares issued and outstanding at December 31, 2016 and 2015, respectively	264,982	227,616	Additional paid in capital	906,737,470	536,450,877
Accumulated deficit	(23,231,643)	(13,698,520)	Total stockholders' equity	883,779,953	522,984,803	Non-controlling interest	1,481,209	2,468,987	Total equity	885,261,162	525,453,790
Total liabilities and equity	\$ 2,420,832,602	\$ 1,295,529,033									

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The accompanying notes are an integral part of these consolidated financial statements. F-2 Preferred Apartment Communities, Inc. Consolidated Statements of Operations Year ended December 31, 2016 2015 2014

Revenues:	Rental revenues	\$ 137,330,774	\$ 69,128,280	\$ 30,762,423
	Other property revenues	19,302,548	9,495,522	3,946,222
	Interest income on loans and notes receivable	28,840,857	23,207,610	18,531,899
	Interest income from related parties	14,644,736	7,474,100	3,295,826
	Total revenues	200,118,915	109,305,512	56,536,370
	Operating expenses:			
	Property operating and maintenance	19,981,640	10,878,872	4,887,903
	Property salary and benefits reimbursement to related party	10,398,711	5,885,242	2,882,283
	Property management fees (including \$4,978,142, \$2,608,364 and \$1,237,387 to related parties)	5,980,735	3,014,801	1,347,502
	Real estate taxes	21,594,369	9,934,412	3,587,287
	General and administrative	4,557,990	2,285,789	1,051,849
	Equity compensation to directors and executives	2,524,042	2,362,453	1,784,349
	Depreciation and amortization	78,139,798	38,096,334	16,328,715
	Acquisition and pursuit costs (including \$198,024, \$189,115 and \$173,578 to related party)	7,607,737	4,186,092	3,518,540
	Acquisition fees to related parties	939,806	4,967,671	3,714,077
	Asset management fees to related party	13,637,458	7,041,226	3,546,987
	Insurance, professional fees and other expenses	6,172,972	3,568,356	1,903,833
	Total operating expenses	171,535,258	92,221,248	44,553,325
	Contingent asset management and general and administrative expense fees (1,585,567) (1,805,478) (332,345)			
	Net operating expenses	169,949,691	90,415,770	44,220,980
	Operating income	30,169,224	18,889,742	12,315,390
	Interest expense	44,284,144	21,315,731	10,188,187
	Net (loss) income before gain on sale of real estate	(14,114,920)	(2,425,989)	2,127,203
	Gain on sale of real estate, net of disposition expenses	4,271,506	—	—
	Net (loss) income	(9,843,414)	(2,425,989)	2,127,203
	Consolidated net loss (income) attributable to non-controlling interests	310,291	25,321	(33,714)
	Net (loss) income attributable to the Company	(9,533,123)	(2,400,668)	2,093,489
	Dividends declared to Series A preferred stockholders	(41,080,645)	(18,751,934)	(7,382,320)
	Earnings attributable to unvested restricted stock	(15,843)	(19,256)	(24,090)
	Net loss attributable to common stockholders	\$ (50,629,611)	\$ (21,171,858)	\$ (5,312,921)
	Net loss per share of Common Stock available to common stockholders, basic and diluted	\$ (2.11)	\$ (0.95)	\$ (0.31)
	Weighted average number of shares of Common Stock outstanding:	Basic and diluted 23,969,494	22,182,971	17,399,147

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The accompanying notes are an integral part of these consolidated financial statements . F- 4 Preferred Apartment Communities, Inc .

Consolidated Statements of Stockholders' Equity, continued For the years ended December 31, 2014, 2015 and 2016 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, 2016	\$	4,830	\$			
227,616	\$ 536,450,877	\$ (13,698,520)	\$ 522,984,803	\$ 2,468,987	\$ 525,453,790	Issuance of Units			
4,387	—	438,109,243	—	438,113,630	—	438,113,630	Redemptions of Series A Preferred Stock (7 3) 2,090		
(3,759,345)	—	(3,757,328)	—	(3,757,328)	—	—	Issuance of Common Stock — 16,954 23,349,089 — 23,366,043 —		
23,366,043	—	—	16,977	18,150,632	—	18,167,609	— 18,167,609	Syndication and offering costs	
—	(52,620,248)	—	(52,620,248)	—	(52,620,248)	—	—	Equity compensation to executives and directors — 83 490,897	
—	490,980	—	490,980	—	—	—	—	Vesting of restricted stock — 30 6 (30 6) — — — — Conversion of Class A Units to Common Stock	
—	95 6	647,642	—	648,598	(648,598)	—	—	Current period amortization of Class B Units — — — — 2,060,066	
2,060,066	—	—	—	(9,533,123)	(9,533,123)	(310,291)	(9,843,414)	Net losses — — — — Class A Units issued for property acquisition — — — — 5,072,659 5,072,659	
—	—	—	—	—	—	—	—	Minority interest in joint venture — — — — 450,000	
—	—	—	—	6,940,364	—	6,940,364	(6,940,364)	—	Distributions to non-controlling interest — — — — (671,250) (671,250)
(41,080,645)	—	(41,080,645)	—	(41,080,645)	—	—	—	—	Dividends to series A preferred stockholders (\$5.00 per share per month) — — — —
(19,940,730)	—	(19,940,730)	—	—	—	—	—	—	Dividends to common stockholders (\$0.8175 per share) — — (19,940,730) —
—	—	—	—	—	—	—	—	—	Balance at December 31, 2016 \$ 9,144 \$ 264,982 \$ 906,737,470 \$ (23,231,643)
—	—	—	—	—	—	—	—	—	Balance at December 31, 2015 \$ 883,779,953 \$ 1,481,209 \$ 885,261,162

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The accompanying notes are an integral part of these consolidated financial statements. F-5 Preferred Apartment Communities, Inc. Consolidated Statements of Cash Flows Year ended December 31, 2016 2015 2014

Operating activities: Net (loss) income \$ (9,843,414) \$ (2,425,989) \$ 2,127,203 Reconciliation of net (loss) income to net cash provided by operating activities: Depreciation expense 56,415,608 27,672,387 12,258,812 Amortization expense 21,724,190 10,423,947 4,069,903 Amortization of above and below market leases (1,653,016) (816,509) (242,893) Deferred fee income amortization (994,809) (868,615) (904,144) Deferred loan cost amortization 3,595,429 1,474,276 887,216 Increase in accrued interest income on real estate loans (7,599,901) (6,256,200) (4,751,788) Equity compensation to executives and directors 2,524,042 2,362,453 1,784,349 Other 48,126 (19,743) (16,205) Gain on sale of real estate (4,271,506) — — Changes in operating assets and liabilities: (Increase) in tenant receivables and other assets (4,331,216) (2,341,649) (1,723,648) Increase in accounts payable and accrued expenses 3,112,553 4,866,996 1,124,078 Increase in accrued interest payable 1,789,109 616,681 673,651 Increase in prepaid rents 818,083 362,625 120,236 Increase in security deposits and other liabilities 328,191 170,763 29,292 Net cash provided by operating activities 61,661,469 35,221,423 15,436,062

Investing activities: Investments in real estate loans (151,027,549) (114,026,945) (54,939,135) Repayments of real estate loans 36,672,482 18,772,024 13,857,393 Notes receivable issued (9,887,486) (19,339,695) (11,704,662) Notes receivable repaid 12,895,101 15,350,624 6,327,396 Note receivable issued to and draws on line of credit by related party (34,206,553) (18,634,237) (14,981,065) Repayments of line of credit by related party 31,096,618 12,502,579 6,680,951 Origination fees received on real estate loans 3,703,514 2,761,047 1,111,131 Origination fees paid on real estate loans (1,886,105) (1,349,273) (555,583) Acquisition fees paid to real estate loan participants — (24,665) (107,398) Acquisition of properties (1,010,111,945) (420,700,550) (299,506,416) Disposition of properties, net 10,606,386 — — Additions to real estate assets - improvements (10,263,736) (4,239,725) (2,118,349) Proceeds from sale of fixed assets 10,000 — 4,773 Deposits paid on acquisitions (839,600) (660,400) — Increase in restricted cash (3,344,721) (3,920,995) (492,778) Net cash used in investing activities (1,126,583,594) (533,510,211) (356,423,742)

Financing activities: Proceeds from mortgage notes payable 622,394,000 256,865,500 227,556,000 Payments for mortgage extinguishment (12,035,587) (4,175,271) (13,653,331) Payments for deposits and other mortgage loan costs (19,130,246) (4,481,004) (5,291,302) Proceeds from real estate loan participants 6,432,700 4,996,680 7,908,835 Proceeds from lines of credit 470,136,020 295,800,000 96,433,305 Payments on lines of credit (377,136,020) (285,800,000) (101,323,306) Proceeds from Term Loan 46,000,000 32,000,000 44,250,000 Repayment of the Term Loan (35,000,000) (32,000,000) (44,250,000) Proceeds from sales of Units, net of offering costs and redemptions 390,904,255 262,456,354 93,651,581 Proceeds from sales of Common Stock 22,956,604 5,381,848 48,995,741 Proceeds from exercises of warrants 21,503,490 1,998,414 — Common Stock dividends paid (18,515,113) (15,578,760) (10,501,589) Series A Preferred Stock dividends paid (38,940,901) (17,373,097) (6,913,550) Distributions to non-controlling interests (529,528) (174,686) (98,380) Payments for deferred offering costs (4,685,367) (2,300,855) (1,843,485) Contribution from non-controlling interest 450,000 — — Net cash provided by financing activities 1,074,804,307 497,615,123 334,920,519 Net increase (decrease) in cash and cash equivalents 9,882,182 (673,665) (6,067,161) Cash and cash equivalents, beginning of year 2,439,605 3,113,270 9,180,431 Cash and cash equivalents, end of year \$ 12,321,787 \$ 2,439,605 \$ 3,113,270

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

Statements of Cash Flows - continued	Year ended December 31,	2016	2015	2014	Supplemental cash flow information:
					Cash paid for interest \$
		38,950,463	\$ 19,154,375	\$ 8,509,477	Supplemental disclosure of non-cash activities: Accrued capital expenditures \$ 353,401 \$ 226,892 \$ 38,740
Dividends payable - Common Stock		\$ 5,740,616	\$ 4,314,999	\$ 3,697,436	Dividends payable - Series A Preferred Stock \$ 4,419,014 \$ 2,279,270 \$ 900,433
Issuance of fair value of OP Units for property		\$ 5,072,659	\$ —	\$ —	Partnership distributions payable to non-controlling interests \$ 194,957 \$ 53,238 \$ 25,379
Accrued and payable deferred offering costs		\$ 683,612	\$ 571,786	\$ 219,001	Writeoff of fully depreciated or amortized assets \$ 1,007,202 \$ 667,514 \$ —
Writeoff of fully amortized liabilities		\$ (31,555)	\$ (100,573)	\$ —	Reclass of offering costs from deferred asset to equity \$ 8,748,762 \$ 3,994,184 \$ 1,180,651
Bridge and land acquisition loans converted to real estate loans		\$ —	\$ 49,188,665	\$ 24,051,084	Mortgage loans assumed on acquisitions \$ 49,033,530 \$ — \$ —
Real estate loan balance applied to purchase of property		\$ 12,500,000	\$ 10,000,000	\$ —	Extinguishment of land loan for property \$ 6,250,000 \$ — \$ — Fair value
issuances of equity compensation		\$ 3,188,263	\$ 2,321,578	\$ 1,810,301	Offering cost reimbursement to related party \$ 452,853 \$ — \$ —

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements December 31, 2016 F-7 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 mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of its assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by its Manager (as defined below) as appropriate for the Company. The Company is externally managed and advised by Preferred Apartment Advisors, LLC, or its Manager, a Delaware limited liability company and related party (see Note 6). As of December 31, 2016, the Company had 26,498,192 shares of common stock, par value \$0.01 per share, or Common Stock, issued and outstanding and was the approximate 96.8% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 886,168 at December 31, 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 Operating Partnership's choice of either cash or Common Stock. In the case of cash, the value is determined based upon the trailing 20-day volume weighted average price of the Company's Common Stock. The Company controls the Operating Partnership through its sole general partner interest and conducts substantially all of its business through the Operating Partnership. The Company has determined the Operating Partnership is a variable interest entity, or VIE, of which the Company is the primary beneficiary. New Market Properties, LLC owns and conducts the business of our grocery-anchored shopping centers. Preferred Office Properties owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities was formed to acquire off-campus student housing communities. Each of these entities are wholly-owned subsidiaries of the Operating Partnership. Basis of Presentation These consolidated financial statements include all of the accounts of the Company and the Operating Partnership presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. All significant intercompany transactions have been eliminated in consolidation. Certain adjustments have been made consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of the Company's financial condition and results of operations. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

R. Summary of Significant Accounting Policies Acquisitions and Impairments of Real Estate Assets The Company generally records its initial investments in income-producing real estate at fair value at the acquisition date in accordance with ASC 805-10, Business Combinations. 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

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-8 based upon estimates of their remaining useful lives. Intangible assets and liabilities for multifamily communities and office buildings 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 inappropriate 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 fair value, calculated as the discounted net cash flows of the asset group. Deferred Leasing Costs Costs incurred to obtain tenant leases are amortized using the straight-line method over the term of the related lease agreement. Such costs include lease incentives, leasing commissions and legal costs. If the lease is terminated early, the remaining unamortized deferred leasing cost is written off.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-9 Real Estate Loans and Notes Receivable

The Company carries its investments in real estate loans at amortized cost with assessments made for impairment in the event recoverability of the principal amount becomes doubtful. If, upon testing for impairment, the fair value result of the loan is lower than the carrying amount of the loan, a valuation allowance is recorded to lower the carrying amount to fair value, with a loss recorded in earnings. Recoveries of valuation allowances are only recognized in the event of maturity or a sale or disposition in an amount above carrying value. The balances of real estate loans presented on the consolidated balance sheets consist of drawn amounts on the loans, net of deferred loan fee revenue. These loan balances are presented in the asset section of the consolidated balance sheets inclusive of loan balances from third party participant lenders, with the participant amount presented within the liabilities section. See the "Revenue Recognition" section of this Note for other loan-related policy disclosures required by ASC 510-10-50-6. Certain loans have historically contained contingent exit fees, which are deemed to be embedded derivatives. The Company elects the fair value option for these loans and recognizes in earnings any material changes in fair value.

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

Fair Value Measurements Certain assets and liabilities are required to be carried at fair value, or if they are deemed impaired, to be adjusted to reflect this condition. The Company follows the guidance provided by ASC 820, Fair Value Measurements and Disclosures, in accounting and reporting for real estate assets where appropriate, as well as debt instruments both held for investment and as liabilities. The standard requires disclosure of fair values calculated utilizing each of the following input type within the following hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

Deferred Loan Costs Deferred loan costs are amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the related indebtedness.

Non-controlling Interest Non-controlling interest represents the equity interest of the Operating Partnership that is not owned by the Company. Non-controlling interest is adjusted for contributions, distributions and earnings or loss attributable to the non-controlling interest in the consolidated entity in accordance with the Agreement of Limited Partnership of the Operating Partnership, as amended.

Redeemable Preferred Stock Shares of the Series A Redeemable Preferred Stock, stated value \$1,000 per share, or Preferred Stock, are redeemable at the option of the holder, subject to a declining redemption fee schedule. Redemptions are therefore outside the control of the Company. However, the Company retains the right to fund any redemptions of Preferred Stock in either Common Stock or cash at its option. Therefore, the Company records the Preferred Stock as a component of permanent stockholders' equity.

Deferred Offering Costs Deferred offering costs represent direct costs incurred by the Company related to current equity offerings, excluding costs specifically identifiable to a closing, such as commissions, dealer-manager fees, and other registration fees. For issuances of equity that occur on one specific date, associated offering costs are reclassified as a reduction of proceeds raised on the date of issue. Our ongoing offering of up to a maximum of 900,000 units, consisting of one share of Series A Redeemable Preferred Stock, or Preferred Stock, and one warrant, or Warrant, to purchase 20 shares of Common Stock, or Units, generally closes on a bimonthly

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-10 basis in variable amounts. Such offering is referred to herein as the Follow-on Offering, pursuant to our registration statement on Form S-3 (registration number 333-183355), as may be amended from time to time. Deferred offering costs related to the Follow-on Offering and Shelf Offering (as defined in Note 5) are reclassified to the stockholders' equity section of the consolidated balance sheet as a reduction of proceeds raised on a pro-rata basis equal to the ratio of total Units or value of shares issued to the maximum number of Units, or the value of shares, as applicable, that are expected to be issued. See note 18.

Revenue Recognition

Real Estate Rental revenue is recognized when earned from residents of the Company's multifamily communities, which is over the terms of rental agreements, typically of 13 months' duration. The Company evaluates the collectability of amounts due from residents and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of residents to make required payments then due under lease agreements. The balance of amounts due from residents are generally deemed uncollectible 30 days beyond the due date, at which point they are fully reserved. Rental revenue from tenants' operating leases in the Company's retail shopping centers is recognized on a straight-line basis over the term of the lease regardless of when payments are due. Revenue based on "percentage rent" provisions that provide for additional rents that become due upon achievement of specified sales revenue targets (as specified in each lease agreement) is recognized only after the tenant exceeds its specified sales revenue target. Revenue from reimbursements of the tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized in the period in which the related expenses are incurred. Lease termination revenues are recognized ratably over the revised remaining lease term after giving effect to the termination notice or when tenant vacates and the Company has no further obligations under the lease. Rents and tenant reimbursements collected in advance are recorded as prepaid rent within other liabilities in the accompanying consolidated balance sheets. The Company estimates the collectability of the tenant receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental revenue on a straight-line basis, by taking into consideration the Company's historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms. The Company may provide retail tenants an allowance for the construction of leasehold improvements. These leasehold improvements are capitalized and depreciated over the shorter of the useful life of the improvements or the remaining lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements, the allowance is considered to be a lease incentive and is recognized over the lease term as a reduction of minimum rent. Determination of the appropriate accounting for the payment of a tenant allowance is made on a lease-by-lease basis, considering the facts and circumstances of the individual tenant lease. When the Company is the owner of the leasehold improvements, recognition of lease revenue commences when the lessee is given possession of the leased space upon completion of tenant improvements. However, when the leasehold improvements are owned by the tenant, the lease inception date is the date the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements. The PAC Rewards program allows residents in the Company's multifamily communities to accumulate reward points on a monthly basis for actions such as resident referrals and making rent payments online. Once a property has been enrolled in the program, a resident must rent an apartment from the Company for at least 14 months before reward points may be redeemed for services or upgrades to a resident's unit. The Company accrues a liability for the estimated cost of these future point redemptions, net of a \$5% breakage fee, which is the Company's current estimate of rewards points that will not be redeemed. In accordance with Staff Accounting Bulletin 13.A.3c, the Company deems its obligations under PAC Rewards as inconsequential to the delivery of services according to the lease terms. Therefore, the expense related to the PAC Rewards Program is included in property operating and maintenance expense on the consolidated statements of operations.

Real Estate Loans Interest income on real estate loans and notes receivable is recognized on an accrual basis over the lives of the loans or notes using the effective interest rate method. In the event that a loan or note is refinanced with the proceeds of another loan issued by the Company, any unamortized loan fee revenue from the first loan will be recognized as interest revenue over the term of the new loan. Direct loan origination fees applicable to real estate loans are amortized over the lives of the loans as adjustments to interest income. The accrual of interest on all these instruments ceases when there is concern as to the ultimate collection of principal or interest, which is generally a delinquency of 30 days in required payments of interest or principal. Any payments received on such

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-11 non-accrual loans are recorded as interest income when the payments are received. Real estate loan assets are reclassified as accrual-basis once interest and principal payments become current. Certain real estate loan assets include limited purchase options and either exit fees or additional amounts of accrued interest. Exit fees or accrued interest due will be treated as additional consideration for the acquired project if the Company purchases the subject property. Additional accrued interest becomes due in cash to the Company on the earliest to occur of: (i) the maturity of the loan, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing loan by the Company or one of its affiliates) and (iv) any other repayment of the loan.

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 Class B Unit grants at the date of grant utilizing a Monte Carlo simulation model 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. The compensation expense is accrued on a straight-line basis 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.

Acquisition Costs Through December 31, 2016, the Company expensed property acquisition costs as incurred, which include costs such as due diligence, legal, certain accounting, environmental and consulting, when the acquisition constituted a business combination. As described below in the section entitled New Accounting Pronouncements, Accounting Standards Update 2017-01 was adopted by the Company effective January 1, 2017, which will cause the Company to capitalize certain of these costs for transactions deemed to be asset acquisitions.

Capitalization and Depreciation The Company capitalizes tenant improvements, replacements of furniture, fixtures and equipment, as well as carpet, appliances, air conditioning units, certain common area items and other assets. Significant repair and renovation costs that improve the usefulness or extend the useful life of the properties are also capitalized. These assets are then depreciated on a straight-line basis over their estimated useful lives, as follows:

- Buildings: 30 - 50 years
- Furniture, fixtures & equipment: 5 - 10 years
- Improvements to buildings and land: 5 - 20 years
- Tenant improvements: shorter of economic life or lease term

Operating expenses related to unit turnover costs, such as carpet cleaning, mini-blind replacements and minor repairs are expensed as incurred.

Income Taxes The Company has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes 100% of the Company's annual REIT taxable income to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially adversely affect the Company's net income and net cash available for distribution to stockholders. The Company intends to operate in such a manner as to maintain its election for treatment as a REIT. The Company recognizes a liability for uncertain tax positions. An uncertain tax position is defined as a position taken or expected to be taken in a tax return that is not based on clear and unambiguous tax law and which is reflected in measuring current or

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-12 deferred income tax assets and liabilities for interim or annual periods. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. Earnings (Loss) Per Share Basic earnings (loss) per share is computed by dividing net income or loss available to common stockholders by the weighted average number of shares of Common Stock outstanding for the period. Net income or loss attributable to common stockholders is calculated by deducting dividends due to preferred stockholders, including deemed non-cash dividends emanating from beneficial conversion features within convertible preferred stock, as well as nonforfeitable dividends due to holders of unvested restricted stock, which are participating securities under the two-class method of calculating earnings per share. Diluted earnings (loss) per share is computed by dividing net income or net loss available to common stockholders by the weighted average number of shares of Common Stock outstanding adjusted for the effect of dilutive securities such as share grants or warrants. No adjustment is made for potential common stock equivalents that are anti-dilutive during the period. New Accounting Pronouncements In May 2014, the FASB issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and may be applied using either a full retrospective or a modified approach upon adoption. The Company is currently evaluating the pending guidance but does not believe the adoption of ASU 2014-09 will have a material impact on its results of operations or financial condition, primarily because most of its revenue is rental operations, to which this standard is not applicable. The Company does provide significant non-rental services to its residents and tenants related to ancillary services and common area reimbursements. The Company does not believe that the adoption of ASU 2014-09 will materially impact the accounting for these revenues; however, we are continuing to evaluate the impact. 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 requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter and early adoption is permitted. The Company's adoption of this guidance on December 31, 2016 did not have an impact to the consolidated financial statements or material impact on its disclosures. 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 adoption of ASU 2016-01 will not impact the Company's results of operations or financial condition. 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 currently evaluating the pending guidance but does not believe the adoption of ASU 2016-02 will have a material impact on its results of operations or financial condition, since the Company does not have a material amount of lease expense.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-13

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 has concluded the adoption of ASU 2016-09 will not have a material impact on its results of operations or financial condition as its historical forfeiture rates for equity compensation awards have been immaterial. 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 currently evaluating methods of deriving initial valuation accounts to be applied to its real estate loan portfolio. The Company is continuing to evaluate the pending guidance but does not believe the adoption of ASU 2016-13 will have a material impact on its results of operations or financial condition, since the Company has not yet experienced a credit loss related to any of its financial instruments. In August 2016, the FASB issued Accounting Standards Update 2016-15 ("ASU 2016-15"), Statement of Cash Flows—(Topic S26): 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 adoption of ASU 2016-15 will not impact the Company's consolidated financial statements, since its current policy is to classify such costs as cash out flows for financing activities. In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), Statement of Cash Flows—(Topic R30): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents when reconciling the beginning and ending amounts in the statements of cash flows. ASU 2016-18 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company plans to adopt ASU 2016-18 on January 1, 2018. The Company currently reports changes in restricted cash within the investing activities section of its consolidated statements of cash flows. The Company is continuing to evaluate the impact of the adoption of ASU 2016-18 on its results of operations and financial condition. In January 2017, the FASB issued Accounting Standards Update 2017-01 ("ASU 2017-01"), Business Combinations - (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We adopted ASU 2017-01 as of January 1, 2017. We believe our future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing communities will generally qualify as asset acquisitions. Pursuant to ASU 2017-01, certain qualifying acquisition costs will be capitalized and amortized rather than expensed as incurred. The Company expects improvements, which may be material, to its net income available to common stockholders, as well as Funds From Operations ("FFO") resulting from adoption of ASU 2017-01, versus such results under previously effective guidance.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-14 3. Real Estate Assets

The Company's real estate assets consisted of: As of December 31, 2016 2015 Multifamily communities (1) 25 19 Units 8,268 6,136 Retail shopping centers 31 14 Approximate gross leasable area (2) 3,295,491 1,279,000 Office buildings 3 — Rentable square feet 1,096,834 — (1) The acquired second phases of the Summit Crossing community is managed in combination with the initial phase and so together are considered a single property, as are the three assets that comprise the Lenox Portfolio. Includes one student housing community as of December 31, 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. Multifamily communities acquired During the years ended December 31, 2016 and 2015, the Company completed the acquisition of the following multifamily communities: Acquisition date Property Location Approximate purchase price (millions) (1) Units 1/5/16 Baldwin Park Orlando, Florida \$ 110.8 528 1/15/16 Crosstown Walk Tampa, Florida \$ 45.8 342 2/1/16 Overton Rise Atlanta, Georgia \$ 61.1 294 5/31/16 Avalon Park Orlando, Florida \$ 92.5 487 6/1/16 North by Northwest (2) Tallahassee, Florida \$ 46.1 219 7/1/16 City Vista Pittsburgh, Pennsylvania (3) 272 8/24/16 Sorrel Jacksonville, Florida \$ 48.1 290 2,432 12/21/2015 Lenox Portfolio Nashville, Tennessee \$ 77.6 474 11/12/2015 Stone Creek Houston, Texas \$ 25.8 246 9/3/2015 Citi Lakes Orlando, Florida \$ 63.4 346 7/31/2015 Avenues at Creekside San Antonio, Texas \$ 56.2 395 6/30/2015 CityPark View Charlotte, North Carolina \$ 32.7 284 6/24/2015 Aster at Lely Naples, Florida \$ 52.5 308 5/21/2015 Venue at Lakewood Ranch Sarasota, Florida \$ 47.4 237 2/13/2015 Houston Portfolio (4) Houston, Texas \$ 76.0 520 2,810 (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.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-15 The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but are preliminary and are subject to refinement for a period of up to one year from the closing of the acquisitions.

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Preferred Apartment Communities, Inc		Notes to Consolidated Financial Statements – (continued)										December 31, 2016		F-1		6		2016					
Multifamily Communities acquire	d	Baldwi	n	Par	k	Crosstow	n	Wal	k	Overt	n	Ris	e	Avalon	Par	k	North	b	y				
Northwes	t	(2	)	City	Vist	a	Sorre	l	Lan	d	17,402,88	2	\$	5,178,37	5	\$	8,511,37	0	\$	7,410,04	8	\$	
8,281,05	4	\$	4,081,68	3	\$	4,412,16	4	Buildings and improvement	s	87,105,75	7	33,605,83	1	44,710,03	4								
80,558,63	6	34,355,92	2	36,084,00	7	35,512,25	7	Furniture, fixtures and equipmen	t	3,358,58	9	5,726,58	3	6,286,10									
5	1,790,25	6	2,623,91	6	5,402,22	8	6,705,04	0	Lease intangible	s	2,882,77	2	1,323,51	1	1,611,31	4	2,741,06						
0	799,10	9	2,100,86	6	1,495,53	9	Prepays & other asset	s	229,97	2	125,70	6	73,75	4	99,29	7	79,62	6					
167,79	7	—	Escrow	s	2,555,75	3	291,86	8	354,64	0	3,477,15	7	1,026,41	9	599,98	3	623,79	1	Accrued				
taxe	s	(17,42	1)	(25,98	3)	(66,42	2)	(394,73	1)	(321,43	7)	(245,32	6)	(437,51	0)	Security deposits, prepaid rents,							
and other liabilitie	s	(226,16	0)	(53,86	1)	(90,21	3)	(207,62	3)	(159,46	2)	(141,23	8)	(68,82	8)	Net assets acquire							
d	\$113,292,14	4	\$	46,172,03	0	\$	61,390,58	2	\$	95,474,10	0	\$	46,685,14	7	\$	48,050,00	0	\$	48,242,45				
3	Cash pai	d	\$	35,492,14	4	\$	13,632,03	0	\$	20,090,58	2	\$	30,474,10	0	\$	12,831,87	2	\$	—	\$			
14,642,45	3	Real estate loan settle	d	—	—	—	—	—	12,500,00	0	—	Contribution by joint venture partne	r	—	—	—	—	—	—				
0)	—	Mortgage debt	(1	)	77,800,00	0	32,540,00	0	41,300,00	0	65,000,00	0	33,853,27	5	36,000,00	0	33,600,00						
0	Total consideratio	n	\$113,292,14	4	\$	46,172,03	0	\$	61,390,58	2	\$	95,474,10	0	\$	46,685,14	7	\$						
48,050,00	0	\$	48,242,45	3	Twelve months ended December 31, 2016	:	Revenu	e	\$	9,349,00	0	\$	4,886,00	0	\$								
4,968,00	0	\$	4,684,00	0	\$	3,389,00	0	\$	2,341,00	0	\$	1,670,00	0	Net income (loss	)	\$	(4,883,00	0)	\$				
(1,614,00	0)	\$	(1,894,00	0)	\$	(2,891,00	0)	\$	(1,041,00	0)	\$	(1,689,00	0)	\$	(854,00	0)	Cumulative acquisition						
costs incurred by the Compan	y	\$	1,847,00	0	\$	319,00	0	\$	115,00	0	\$	1,315,00	0	\$	378,00	0	\$	41,00	0				
\$	536,00	0	Remaining amortization period of intangibl	e	assets and liabilities (months)	0.	0.	0.	0.	0.	0.	0.	0.	0.	4.	5.	0.	0.				
							3.	5.	7.	5.													

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Preferred Apartment Communities, Inc	Notes to Consolidated Financial Statements – (continued)										December 31, 2016	F-1	7	2015							
Multifamily Communities acquire d	Leno x	Portfoli o	Stone Cree k	Citi Lake s	Avenues a t	Creeksid e	CityPar k														
Vie w Aster a t	Lel y	Venue a t	Lakewoo d	Ranc h	Housto n	Portfoli o	Lan d	\$	7,877,82	3	\$										
2,210,63	0	\$	5,558,03	3	\$	5,983,72	4	\$	3,558,79	3	\$	7,675,40	9	\$	3,791,05	0	\$	7,162,22	6	Buildings	
and improvement s	61,262,22	1	20,711,95	0	49,416,49	2	42,050,10	4	23,797,76	4	37,661,90	1	37,574,39	1							
54,217,07	5	Furniture, fixtures and equipmen t	6,281,01	0	2,203,72	4	7,411,36	7	6,939,01	4	4,562,14	8	6,132,38	4							
5,375,69	0	13,078,87	2	Lease intangible s	2,193,94	6	623,69	6	964,10	8	1,227,15	8	737,79	0	1,030,30	6					
669,36	9	1,571,82	7	Prepays & other asset s	171,81	4	75,07	4	40,03	2	89,58	2	99,12	4	106,71	7	80,20				
1	150,32	6	Escrow s	739,34	0	844,51	5	280,86	3	1,058,46	8	211,42	8	—	401,29	4	362,33	2	Accrued		
taxe s	(564,84	1)	(375,84	2)	(187,79	2)	(440,66	0)	(105,75	6)	(23,41	3)	(216,25	2)	(212,60	1)	Security				
deposits, prepaid rents, and other liabilitie s	(260,40	3)	(37,33	1)	(80,62	9)	(218,43	8)	(40,15	2)	(64,68	9)	(35,15	7)							
(99,18	1)	Net assets acquire d	\$	77,700,91	0	\$	26,256,41	6	\$	63,402,47	4	\$	56,688,95	2	\$	32,821,13	9				
\$	52,518,61	5	\$	47,640,58	6	\$	76,230,87	6	Cash pai d	\$	27,896,44	9	\$	9,439,48	3	\$	18,952,47	4			
15,063,95	2	\$	10,000,00	0	\$	18,518,61	5	\$	16,830,58	6	\$	25,452,87	6	Mortgage debt	(1	)	49,804,46	1		
16,816,93	3	44,450,00	0	41,625,00	0	22,100,00	0	34,000,00	0	30,810,00	0	50,778,00	0	Total consideratio n	\$						
77,700,91	0	\$	26,256,41	6	\$	63,402,47	4	\$	56,688,95	2	\$	32,821,13	9	\$	52,518,61	5	\$	47,640,58	6	\$	
76,230,87	6	Twelve months ended December 31, 2016	:	Revenu e	\$	7,782,00	0	\$	3,389,00	0	\$	5,491,00	0	\$							
5,574,00	0	\$	3,734,00	0	\$	5,261,00	0	\$	4,665,00	0	\$	8,733,00	0	Net income (loss)	\$	(2,307,00	0)	\$			
(946,00	0)	\$	(1,429,00	0)	\$	(400,00	0)	\$	38,00	0	\$	(165,00	0)	\$	17,00	0	\$	(1,124,00	0)	Twelve months	
ended December 31, 2015	:	Revenu e	\$	194,00	0	\$	442,00	0	\$	1,685,00	0	\$	2,511,00	0	\$	1,856,00	0	\$			
2,556,00	0	\$	2,641,00	0	\$	7,392,00	0	Net income (loss)	\$	(81,00	0)	\$	(116,00	0)	\$	(511,00	0)	\$			
(1,095,00	0)	\$	(818,00	0)	\$	(1,279,00	0)	\$	(766,00	0)	\$	(2,588,00	0)	Cumulative acquisition costs incurred by the							
Compan y	\$	1,550,00	0	\$	727,00	0	\$	1,620,00	0	\$	852,00	0	\$	276,00	0	\$	438,00	0	\$	889,00	0
\$	1,142,00	0	Remaining amortization period of intangibl e assets and liabilities (months)	23.	4	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	0.	

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-18 Grocery-anchored shopping centers acquired During the years ended December 31, 2016 and 2015, the Company completed the acquisition of the following grocery-anchored shopping centers: Acquisition date Property Location Approximate purchase price (millions) (2) Gross leasable area (square feet)

2/29/16	Wade Green Village (1) Atlanta, Georgia	\$ 11.0	74,978	4/29/16	Southeastern Six Portfolio (3)	\$ 68.7	535,252	
5/16/16	The Market at Victory Village Nashville, Tennessee	\$ 15.6	71,300	7/15/16	Lakeland Plaza Atlanta, Georgia	\$ 45.3	301,711	
8/8/16	Sunbelt Seven Portfolio (4) , (5)	\$ 159.5	650,360	10/18/16	Champions Village Houston, Texas	\$ 50.0	383,093	
2,016,694	12/22/2015	Overlook at Hamilton Place Chattanooga, Tennessee	\$ 33.8	213,095	10/30/2015	Summit Point Atlanta, Georgia	\$ 19.6	111,970
9/4/2015	Royal Lakes Marketplace Atlanta, Georgia	\$ 16.6	119,493	7/1/2015	Independence Square Dallas, Texas	\$ 18.0	140,218	
584,776	(1) See Note 6 - Related party Transactions.	(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 located in Georgia, South Carolina and Alabama are referred to collectively as the Southeastern Six Portfolio.	(4) The seven grocery-anchored shopping centers located in Florida, Georgia, Texas, and North Carolina are referred to collectively as the Sunbelt Seven Portfolio.	(5) Includes the purchase of an approximate 0.95 acre outparcel for \$1.5 million on December 21, 2016.	The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocation was based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but is preliminary and is subject to refinement for a period of up to one year from the closing of the acquisition.		

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016

Market Properties 2016 acquisition s Champion s Villag e Sunbelt Seven Portfoli o Lakeland Plaza The Market at Victory Villag e Southeastern Six Portfoli o Wade Green Villag e Land 12,812,54 6 \$ 37,719,81 2

\$ 7,079,40	8	\$ 2,271,22	4	\$ 14,081,64	7	\$ 1,840,28	4	Buildings and improvement s	30,647,60	9	109,373,93																																																							
8	32,258,33	5	11,872,22	2	48,598,73	1	8,159,14	7	Tenant improvement s	2,751,79	6	2,143,40	4	828,96	6																																																			
402,97	3	993,53	0	251,25	0	In-place lease s	4,283,76	0	11,005,66	2	2,947,17	5	847,93	9	4,906,39	8																																																		
841,78	5	Above market lease s	765,81	1	458,35	3	1,349,62	4	100,21	6	86,23	4	107,07	4	Leasing cost s																																																			
1,026,34	7	4,116,56	0	1,287,82	5	253,64	0	992,14	3	167,54	1	Below market lease s	(3,017,96	0)	(7,617,48	5)																																																		
(797,72	9)	(198,21	4)	(1,069,87	7)	—	Other asset s	2,017,94	7	3,409,83	8	—	157,77	5	600,06	9	10,52	5)																																																
Other liabilitie s	(1,413,72	6)	(1,196,57	9)	(180,33	1)	(179,54	6)	(437,00	8)	(59,26	4)	Net assets acquire d	\$	49,874,13	0	\$	159,413,50	3	\$	44,773,27	3	\$	15,528,22	9	\$	68,751,86	7	\$	11,318,34	2	Cash pai d	\$	22,474,13	0	\$	61,759,50	3	\$	14,773,27	3	\$	6,278,22	9	\$	43,751,86	7	\$	6,245,68	3	(1)	Class A OP Units													
grante d	—	—	—	—	5,072,65	9	(2)	Mortgage deb t	27,400,00	0	97,654,00	0	30,000,00	0	9,250,00	0	(3)																																															
)	25,000,00	0	—	(4)	Total consideration	\$	49,874,13	0	\$	159,413,50	3	\$	44,773,27	3	\$	15,528,22	9	\$	68,751,86	7	\$	11,318,34	2	Twelve months ended December 31, 2016 :	Revenue	\$	1,228,00	0	\$	5,001,00	0	\$	1,601,00	0	\$	819,00	0	\$	4,231,00	0	\$	900,00	0	Net income (loss)	\$	(440,00	0)	\$	(658,00	0)	\$	(325,00	0)	\$	(102,00	0)	\$	(440,00	0)	\$	(354,00	0)	Cumulative acquisition costs incurred by the Compan y	\$	141,00
0	\$	691,00	0	\$	234,00	0	\$	111,00	0	\$	633,00	0	\$	297,00	0	Remaining amortization period of intangibl e																																																		

assets and liabilities (years) 5. 4 9. 2 7. 4 7. 9 4. 2 2. 3 (1) The contributor had an outstanding \$6.25 millio n bridge loan secured by the property issued by Madison Wade Green Lending, LLC, an indirect wholly owned entity of the Compan y. Upon contribution of the propert y, the Compan y assumed the loan and concurrently extinguished the obligation . (2) As partial consideration for the property contribution, the Compan y granted 419,22 8 Class A O P Units to the contributo r, net of contribution adjustments at closing. The value and number of Class A O P 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 O P Units are exchangeable for shares of Common Stock on a one-fo r-one basis, or cash, at the election of the Operating Partnership. Therefore, the Compan y 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 Compan y assumed the existing mortgage in conjunction with its acquisition of The Market at Victory Villag e. (4) Subsequent to the closing of the acquisition, the Compan y closed on a mortgage loan on Wade Green Villag e in the amount of \$8.2 millio n.

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Preferred Apartment Communities, Inc Market Properties 2015 acquisition Independence Square Land improvements 517,191 566,857 329,546 198,238 (1,402,013) (842,682) other liabilities (97,976)	Notes to Consolidated Financial Statements – (continued) Overlook at Hamilton Place Summit Point Royal Lakes 10,903,486 9,921,403 13,123,553 In-place leases 2,029,643 1,203,246 Leasing costs 527,136 368,221 (315,837) (1,775,506) (139,884) (145,581)	December 31, 2016 F-2 0 New Buildings and Tenant improvements 911,580 526,468 Above market leases 361,433 392,451 Below market leases 88,553 — Security deposits and 33,524,328 19,495,398 6,660,767 17,798,401 33,524,328 19,495,398 3,198,000 1,591,000 (68,000) (393,000) 993,000 557,000 5.8
Cash paid \$ 12,524,328 Mortgage debt 21,000,000 12,900,000 9,800,000 16,460,767 17,798,401 2,107,000 (43,000) (48,000) (13,000) (162,000)	Total consideration \$ 33,524,328 Revenue \$ 86,000 275,000 432,000 993,000 Net income (loss) \$ (391,000) (297,000) (68,000) (393,000) Cumulative acquisition costs incurred by the Company \$ 557,000 Remaining amortization period of intangible assets and liabilities (years) 5.8	Twelve months ended December 31, 2016 : Revenue \$ 3,198,000 0 \$ 1,591,000 0 \$ 1,350,000 0 \$ 2,107,000 0 Net income (loss) \$ (391,000) 0 \$ (297,000) 0 \$ (68,000) 0 \$ (393,000) 0 Twelve months ended December 31, 2015 : Revenue \$ 86,000 0 \$ 275,000 0 \$ 432,000 0 \$ 993,000 0 Net income (loss) \$ (43,000) 0 \$ (48,000) 0 \$ (13,000) 0 \$ (162,000) 0 Cumulative acquisition costs incurred by the Company \$ 557,000 Remaining amortization period of intangible assets and liabilities (years) 5.8

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-21 Office buildings acquired During the year ended December 31, 2016, the Company completed the acquisition of the following office buildings: Acquisition date Property Market Approximate purchase price (millions) Leasable square feet 8/29/2016 Brookwood Office Birmingham, Alabama \$ 49.8 169,489 11/4/2016 Galleria 75 Atlanta, Georgia 17.6 110,597 12/30/2016 Three Ravinia Atlanta, Georgia 210.1 816,748 \$ 277.5 1,096,834 The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocation was based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but is preliminary and is subject to refinement for a period of up to one year from the closing of the acquisition.

Office Buildings	2016 acquisitions	Brookwood	Office Galleria 75	Three Ravinia	Land
\$ 1,744,828	\$ 15,156,267	\$ 9,784,645	Buildings and improvements	39,099,395	1,285,856
133,323,658	Tenant improvements	3,561,805	225,811	20,698,893	In-place leases
3,728,049	712,718	17,954,978	Above market leases	146,941	47,947
812,879	Leasing costs	2,402,958	309,513	7,468,128	Below market leases
(1,737,158)	(168,179)	(8,245,122)	Other assets	1,466,906	454,931
25,281,764	Other liabilities	(580,668)	(218,923)	(766,335)	Net
assets acquired	\$ 49,833,056	\$ 17,805,941	\$ 206,313,488	Cash paid	\$ 17,433,056
\$ 115,500,000	\$ 11,875,686	\$ 90,813,488	Mortgage debt	32,400,000	5,930,255
Total consideration	\$ 49,833,056	\$ 17,805,941	\$ 206,313,488	Twelve months ended December 31, 2016:	Revenue
\$ 2,021,000	\$ 237,000	\$ 99,000	Net income (loss)	\$ 269,000	\$ 48,000
(345,000)	Cumulative acquisition costs incurred by the Company	\$ 387,000	\$ 655,000	\$ 680,000	Remaining amortization period of intangible
assets and liabilities (years)	9.4	2.3	10.8	The Company recorded aggregate amortization and depreciation	expense of:
Year ended December 31,	2016	2015	2014	Depreciation:	Buildings and improvements
\$ 35,426,794	\$ 16,653,380	\$ 6,896,205	Furniture, fixtures, and equipment	20,988,814	11,019,007
5,362,607	56,415,608	27,672,387	12,258,812	Amortization:	Acquired intangible assets
21,416,784	10,401,697	4,065,142	Deferred leasing costs	283,806	12,920
—	Website development costs	23,600	9,330	4,761	Total depreciation and
amortization	\$ 78,139,798	\$ 38,096,334	\$ 16,328,715		

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-22 At December 31, 2016, the Company had recorded gross intangible assets of \$125.6 million, and accumulated amortization of \$46.4 million; gross intangible liabilities of \$33.6 million and accumulated amortization of \$3.8 million. Net intangible assets and liabilities as of December 31, 2016 will be amortized as follows: Acquired Intangible Assets Below market lease intangible liability In-place leases Above-market leases Lease origination costs For the years ending December 31: 2017 \$ 14,855,573 \$ 1,117,196 \$ 3,278,758 \$ (4,175,864) 2018 9,695,514 791,753 2,950,213 (3,942,712) 2019 6,671,240 555,791 2,449,817 (3,782,260) 2020 5,292,818 396,916 2,102,405 (3,555,802) 2021 3,007,306 284,015 1,452,940 (2,698,543) Thereafter 15,234,038 1,218,608 7,801,499 (11,618,852) Total \$ 54,756,489 \$ 4,364,279 \$ 20,035,632 \$ (29,774,033) Weighted-average amortization period (in years) 7.4 6.9 3.8 9.5 As of December 31, 2016, the weighted average remaining amortization period for all the Company's intangible assets and liabilities was approximately 6.4 years and 9.5 years, respectively. 4. Real Estate Loans, Notes Receivable, and Line of Credit At December 31, 2016, our portfolio of fixed rate, interest-only real estate loans consisted of:

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-23 Project/Property

Location	Maturity date	Optional extension date	Total loan commitments	Carrying amount (1) as of	Current / deferred interest %
per annum	December 31, 2016	December 31, 2015			
10,962,000	—	—	16,107,735	—	—
City Vista Pittsburgh, PA	6/1/2016	7/1/2017 (2)	—	16,603,935	—
Overton Rise Atlanta, GA	11/1/2016	5/1/2018 (2)	—	10,958,200	8.5 / 5
Founders' Village Williamsburg, VA	8/29/2018	N/A	\$ 10,346,000	9,866,000	8 / 7.5
Encore Atlanta, GA	4/8/2019	10/8/2020	10,958,200	10,958,200	8.5 / 5
Encore Capital Atlanta, GA	4/8/2019	10/8/2020	9,758,200	6,748,380	6,036,465
Palisades Northern VA	2/18/2018	8/18/2019	17,270,000	16,214,545	16,070,000
Fusion Irvine, CA	5/31/2018	5/31/2020	59,052,583	49,456,067	37,332,837
Green Park Atlanta, GA	12/1/2017	12/1/2019	13,464,372	13,464,372	12,356,189
Summit Crossing III Atlanta, GA	2/26/2018	2/26/2020	7,246,400	7,246,400	7,246,400
Overture Tampa, FL	7/21/2018	7/21/2020	6,920,000	6,123,739	4,519,495
Aldridge at Town Village Atlanta, GA	12/27/2017	12/27/2019	10,975,000	10,656,171	9,776,455
Bishop Street Atlanta, GA	2/18/2020	N/A	12,693,457	11,145,302	3,107,012
Hidden River Tampa, FL	12/3/2018	12/3/2020	4,734,960	4,734,960	—
Hidden River Capital Tampa, FL	12/4/2018	12/4/2020	5,380,000	4,626,238	2,671,870
CityPark II Charlotte, NC	1/7/2019	1/7/2021	3,364,800	3,364,800	—
CityPark II Capital Charlotte, NC	1/8/2019	1/31/2021	3,916,000	3,325,668	—
Park 35 on Clairmont Birmingham, AL	6/26/2018	6/26/2020	21,060,160	19,795,886	—
Fort Myers Fort Myers, FL	9/25/2017	N/A	4,000,000	3,654,621	—
Wiregrass Tampa, FL	5/15/2020	5/15/2023	14,975,853	1,862,548	—
Wiregrass Capital Tampa, FL	5/15/2020	5/15/2023	3,744,147	3,268,114	—
360 Forsyth Atlanta, GA	12/1/2017	N/A	3,225,000	2,520,420	—
Student housing communities:					
Haven West Atlanta, GA	6/2/2018	N/A	6,940,795	6,784,167	6,784,167
Haven 12 Starkville, MS	6/16/2017	11/30/2020	6,116,384	5,815,849	5,815,849
Stadium Village Atlanta, GA	6/27/2017	N/A	13,424,995	13,329,868	13,329,868
18 Nineteen Lubbock, TX	4/9/2018	4/9/2020	15,598,352	15,584,017	14,496,563
Haven South Waco, TX	5/1/2018	5/1/2019	15,455,668	15,301,876	14,200,703
Haven46 Tampa, FL	3/29/2019	9/29/2020	9,819,662	9,136,847	2,900,000
Haven Northgate College Station, TX	6/20/2019	6/20/2020	64,678,549	46,419,194	—
Lubbock II Lubbock, TX	4/20/2019	N/A	9,357,171	8,770,838	—
Haven Charlotte Charlotte, NC	12/22/2019	12/22/2021	19,581,593	5,781,295	—
Haven Charlotte Member Charlotte, NC	12/22/2019	12/22/2021	8,201,170	—	—
New Market Properties:					
Dawson Marketplace Atlanta, GA	11/15/2018	11/15/2020	12,857,005	12,613,860	11,573,432
Wade Green Atlanta, GA	2/5/2016	8/5/2016 (2)	6,250,000	—	—
Other:					
Crescent Avenue Atlanta, GA	7/13/2017	N/A	6,000,000	6,000,000	—
Carrying amount \$	332,761,068	\$ 238,001,758	(1)	Carrying amounts presented per loan are amounts drawn, exclusive of deferred fee revenue.	(2)
Loans extended to Crosstown Walk, City Vista, Overton Rise, and Wade Green with total commitments of \$11.0 million, \$16.1 million, \$16.7 million and \$6.3 million, respectively, were paid off during 2016. As a result, the total carrying amounts associated with these loans are shown as \$0 as of	December, 31	2016.			

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-24 The Palisades, Green Park, Stadium Village, 360 Forsyth 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 approximately 25% of the loan commitment amount and collectively receive approximately 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 December 31, 2016 was \$20,761,819. 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 or property. The Haven West, 18 Nineteen and Haven South loans are 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. Management monitors the credit quality of the obligors under each of the Company's real estate loans by tracking the timeliness of scheduled interest and principal payments relative to the due dates as specified in the loan documents, as well as draw requests on the loans relative to the project budgets. In addition, management monitors the actual progress of development and construction relative to the construction plan, as well as local, regional and national economic conditions that may bear on our current and target markets. The credit quality of the Company's borrowers is primarily based on their payment history on an individual loan basis, and as such, the Company does not assign quantitative credit value measures or categories to its real estate loans and notes receivable in credit quality categories. At December 31, 2016, none of the Company's real estate loans were delinquent.

At December 31, 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
360 Residential, LLC (1)	3/20/2013	6/30/2017	\$ 2,000,000	\$ 1,472,571	\$ 1,304,999 12%
Preferred Capital Marketing Services, LLC (2)	1/24/2013	12/31/2017	1,500,000	1,082,311	1,305,550 10%
Oxford Contracting, LLC (1)	8/27/2013	4/30/2017	1,500,000	1,475,000	1,475,000 8%
Preferred Apartment Advisors, LLC (1,2,3)	8/21/2012	12/31/2018	15,000,000	13,708,761	12,793,440 8%
Haven Campus Communities, LLC (1,2)	6/11/2014	12/31/2017	11,110,000	7,324,904	5,359,904 12%
Oxford Capital Partners, LLC (1,4)	10/5/2015	3/31/2017	10,150,000	7,870,865	10,502,626 12%
Newport Development Partners, LLC (1)	6/17/2014	6/30/2017	3,000,000	—	806,318 12%
360 Residential, LLC II (1)	12/30/2015	12/31/2017	3,255,000	2,884,845	2,477,952 15%
Hendon Properties, LLC (1)	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	177,000	— 12%
360 Capital Company, LLC	5/24/2016	12/31/2017	2,000,000	1,678,999	— 12%
Unamortized loan fees (59,581)	(82,056)		\$ 52,015,000	\$ 37,615,675	\$ 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 6. (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.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-25 The Company recorded interest income and other revenue from these instruments as follows: Year ended December 31, 2016 2015 2014 Real estate loans: Current interest payments \$ 23,633,118 \$ 16,188,752 \$ 10,987,856 Additional accrued interest 14,859,365 10,809,028 6,940,500 Deferred loan fee revenue 872,335 829,969 872,513 Total real estate loan revenue 39,364,818 27,827,749 18,800,869 Interest income on notes and lines of credit 4,120,775 2,853,961 3,026,856 Interest income on loans and notes receivable \$ 43,485,593 \$ 30,681,710 \$ 21,827,725 The Company extends loans for purposes such as to partially finance the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities, and for other real estate or real estate related projects. Certain of these loans include characteristics such as exclusive options to purchase the project at a fixed price within a specific time window following 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, the combined factors of the sufficiency of the borrowers' investment at risk and the existence of payment and performance guaranties provided by the borrowers. 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 variable interest entity, or VIE, which would necessitate consolidation of the project. The Company considers the facts and circumstances pertinent to each entity borrowing under the loan, including the relative amount of financing the Company is contributing to the overall project cost, decision making rights or control held by the Company, guarantees provided by third parties, and rights to expected residual gains or obligations to absorb expected residual losses that could be significant from the project. If the Company is deemed to be the primary beneficiary of a VIE, consolidation treatment would be required. The Company has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. The Company has concluded that it is not the primary beneficiary of the borrowing entities and therefore it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of December 31, 2016 of approximately \$315.6 million. The maximum aggregate amount of loans to be funded as of December 31, 2016 was approximately \$391.0 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 the Haven West, Encore, Encore Capital, Green Park, Stadium Village, Summit Crossing III, Aldridge at Town Village, Bishop Street, Dawsonville Marketplace, Wade Green, Crescent Avenue and 360 Forsyth loans, all of which are partially supporting proposed various real estate projects in or near Atlanta, Georgia. The drawn amount of these loans as of December 31, 2016 totaled approximately \$101.5 million (with a total commitment amount of approximately \$107.5 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. 5. Redeemable Preferred Stock and Equity Offerings 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. The redemption schedule of the Preferred Stock allows 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

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-26 following the date of issuance and expire four years following the date of issuance. As of December 31, 2016, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately \$90.8 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 \$14.6 million. As of December 31, 2016, the Company had issued 924,855 Units and collected net proceeds of approximately \$833.1 million after commissions. A total of 10,433 shares of Preferred Stock were subsequently redeemed. The number of Units issued was approximately 93.5% of the maximum number of Units anticipated to be issued under the Primary Series A Offering and the Follow-on Offering. Consequently, the Company cumulatively recognized approximately 93.5% of the approximate \$14.6 million deferred to date, or approximately \$13.6 million as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately \$1.0 million, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at December 31, 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. See Note 18. 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. 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 Securities and Exchange Commission, or the SEC on July 19, 2013. All amounts previously recorded as deferred offering costs related to this Shelf Registration Statement were reflected as a reduction of stockholders' equity as of July 19, 2016, the date the Shelf Registration Statement expired. 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 2014 ATM Offering, through MLV & Co. LLC as sales agent. The Company sold approximately 6.5 million shares of Common Stock through the 2014 ATM Offering and collected net proceeds of approximately \$54.4 million until the termination of the offering 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 \$986,000 as of December 31, 2016, of which \$125,000 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 \$861,000, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at December 31, 2016. 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 December 31, 2016, the Company sold 1.7 million shares of common stock through the ATM offering and collected net proceeds of approximately \$23.0 million. On December 2, 2016, the Company's registration statement on Form S-3 (Registration No. 333-214531) (the "mShares Registration Statement") was declared effective by the SEC. The mShares Registration Statement allows us to offer up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock ("mShares"), par value \$0.01 per share (the "mShares Offering"). The mShares are being offered by Preferred Capital Securities, LLC, or PCS, on a "reasonable best efforts" basis. The

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-27 Company intends to invest substantially all the net proceeds of the mShares Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes. On February 14, 2017, we terminated the Follow-on Offering and on the same day, the Company's registration statement on Form S-3 (Registration No. 333-211924) (the "\$1.5 Billion Follow-on Registration Statement") was declared effective by the SEC. This \$1.5 Billion Follow-on Registration Statement allows us to offer up to a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock (the "\$1.5 Billion Unit Offering"). The price per Unit is \$1,000. The Units are being offered by PCS on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the \$1.5 Billion Unit Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes. Except as described in the prospectus, the terms of the \$1.5 Billion Unit Offering are substantially similar to those under the Follow-on Offering. Deferred offering costs related to the \$1.5 Billion Unit Offering reflected in the asset section of the consolidated balance sheet at December 31, 2016 were approximately \$867,000.

6. 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, Mr. Silverstein, and Daniel M. DuPree comprise the board of directors of Nell Partners, Inc. Mr. Williams is the Chief Executive Officer and Mr. Silverstein is the President and Chief Operating Officer of the Manager. Mr. DuPree is the Chief Investment Officer of the Manager. Mr. Williams, Mr. Silverstein and Michael J. Cronin, the Company's Executive Vice President, Chief Accounting Officer and Treasurer are executive officers of Williams Realty Advisors, LLC, or WRA, which is the manager of the day-to-day operations of Williams Opportunity Fund, LLC, or WOF, as well as Williams Realty Fund I, LLC, or WRF.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-28 The Management Agreement entitles the Manager to receive compensation for various services it performs related to acquiring assets and managing properties on the Company's behalf: Twelve months ended December 31, Type of Compensation Basis of Compensation 2016 2015 2014 Acquisition fees 1% of the gross purchase price of real estate assets acquired prior to January 1, 2016 \$ — \$ 6,292,280 \$ 4,272,586 Loan origination fees 1.0% of the maximum commitment of any real estate loan, note or line of credit receivable 1,886,105 1,349,273 558,509 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) 10,560,120 — — Asset management fees Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted 8,602,675 3,622,589 2,163,783 Property management fees Monthly fee equal to 4% of the monthly gross revenues of the properties managed 4,943,899 2,456,968 1,229,319 General and administrative expense fees Monthly fee equal to 2% of the monthly gross revenues of the Company 3,483,460 1,764,555 1,058,927 Construction management fees Quarterly fee for property renovation and takeover projects 173,614 59,554 — \$ 29,649,873 \$ 15,545,219 \$ 9,283,124 (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. Included in the acquisition fees recognized for the twelve months ended December 31, 2014 were \$714,570 paid as a fee to Joel T. Murphy, which was earned prior to his appointment as a director and Chief Executive Officer of New Market Properties, LLC, a related party, related to the acquisition of nine grocery-anchored shopping centers. Mr. Murphy was also paid a fee of \$57,268 in connection with one grocery-anchored shopping center acquisition prior to becoming a director of the Company and the Chief Executive Officer of New Market Properties, LLC, which is included in other acquisition costs. The Management Agreement also entitles the Manager to receive construction management fees as compensation for services rendered in connection with the construction, development or landscaping of the properties, 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 Manager may, in its discretion, defer some or all of the asset management, property management, or general and administrative expense fees for properties owned by the Company. Any contingent 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 approximately \$3.7 million of combined asset management and general and administrative expense fees related to the acquired properties as of December 31, 2016 have been deferred 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 hurdles listed above. As of December 31, 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 the contingent amounts deferred. 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:

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-29 Year ended December 31, 2016 2015 2014 \$ 10,398,711 \$ 5,885,242 \$ 2,882,283 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 \$461,294, \$804,648 and \$778,888 for the years ended December 31, 2016, 2015 and 2014, respectively and Preferred Capital Securities, LLC, or PCS, was reimbursed \$1,019,353 and \$390,872 for the years ended December 31, 2016 and 2015, respectively. These costs are recorded as deferred offering costs until such time as additional closings occur on the Unit offerings 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, Haven 46, Lubbock II, Haven Northgate and Haven Charlotte real estate loans and the Haven Campus Communities' line of credit are supported in part by guaranties of repayment and performance by John A. Williams, Jr., our Chief Executive Officer's son, a principal of the borrowers and a related party of the Company under GAAP. In addition to the fees described above, the Management Agreement also entitles the Manager to other potential fees, including a disposition fee of 1% of the sale price of a real estate asset. The Manager earned 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 50.0% of the first month's gross rent plus 2.0% of the remaining fixed gross rent on the guaranteed lease term, (b) in the event of co-broker participation in a new lease, the leasing commission determined for a new lease are equal to 150.0% of the first month's gross rent plus 6% of the remaining fixed gross rent of the guaranteed lease term, and (c) for lease renewals, are equal to 2% of the fixed gross rent of the guaranteed lease term or, in the event of a co-broker, 6% of the fixed gross rent of the guaranteed lease term. Office leasing commission fees may not exceed market rates for office leasing services. The Manager earned approximately \$75,000 in leasing commission fees for the year ended December 31, 2016. No leasing commission fees were earned by the Manager for the years ended December 31, 2015 or 2014. On September 4, 2015, the Company acquired Royal Lakes Marketplace, a grocery-anchored shopping center in the Atlanta, Georgia market, from Madison Retail - Royal Lakes, LLC, a Georgia limited liability company. WRF provided an equity investment in support of the development of Royal Lakes Marketplace and received \$1.9 million from the sales proceeds. The Company executed a net profits interest agreement on September 4, 2015 with the Seller of Royal Lakes Marketplace, or Net Profits Interest Agreement. The Net Profits Interest Agreement grants the seller a 30.0% profit sharing interest in proceeds net of closing costs for Qualifying Transactions (as defined below) related to the four pads of vacant outparcel land acquired as part of the Royal Lakes Marketplace transaction. Qualifying Transactions, as defined in the agreement, include the sale of the outparcels, entry into a ground lease on the outparcels or a build-to-suit transaction. The profit sharing interest was to expire if no Qualifying Transactions were initiated by September 4, 2020. On December 30, 2016, the Net Profits Interest Agreement was terminated with a payment of \$50,000 to Madison Retail - Royal Lakes, LLC. The Company holds a promissory note in the amount of \$1,082,311 due from Preferred Capital Marketing Services, LLC, or PCMS, which is a wholly-owned subsidiary of NELL Partners. The Company has extended a revolving line of credit with a maximum borrowing amount of \$15.0 million to its Manager. 7. Dividends and Distributions The Company declares and pays monthly cash dividend distributions on its 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 Preferred Stock were:

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-30 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 1,824,796 October 31, 2016 801,455 4,060,141 October 30, 2015 384,085 1,955,840 November 30, 2016 850,246 4,255,788 November 30, 2015 417,895 2,138,764 December 30, 2016 893,245 4,422,993 December 31, 2015 446,165 2,279,751 Total \$ 41,080,645 Total \$ 18,751,934 The Company's dividend activity on its Common Stock for the twelve-month periods ended December 31, 2016 and 2015 was: R016 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 0.1800 4,012,322 September 15, 2016 24,652,041 0.2025 4,992,038 September 15, 2015 22,323,604 0.1800 4,018,249 December 15, 2016 26,093,707 0.2200 5,740,616 December 15, 2015 22,415,578 0.1925 4,314,999 \$ 0.8175 \$ 19,940,730 \$ 0.7275 \$ 16,196,324 The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At December 31, 2016, the Company had 886,168 Class A OP Units outstanding, which are exchangeable on a one-for-one basis for shares of Common Stock or the equivalent amount of cash. 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 December 15, 2016 January 17, 2017 194,957 November 5, 2015 January 15, 2016 53,238 \$ 671,250 \$ 202,545

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-31 The income tax characterization of the Company's dividend distributions were as follows: 2016 2015 2014 Preferred Stock: Ordinary income 88.1% 100% 100% Return of capital 10.5% — — Capital gains 1.4% — — Common Stock: Ordinary income — 33% 100% Return of Capital 100% 67% — 8. Equity Compensation Stock Incentive Plan On February 25, 2011, the Company's board of directors adopted, and the Company's stockholders approved, the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan to incentivize, compensate and retain eligible officers, consultants, and non-employee directors. On May 7, 2015, the Company's stockholders approved the third amendment to the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan, or, as amended, the 2011 Plan, which amendment increased the aggregate number of shares of Common Stock authorized for issuance under the 2011 Plan from 1,317,500 to 2,617,500 and extended the expiration date of the 2011 Plan to December 31, 2019. Equity compensation expense by award type for the Company was: Year ended December 31, Unamortized expense as of December 31, 2016 2015 2014 2016 Quarterly board member committee fee grants \$ 83,973 \$ 53,926 \$ 47,864 \$ — Class B Unit awards: Executive officers - 2013 — — 2,318 — Executive officers - 2014 — 3,825 1,433,767 — Executive officers - 2015 5,236 1,984,052 — — Executive officers - 2016 2,054,830 — — 612,458 Restricted stock grants: 2013 — — 85,812 — 2014 — 214,588 — 2015 106,670 213,329 — — 2016 273,333 — — 136,666 Total \$ 2,524,042 \$ 2,362,453 \$ 1,784,349 \$ 749,124

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-32 Restricted Stock Grants

The following annual grants of restricted stock were made to members of the Company's independent directors, as payment of the annual retainer fees. The total compensation cost for the restricted stock grant for the 2014 service year was recognized on a straight-line basis over the one-year period ending on May 7, 2015, at which time all shares vested. The restricted stock grants for the 2015 and 2016 service years vested (or are scheduled to vest) on the four consecutive 90-day periods following the date of grant. The shares granted vested or are scheduled to vest on a pro-rata basis over these same four periods. Service year

Shares	Fair value per share	Total compensation cost
2014 39,216	\$ 8.21	\$ 321,963
2015 30,133	\$ 10.62	\$ 320,012
2016 30,990	\$ 13.23	\$ 409,998

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.

Year	Number of shares	Fair value per share	Total fair value
2014	5,693	\$ 8.41	\$ 47,864
2015	5,067	\$ 10.64	\$ 53,926
2016	6,444	\$ 13.03	\$ 83,973
Total	17,204	\$ 185,763	

Class B OP Units On January 2, 2014, pursuant to the limited partnership agreement of the Operating Partnership, the Company caused the Operating Partnership to grant 239,556 Class B Units of the Operating Partnership, or Class B OP Units, to certain of its executive officers as compensation for service to be rendered during 2014. On January 2, 2015, the Company caused the Operating Partnership to grant 285,997 Class B OP Units for service to be rendered during 2015. On January 4, 2016, the Company caused the Operating Partnership to grant 265,931 Class B OP Units for service to be rendered during 2016, 2017 and 2018. 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

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-33

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. See Note 18. The underlying valuation assumptions and results for the Class B OP Unit awards were:

Grant dates	1/2/2014	1/2/2015	1/4/2016	Stock price	\$ 8.05	\$ 9.21	\$ 12.88	Dividend yield	8.12%	7.60%	5.98%				
Expected volatility	32.72%	30.13%	26.10%	Risk-free interest rate	3.80%	2.55%	2.81%	Number of Units granted:	One year vesting period	239,556	285,997				
	176,835	Three year vesting period	—	—	89,096	239,556	285,997	265,931	Calculated fair value per Unit	\$ 5.94	\$ 6.81	\$ 10.03			
Total fair value of Units	\$ 1,422,963	\$ 1,947,640	\$ 2,667,288	Target market threshold increase	\$ 1,959,000	\$ 2,629,000	\$ 3,549,000	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 \$0.16 for the 2014 awards, \$0.1925 for the 2015 awards and \$0.1925 for the 2016 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. The risk-free rate assumptions were obtained from the Federal Reserve yield table and were calculated as the interpolated rate between the 20 and 30 year yield percentages on U. S. Treasury securities on the grant dates. Since the Class B OP Units have no expiration date, a derived service period of one year was utilized, which equals the period of time from the grant date to the initial valuation date.	9. Indebtedness	Mortgage Notes Payable				
The following table shows certain details regarding our mortgage notes payable:	Principal balance as of	Interest only	through date (2)	Acquisition/ refinancing date	December 31, 2016	December 31, 2015	Maturity date	Interest rate (1)	Multifamily communities:	Trail Creek					
	6/25/2013	\$ —	\$ 28,109,000	7/1/2020	4.22 %	7/1/2020	Stone Rise	7/3/2014	24,485,726	25,014,250	8/1/2019	2.89 %	8/31/2015	Summit Crossing	4/21/2011
	20,034,920	20,366,748	5/1/2018	4.71 %	5/1/2014	Summit Crossing secondary financing	8/28/2014	5,057,941	5,145,250	9/1/2019	4.39 %	N/A	Summit II		
	3/20/2014	13,357,000	13,357,000	4/1/2021	4.49 %	4/30/2019									

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-34 Table continued from previous page

Principal balance as of	Interest only	through date (2)	Acquisition/ refinancing	date	December 31,	2016	December 31,
2015	Maturity date	Interest rate (1)	Ashford Park	1/24/2013	25,626,000	25,626,000	2/1/2020 3.13 %
			Ashford Park secondary	financing	8/28/2014	6,404,575	6,520,564
			2/1/2020	4.13 %	N/A	McNeil Ranch	1/24/2013
			13,646,000	13,646,000	2/1/2020	3.13 %	2/28/2018
			Enclave	9/26/2014	24,862,000	24,862,000	10/1/2021 3.68 %
			10/31/2017	Sandstone	9/26/2014	30,894,890	31,556,664
			10/1/2019	3.18 %	N/A	Stoneridge	9/26/2014
			26,729,985	27,302,546	10/1/2019	3.18 %	N/A
			Vineyards	9/26/2014	34,775,000	34,775,000	10/1/2021 3.68 %
			10/31/2017	Avenues at Cypress	2/13/2015	22,135,938	22,578,863
			9/1/2022	3.43 %	N/A	Avenues at Northpointe	2/13/2015
			27,878,000	27,878,000	3/1/2022	3.16 %	3/31/2017
			Lakewood Ranch	5/21/2015	29,950,413	30,528,618	12/1/2022 3.55 %
			N/A	Aster Lely	6/24/2015	33,120,899	33,746,379
			7/5/2022	3.84 %	N/A	CityPark View	6/30/2015
			21,489,269	21,924,060	7/1/2022	3.27 %	N/A
			Avenues at Creekside	7/31/2015	41,349,590	41,625,000	8/1/2024 2.37 %
			(3)	8/31/2016	Citi Lakes	9/3/2015	43,309,606
			44,282,826	4/1/2023	2.94 %	(4)	N/A
			Stone Creek	11/12/2015	16,497,919	16,792,850	10/1/2046 3.75 %
			N/A	Lenox Village Town Center	12/21/2015	30,717,024	31,394,460
			5/1/2019	3.82 %	N/A	Lenox Village III	12/21/2015
			18,125,780	18,410,000	1/1/2023	4.04 %	N/A
			Overton Rise	2/1/2016	40,712,134	—	8/1/2026 3.98 %
			N/A	Baldwin Park	1/5/2016	73,910,000	—
			1/5/2019	2.67 %	(6)	1/5/2019	Baldwin Park (second)
			1/5/2016	3,890,000	—	1/5/2019	10.67 %
			(7)	1/5/2019	Crosstown Walk	1/15/2016	32,069,832
			2/1/2023	3.90 %	N/A	Avalon Park	5/31/2016
			61,750,000	—	6/5/2019	2.77 %	(8)
			N/A	Avalon Park B Note	5/31/2016	3,250,000	—
			6/5/2019	11.77 %	(9)	N/A	City Vista
			7/1/2016	35,734,946	—	7/1/2026	3.68 %
			N/A	Sorrel	8/24/2016	33,442,303	—
			9/1/2023	3.44 %	N/A	Retail:	Spring Hill Plaza
			9/5/2014	9,672,371	9,868,025	10/1/2019	3.36 %
			10/31/2015	Parkway Town Centre	9/5/2014	7,034,452	7,176,745
			10/1/2019	3.36 %	10/31/2015	Woodstock Crossing	8/8/2014
			3,041,620	3,090,953	9/1/2021	4.71 %	N/A
			N/A	Deltona Landings	9/30/2014	6,928,913	7,074,722
			10/1/2019	3.48 %	N/A	Powder Springs	9/30/2014
			7,311,197	7,465,051	10/1/2019	3.48 %	N/A
			N/A	Kingwood Glen	9/30/2014	11,592,787	11,836,741
			10/1/2019	3.48 %	N/A	Barclay Crossing	9/30/2014
			6,517,956	6,655,117	10/1/2019	3.48 %	N/A
			N/A	Sweetgrass Corner	9/30/2014	7,900,135	8,063,653
			10/1/2019	3.58 %	N/A	Parkway Centre	9/30/2014
			4,539,632	4,635,162	10/1/2019	3.48 %	N/A
			N/A	Salem Cove	10/6/2014	9,586,678	9,600,000
			11/1/2024	4.21 %	11/30/2016	Independence Square	8/27/2015
			12,208,524	12,617,500	9/1/2022	3.93 %	9/30/2016
			Royal Lakes Marketplace	9/4/2015	9,800,000	9,800,000	9/4/2020 3.12 %
			(5)	4/3/2017	The Overlook at Hamilton Place	12/22/2015	20,672,618
			21,000,000	1/1/2026	4.19 %	N/A	Summit Point
			10/30/2015	12,546,792	12,846,544	11/1/2022	3.57 %
			N/A	East Gate Shopping Center	4/29/2016	5,719,897	—
			5/1/2026	3.97 %	N/A	Fury's Ferry	4/29/2016
			6,607,467	—	5/1/2026	3.97 %	N/A
			N/A	Rosewood Shopping Center	4/29/2016	4,437,851	—
			5/1/2026	3.97 %	N/A	Southgate Village	4/29/2016
			7,889,513	—	5/1/2026	3.97 %	N/A
			N/A	The Market at Victory Village	5/16/2016	9,250,000	—
			9/11/2024	4.40 %	10/10/2017	Wade Green Village	4/7/2016
			8,116,465	—	5/1/2026	4.00 %	N/A
			N/A	Lakeland Plaza	7/15/2016	29,760,342	—
			8/1/2026	3.85 %	N/A	University Palms	8/8/2016
			13,513,891	—	9/1/2026	3.45 %	N/A
			N/A	Cherokee Plaza	8/8/2016	26,017,293	—
			9/1/2021	3.02 %	(10)	N/A	Sandy Plains Exchange
			8/8/2016	9,439,850	—	9/1/2026	3.45 %
			N/A	Thompson Bridge Commons	8/8/2016	12,619,589	—
			9/1/2026	3.45 %	N/A		

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-35 Table continued from previous page

Principal balance as of	Interest only through date (2)	Acquisition/ refinancing date	December 31, 2016	December 31, 2015
Maturity date	Interest rate (1)	Heritage Station 8/8/2016	9,340,483 — 9/1/2026	3.45 % N/A
		Oak Park Village 8/8/2016	9,638,584 — 9/1/2026	3.45 % N/A
		Shoppes of Parkland 8/8/2016	16,492,503 — 9/1/2023	4.67 % N/A
		Champions Village 10/18/2016	27,400,000 — 11/1/2021	3.78 % (11)
		Student housing community: North by Northwest 6/1/2016	33,499,754 — 9/1/2022	4.02 % N/A
		Office: Brookwood Office 8/29/2016	32,400,000 — 9/10/2031	3.52 % 9/10/17
		Galleria 75 11/4/2016	5,900,265 — 7/1/2022	4.25 % N/A
		Three Ravinia 12/30/2016	115,500,000 — 1/1/2042	4.46 % 2/1/2022

Footnotes to Mortgage Notes Table (1) Interest rates are fixed, except as 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%. (11) Variable rate which consisted of 1 Month LIBOR plus 300 basis points. The interest rate has a floor of 3.25%. 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 December 31, 2016, the Company has an outstanding principal balance of \$9.8 million million on this loan. Additional advances of the mortgage commitment will be drawn as the Company achieves incremental leasing benchmarks specified under the loan agreement. This mortgage has a variable interest of 1 Month LIBOR plus 250 basis points, which was 3.12% as of December 31, 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. The mortgage note secured by our Champions Village property has a maximum commitment of \$34.16 million. As of December 31, 2016, the Company has an outstanding principal balance of \$27.4 million. Additional advances of the mortgage commitment will be drawn as the Company achieves leasing activity. Additional advances are available through October 2019. This mortgage note

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-36 has a variable interest of the greater of (i) 3.25% and (ii) the sum of the 3.00% plus the LIBOR Rate, which was 3.78% as of December 31, 2016. As of December 31, 2016, the weighted-average remaining life of deferred loan costs related to the Company's mortgage indebtedness was approximately 8.1 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 increased to \$150,000,000 pursuant to the Fourth Amended and Restated Credit Agreement, as amended effective December 27, 2016. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus 0.25% per annum and matures on August 5, 2019, with an option to extend the maturity date to August 5, 2020, subject to certain conditions described therein. On February 12, 2015, we entered into a \$32.0 million term loan with Key Bank under the Credit Facility, or the 2015 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, 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 Amended and Restated Credit Agreement 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 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 December 31, 2016, the Company was in compliance with all covenants related to the Revolving Line of Credit, as shown in the following table:

Covenant	Requirement	Result	Net worth	Minimum
(1)	Requirement	Result	\$840,200,000	Minimum
(2)	Debt yield	Minimum	\$885,261,162	Minimum
(3)	Payout ratio	Maximum	95%	Maximum
(4)	Total leverage ratio	Maximum	65.0%	60.5%
(5)	Debt service coverage ratio	Minimum	1.50x	2.12x

(1) All covenants are as defined in the credit agreement for the Revolving Line of Credit. (2) Minimum \$687 million plus 75% of the net proceeds of any equity offering, which totaled approximately \$840 million as of December 31, 2016. (3) Calculated on a trailing four-quarter basis. For the year ended December 31, 2015, the maximum dividends and distributions allowed under this covenant was approximately \$68,500,000. Loan fees and closing costs for the establishment and subsequent amendments of the Credit Facility, as well as the mortgage debt on the Company's multifamily communities and grocery-anchored shopping centers, are amortized utilizing the effective interest rate method over the lives of the loans. At December 31, 2016, aggregate unamortized loan costs were approximately \$1.7 million, which will be amortized over a weighted average remaining loan life of approximately 2.5 years. The weighted average interest

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-37 rate for the Credit Facility was 3.96% for the twelve-month period ended December 31, 2016. The Revolving Line of Credit also bears a commitment fee on the average daily unused portion of the Revolving Credit Facility of 0.35% per annum. Interest Expense Interest expense, including amortization of deferred loan costs was: Year ended December 31, 2016 2015 2014 Multifamily communities \$ 28,135,936 \$ 14,994,053 \$ 7,109,292 New Market Properties 8,870,094 3,479,879 854,097 Office buildings 474,402 — — Student housing community 894,277 — — Interest paid to real estate loan participants 2,008,741 1,496,566 219,587 40,383,450 19,970,498 8,182,976 Revolving Credit Facility and Term Note 3,900,694 1,345,233 2,005,211 Interest Expense \$ 44,284,144 \$ 21,315,731 \$ 10,188,187

Future Principal Payments The Company's estimated future principal payments due on its debt instruments as of December 31, 2016 were:
 Period Future principal payments 2017 \$ 157,110,067 (1) 2018 41,352,234 2019 332,726,142 2020 89,858,023 2021 138,241,835 thereafter 707,089,811 Total \$ 1,466,378,112 (1) Includes the principal amount due of the Company's Revolving Line of Credit of \$127.5 million.

10. Income Taxes The Company elected to be taxed as a REIT effective with its tax year ended December 31, 2011, and therefore, the Company 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 (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) 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 years ended December 31, 2016, 2015 and 2014.

Q1. 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. As of December 31, 2016, the amount guaranteed by the Company was \$5.97 million and 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. As of December 31, 2016, the Company guaranteed up to \$405,000 on these credit cards.

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F-38 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. A total of approximately \$3.7 million of combined asset management and general and administrative expense fees related to the acquired properties as of December 31, 2016 have been deferred 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 hurdles listed above. At December 31, 2016, the Company had unfunded balances on its real estate loan portfolio of approximately \$76.5 million.

Q2. Operating Leases The Company's grocery-anchored shopping centers and office properties are leased to tenants under operating leases for which the terms vary. The future minimum rental income due under the remaining non-cancelable terms of the Company's operating leases in place, excluding tenant reimbursements of operating expenses and real estate taxes and additional percentage rent based on tenants' sales volumes, as of December 31, 2016, is presented below, assuming that all leases which expire are not renewed and tenant renewal options are not exercised:

	For the years ending		December 31: Future Minimum Rents		New Market Properties		Office buildings		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
	\$ 35,514,141	\$ 19,954,746	\$ 55,468,887	\$ 32,284,111	\$ 21,232,719	\$ 53,516,830	\$ 25,818,913	\$ 22,097,943	\$ 47,916,856	\$ 21,589,847
	2020	21,589,847	22,383,499	43,973,346	2021	16,517,832	18,116,847	34,634,679	Thereafter	65,382,207
	197,107,051	\$ 250,575,780	\$ 447,682,831							

The Company's grocery-anchored shopping centers are geographically concentrated within the Sunbelt region of the United States. The Company's retail tenant base primarily consists of national and regional supermarkets, consumer services, healthcare providers, and restaurants. Our grocery anchor tenants comprise approximately 52.1% of our gross leasable area. Our credit risk, therefore, is concentrated in the retail/grocery real estate sector. Amounts required as security deposits vary depending upon the terms of the respective leases and the creditworthiness of the tenant, with the exception of our grocer anchor tenants, who generally are not required to provide security deposits. Exposure to credit risk is limited to the extent that tenant receivables exceed security deposits. Security deposits related to tenant leases are included in security deposits and other liabilities in the accompanying consolidated balance sheets. As of December 31, 2016 the Company's approximately 1.1 million square foot office portfolio was 98% leased to a predominantly investment grade credit (or investment grade equivalent) tenant roster. For non-credit tenants, our leases typically require a security deposit or letter of credit, which limits worst case collection exposure to amounts in excess of those protections. Additionally, some credit tenant leases will include credit enhancement provisions that require a security deposit or letter of credit in the event of a rating downgrade. We conduct thorough credit analyses not only for leasing activities within our existing portfolio but also for major tenants in properties we are considering acquiring. As of December 31, 2016 credit tenants represented approximately 7% of the Company's total office rentable area.

Q3. 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 buildings. Multifamily Communities - consists of the Company's portfolio of owned residential multifamily communities. Financing - consists of the Company's 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

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-39 communities and other real estate and real estate related assets. Excluded from the financing segment are financial results of the Company's Dawson Marketplace retail real estate loan.

New Market Properties - consists of the Company's portfolio of 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 retail real estate loans. Office Buildings - consists of the Company's portfolio of office buildings. 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 loan portfolio 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.

	December 31, 2016	December 31, 2015
Assets:		
Multifamily communities	\$ 1,166,766,664	\$ 781,224,019
Financing	379,070,918	272,454,610
New Market Properties	579,738,707	229,461,573
Office buildings	285,229,700	—
Other	10,026,613	12,388,831
Consolidated assets	\$ 2,420,832,602	\$ 1,295,529,033
Total capitalized expenditures of \$8,400,801 and \$3,579,457 (excluding the purchase price of acquisitions) were recorded for the twelve months ended December 31, 2016 and 2015, respectively, attributable to the Company's multifamily communities segment. Total capitalized expenditures of \$1,640,036 and \$1,088,585 (excluding the purchase price of acquisitions) were recorded for the twelve months ended December 31, 2016 and 2015, respectively, attributable to the Company's retail segment. Total capitalized expenditures of \$11,193 (excluding the purchase price of acquisitions) were recorded for the twelve months ended December 31, 2016 attributable to the Company's office buildings segment.		

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-40 Twelve months ended December 31, 2016 2015 2014

Revenues	Multifamily communities	\$ 120,553,674	\$ 65,232,087	\$ 31,234,822	Financing	41,717,650	30,000,654
	New Market Properties	35,490,552	14,072,771	3,473,823	Office buildings	2,357,039	—
		Consolidated revenues		\$ 200,118,915	\$ 109,305,512		
Segment net operating income (Segment NOI)		Multifamily communities		\$ 66,553,559	\$ 36,339,603	\$ 18,209,645	Financing
		New Market Properties		25,934,359	10,180,531	2,526,122	Office buildings
				1,675,886	—	—	Consolidated segment net operating
income		135,881,454		76,520,788	42,563,492	Interest and loss on early debt extinguishment:	
				Multifamily communities		29,030,213	14,994,054
				New Market Properties		8,870,094	3,479,879
				Office buildings		474,402	—
				Financing		5,909,435	2,841,799
				2,224,798		Depreciation and	
amortization:		Multifamily communities		57,664,568	30,970,345	14,199,048	New Market Properties
				19,245,688		7,125,989	2,129,667
				Office buildings		1,229,542	—
				Professional fees		3,134,432	1,880,232
				1,261,667		Management fees, net of deferrals	
				12,051,891		5,235,748	3,214,642
				Acquisition costs:		Multifamily communities	
				4,723,480		7,496,798	3,109,252
				New Market Properties		2,103,112	1,656,965
				4,123,365		Office buildings	
				1,720,951		—	
				Equity		compensation to directors and executives	
				2,524,042		2,362,453	1,784,349
				Gain on sale of real estate		(4,271,506)	—
				Other		1,314,524	902,515
				426,112		Net	
				income (loss)		\$ (9,843,414)	\$ (2,425,989)
				\$ 2,127,203			

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-41 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:

Year ended December 31,	2016	2015	2014
Numerator: Net (loss) income before gain on sale of real estate	\$ (14,114,920)	\$ (2,425,989)	\$ 2,127,203
Gain on sale of real estate, net of disposition expenses	4,271,506	—	—
Net (loss) income	(9,843,414)	(2,425,989)	2,127,203
Consolidated net loss (income) attributable to non-controlling interests	310,291	25,321	(33,714)
Net (loss) income attributable to the Company	(9,533,123)	(2,400,668)	2,093,489
Dividends declared to Series A preferred stockholders (A)	(41,080,645)	(18,751,934)	(7,382,320)
Earnings attributable to unvested restricted stock (B)	(15,843)	(19,256)	(24,090)
Net loss attributable to common stockholders	\$ (50,629,611)	\$ (21,171,858)	\$ (5,312,921)
Denominator:			
Weighted average number of shares of Common Stock - basic	23,969,494	22,182,971	17,399,147
Effect of dilutive securities: (C) Warrants — — — Class B Units — — — Unvested restricted stock — — —			
Weighted average number of shares of Common Stock - diluted	23,969,494	22,182,971	17,399,147
Net loss per share of Common Stock attributable to common stockholders, basic and diluted	\$ (2.11)	\$ (0.95)	\$ (0.31)

(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 914,422, 482,964 and 192,846 outstanding shares of Series A Preferred Stock at December 31, 2016, 2015, and 2014, respectively. (B) The Company's outstanding unvested restricted share awards (15,498, 15,067 and 39,216 shares of Common Stock at December 31, 2016, 2015, and 2014, 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 a net loss attributable to common stockholders for the years ended December 31, 2016, 2015 and 2014, 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 150,000 shares of Common Stock that would have been outstanding for the first quarter of 2015 due to the hypothetical exercise of a warrant issued by the Company to International Assets Advisory LLC, or IAA, on March 31, 2011, which expired on March 31, 2015, and warrants outstanding from issuances of Units from our Primary Series A Offering that are potentially exercisable into 16,148,760 shares of Common Stock, 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.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-42 15. Selected Quarterly Financial Data (unaudited) Quarterly financial information was as follows: Three months ended: 3/31/2016 6/30/2016 9/30/2016 12/31/2016

Revenues	\$ 41,735,781	\$ 45,853,944	\$ 53,537,337	\$ 58,991,853	Operating (loss) income	\$ 5,505,340	\$ 5,505,474	\$ 9,545,554	\$ 9,612,856	Net (loss) income	\$ (3,389,490)	\$ 217,479	\$ (2,688,620)	\$ (3,982,783)	Net (loss) income attributable to common stockholders	\$ (11,184,115)	\$ (9,239,588)	\$ (13,624,001)	\$ (16,589,868)	Net (loss) income per share of Common Stock available to Common Stockholders:	Basic	\$ (0.49)	\$ (0.40)	\$ (0.56)	\$ (0.66)	Diluted	\$ (0.49)	\$ (0.40)	\$ (0.56)	\$ (0.66)	Weighted average shares outstanding:	Basic	22,983,741	23,325,663	24,340,791	25,210,069	Diluted	22,983,741	23,325,663	24,340,791	25,210,069																			
	Three months ended: 3/31/2015 6/30/2015 9/30/2015 12/31/2015																																																											
	Revenues (1)																			\$ 21,344,515	\$ 24,088,827	\$ 29,955,693	\$ 33,916,477	Operating (loss) income (1)	\$ 3,612,186	\$ 5,109,304	\$ 4,120,993	\$ 6,047,259	Net (loss) income	\$ (764,929)	\$ 420,836	\$ (1,697,767)	\$ (384,129)	Net (loss) income attributable to common stockholders	\$ (3,934,990)	\$ (3,679,421)	\$ (6,800,672)	\$ (6,756,775)	Net (loss) income per share of Common Stock available to Common Stockholders:	Basic	\$ (0.18)	\$ (0.17)	\$ (0.31)	\$ (0.30)	Diluted	\$ (0.18)	\$ (0.17)	\$ 0.31	\$ (0.30)	Weighted average shares outstanding:	Basic	21,813,974	22,215,663	22,292,217	22,402,366	Diluted	21,813,974	22,215,663	22,922,217	22,402,366

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-43 16. Pro Forma Financial Information (unaudited) The Company's condensed pro forma financial results assume the following acquisitions were hypothetically completed on January Q of the previous year, as shown below: Hypothetical acquisition date 1/1/2015 1/1/2014 1/1/2013 Baldwin Park Lenox Portfolio Dunbar Portfolio Crosstown Walk Stone Creek Salem Cove Overton Rise Citi Lakes Sunbelt Portfolio Avalon Park Avenues at Creekside Spring Hill Plaza North by Northwest CityPark View Parkway Town Centre City Vista Aster at Lely Sorrel Venue at Lakewood Ranch Wade Green Village Houston Portfolio Southeastern Six Portfolio Overlook at Hamilton Place The Market at Victory Village Summit Point Lakeland Plaza Royal Lakes Marketplace Sunbelt Seven Portfolio Independence Square Champions Village Brookwood Office Galleria 75 Three Ravinia The Company's condensed pro forma financial results were: Twelve months ended December 31, 2016 2015 2014 Pro forma: Revenues \$ 253,909,996 \$ 228,020,379 \$ 106,896,527 Net income (loss) \$ (1,082,540) \$ (49,338,846) \$ (24,386,460) Net income (loss) attributable to the Company \$ (1,061,358) \$ (47,765,401) \$ (24,171,219) Net loss attributable to common stockholders \$ (42,157,846) \$ (66,536,591) \$ (31,577,629) Net income loss per share of Common Stock attributable to common stockholders, Basic and diluted \$ (1.76) \$ (3.00) \$ (1.68) Weighted average number of shares of Common Stock outstanding, Basic and diluted 23,969,494 22,182,971 18,850,410 Material nonrecurring pro forma adjustments which were directly attributable to these business combinations included the pro forma removal of all acquisition costs incurred from the actual historical periods of recognition of approximately \$(8.4) million, \$(8.1) million and \$(2.1) million for the years ended December 31, 2016, 2015, and 2014, 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. 17. 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.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-44 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 December 31, 2016 Carrying value Fair value measurements using fair value hierarchy Fair Value Level 1 Level 2 Level 3 Financial Assets: Real estate loans (1) \$ 332,761,068 \$ 374,856,749 \$ — \$ — \$ 374,856,749 Notes receivable and line of credit receivable 37,615,675 37,615,675 — — 37,615,675 \$ 370,376,743 \$ 412,472,424 \$ — \$ — 412,472,424 Financial Liabilities: Mortgage notes payable (2) \$ 1,327,878,112 \$ 1,314,966,652 \$ — \$ — \$ 1,314,966,652 Revolving credit facility 127,500,000 127,500,000 — — 127,500,000 Term loan 11,000,000 11,000,000 — — 11,000,000 Loan participation obligations 20,761,819 21,500,448 — — 21,500,448 \$ 1,487,139,931 \$ 1,474,967,100 \$ — \$ — \$ 1,474,967,100 As of December 31, 2015 Carrying value Fair value measurements using fair value hierarchy Fair Value Level 1 Level 2 Level 3 Financial Assets: Real estate loans (1) \$ 252,296,406 \$ 267,383,427 \$ — \$ — \$ 267,383,427 Notes receivable 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 Palisades, Green Park, Founders’ Village, Encore and Stadium Village real estate loans, which includes the amounts funded by unrelated participants. The loan participation obligations are the amounts due the participants under these arrangements. Accrued interest included in the carrying values of the Company’s real estate loans was approximately \$21.9 million and \$14.3 million at December 31, 2016 and 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 December 31, 2016, discounted to the reporting date utilizing a discount rate believed to be appropriate for multifamily development projects.

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Preferred Apartment Communities, Inc. Notes to Consolidated Financial Statements – (continued) December 31, 2016 F-45 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, ten and 35 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. Q8.

Subsequent Events On January 20, 2017, we sold our 364-unit Sandstone Creek multifamily community to an unrelated third party for \$48.1 million, exclusive of disposition-related transaction costs and realized a gain on the sale of approximately \$0.6 million. Between January 1, 2017 and February 14, 2017, the Company issued the final 64,553 Units and collected net proceeds of approximately \$58.1 million after commissions and fees under its Follow-on Offering. On February 14, 2017, our \$1.5 Billion Unit Offering was declared effective by the SEC. On February 2, 2017, the Company declared a quarterly dividend on its Common Stock of \$0.22 per share, payable on April 14, 2017 to stockholders of record on March 15, 2017. On January 4, 2017, the Company had exceeded the benchmark market capitalization goal set as the vesting hurdle for its Class B Unit grants made to certain members of senior management for service provided during 2016. All of the 265,931 Class B Units granted on January 4, 2016 became earned and 206,528 automatically vested and converted to Class A Units. Of the remaining earned Class B Units, 29,699 will vest and automatically convert to Class A Units on January 4, 2018 and the final 29,704 earned Class B Units will vest and automatically convert to Class A Units on January 4, 2019, assuming each grantee fulfills the requisite service requirement. On January 3, 2017, the Company awarded 286,392 Class B Units to its executive officers and other key personnel for service to be provided during 2017, 2018 and 2019. The total compensation cost was calculated to be \$3,413,793. The 2017 award carries vesting terms and features substantially similar to the Class B Units awarded for previous years, except the fair value of 227,576 of the Class B Units will be recognized over the one year period ending on the vesting date of January 3, 2018, the fair value of 9,401 of the Class B Units will be recognized over the one year period ending on the vesting date of January 3, 2019 and the remaining compensation cost pertaining to 29,415 Class B Units will be recognized over the one year period ending on the vesting date of January 3, 2020. On February 28, 2017, we acquired a 225-unit, 640-bed student housing community located near Arizona State University in Tempe, Arizona. We financed the acquisition using our newly closed Revolving Credit Facility with Freddie Mac and KeyBank National Association, or the Facility. The Facility provides for aggregate borrowings of up to a maximum amount of \$200 million, subject to increase to \$300 million in KeyBank's sole discretion, has a five year term, and a floating interest rate that is dependent on the type of property in the Facility and the leverage level of each individual asset.

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Location	Building and Improvement	Construction in Progress	Total (1)	Accumulated Depreciation	Date of Acquisition
Summit Crossing Atlanta, GA	200 8 4/15/201 1 5-4 0	25,092,86	22,032,08	28,982,08	27,704,64
Ashford Park Atlanta, GA	201 3 12/31/201 3 5-4 0	32,030,57	16,024,32	26,293,52	19,244,32
McNeil Ranch Austin, TX	199 9 1/23/201 3 5-3 0	20,296,24	4,000,00	24,443,57	20,296,24
Stoneridge Farms Nashville, TN	199 7 1/23/201 3 5-3 0	42,260,23	—	3,975,50	3,975,50
Enclave at Vista Ridge Dallas, TX	200 3 9/26/201 4 5-3 5	37,392,44	—	3,092,87	3,092,87
Avenues at Cypress Houston, TX	200 0 9/26/201 4 5-3 5	30,312,73	6,38	33,560,70	33,560,70
Avenues at Northpointe Houston, TX	201 3 2/13/201 5 5-4 0	27,878,00	3,920,63	3,920,63	3,920,63
Aster at Lely Resort Naples, FL	201 5 5/21/201 5 5-4 0	33,120,89	7,675,40	7,675,40	7,675,40
Avenues at Creekside San Antonio, TX	201 3 7/31/201 5 5-4 0	55,317,95	3,376,89	3,376,89	3,376,89
Stone Creek Houston, TX	201 4 9/3/201 5 5-4 0	16,497,91	2,210,63	2,210,63	2,210,63
Retreat at Leno x Nashville, TN	201 5 12/21/201 5 5-4 0	2,964,53	24,252,27	24,252,27	24,252,27
Baldwin Park Orlando, FL	200 9 12/21/201 5 5-4 0	17,402,88	2,245,40	17,402,88	17,402,88
Overton Rise Atlanta, GA	201 5 2/1/201 6 5-4 9	7,410,04	82,529,50	82,529,50	82,529,50
City Vista Pittsburgh, PA	201 4 7/1/201 6 5-4 9	42,217,29	128,84	42,217,29	42,217,29
Summit Crossing Atlanta, GA	201 5 8/24/201 6 5-4 8	814,980,69	137,167,31	1,020,946,90	1,020,946,90
		1,172,227,10	7	(86,014,56)	5

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F-4	8	Neighborhood	Retail Centers	:	Initial Cost	s	Cost	s	Capitalized	Gross Amount at Which Carried at Close of Period									
Property name	Location (MSA)	Related	Encumbrances	Land	Building and	Improvements	Construction	in Progress	Total (1)	Accumulated									
Depreciation	Date of Construction	Date Acquired	Depreciable	Lives -	Years	Oak Park Village	San Antonio	, TX	9,638,58	4									
0	8/8/201	6	5-4	0	Sandy Plain	s	Exchange	Atlanta, G	A	9,439,85	0	4,787,90	2	9,309,42	9	—	4,787,90	2	
16,492,50	3	10,779,27	4	16,543,05	9	—	10,779,27	4	16,543,05	9	—	27,322,33	3	(322,33)	6	200	0	8/8/201	6
5-3	5	Thompson Bridge	Common	s	Atlanta, G	A	12,619,58	9	1,478,32	6	16,047,11	6	—	1,478,32	6				
16,047,11	6	—	17,525,44	2	(196,28)	8	200	1	8/8/201	6	5-4	0	University Palm	s	Orlando, F	L	13,513,89	1	
4,853,58	8	16,706,24	3	—	4,853,58	8	16,706,24	3	—	21,559,83	1	(233,25)	5	199	3	8/8/201	6	5-3	7
Champion	s	Village	Houston, T	X	27,400,00	0	12,812,54	6	33,399,40	5	—	12,812,54	6	33,399,40	4	—			
46,211,95	1	(386,18)	3	197	3	10/18/201	6	5-4	0	325,597,40	3	127,363,39	6	392,232,63	0	2,857,78	9		
127,413,39	6	395,040,41	7	—	522,453,81	4	(15,952,68)	0	Office Buildings	:	Brookwood	Office	Birmingham	,					
A	L	32,400,00	0	1,744,82	8	42,661,20	2	—	1,744,82	8	42,661,20	2	—	44,406,03	0	(466,44)	9	200	7
8/24/201	6	5-5	0	Galleria	7	5	Atlanta, G	A	5,900,26	5	15,156,26	7	1,511,66	7	—	15,156,26	7	1,511,66	7
—	16,667,93	4	(28,47)	3	198	8	11/4/201	6	5-2	5	Three Ravina	Atlanta, G	A	115,500,00	0	9,784,64	5		
154,022,55	1	11,19	3	9,784,64	5	154,022,55	0	11,19	3	163,818,38	8	(253,05)	7	199	1	12/30/201	6	9-3	
9	153,800,26	5	26,685,74	0	198,195,42	0	11,19	3	26,685,74	0	198,195,41	9	11,19	3	224,892,35	2	(747,97	9)	
9)	Student Housing	Communities	:	North	by	Northwest	Tallahassee	,	FL	33,499,75	4	8,281,05	5	36,979,83					
7	652,83	3	8,281,05	5	37,366,75	2	265,91	8	45,913,72	5	(1,099,67)	0	201	2	6/1/201	6	5-4	6	
\$1,327,878,11	2	\$	299,497,50	1	\$1,648,354,78	9	\$	17,634,70	9	\$	299,547,50	1	\$1,663,293,86	3	\$	2,645,63	3		
\$	1,965,486,99	8	\$	(103,814,89)	4	(1)	The aggregate cost for Federal Income Tax purposes to the Company was approximately \$1.99 billion at December 31, 2016 .	(2)	Acquisitions during the year are subsequent phases of properties previously purchased by the Company. Presentation for this Schedule shows those acquisitions broken out and subsequent activity, such as additional costs capitalized and depreciation taken is consolidated within original asset .										

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F-4	9	Schedule III (continued)	Preferred Apartment Communities, Inc	Real Estate Investments and Accumulated Depreciation
December 31, 2016				
			Real estate investments	2014 2015 2016
			Balance at the beginning of the year	\$ 204,449,160
\$ 496,475,543	\$ 1,007,285,586	Acquisitions	289,947,272	506,207,786
			988,070,717	Improvements
2,024,207	4,125,290	7,972,176	Construction in progress	66,647
			542,752	2,102,882
			Write-off of assets no longer in service	(11,743) (65,785) (559,888)
			Disposal of assets	— — (39,384,475)
			Balance at the end of the year	\$ 496,475,543
			\$ 1,007,285,586	\$ 1,965,486,998
			Accumulated depreciation	2014 2015 2016
			Balance at the beginning of the year	\$ (14,133,421) \$ (26,388,066) \$ (53,994,666)
			Depreciation (a)	(12,258,812)
(27,672,385)	(56,340,314)	Write-off of assets no longer in service	4,167	65,785
			559,888	Disposal of assets
5,960,197			— —	— —
			Balance at the end of the year	\$ (26,388,066) \$ (53,994,666) \$ (103,814,895)
			(a) Represents depreciation expense of real estate assets. Amounts exclude amortization of lease intangible assets	

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Index to Exhibits The following exhibits are included, or incorporated by reference, in this Annual Report on Form 10-K (and are numbered in accordance with Item 601 of Regulation S-K):

Exhibit No.	Reference Description
3.1 (2)	Articles of Amendment and Restatement of Preferred Apartment Communities, Inc.
3.2 (2)	Third Amended and Restated By-laws of Preferred Apartment Communities, Inc.
4.1 (10)	Sixth Amended and Restated Partnership Agreement, dated June 3, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Advisors, LLC and the other limited partners party thereto
4.2 (5)	Articles Supplementary for the Series A Redeemable Preferred Stock
4.3 (6)	Articles Supplementary for the Series M Redeemable Preferred Stock
4.4 (11)	Articles Supplementary classifying an additional 900,000 shares of the Series A Redeemable Preferred Stock
4.5 (8)	Articles Supplementary classifying an additional 2,000,000 shares of the Series A Redeemable Preferred Stock
4.6 (6)	Form of mShares Subscription Agreement
4.7 (13)	Form of Series A Subscription Agreement
4.8 (15)	First Amendment to the Sixth Amended and Restated Partnership Agreement, dated as of January 25, 2017, entered into by Preferred Apartment Communities, Inc.
4.9 (16)	Articles of Amendment Amending the Holder Redemption Options of the Company's Series A Redeemable Preferred Stock
4.10 (28)	Amended and Restated Warrant Agreement dated as of March 14, 2012 between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent
4.11 (5)	Form of Global Warrant Certificate
4.12 (29)	Second Amended and Restated Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent
4.13 (30)	Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent
10.1 (10)	Sixth Amended and Restated Management Agreement, dated June 3, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC
10.2 (20)	First Amendment to the Sixth Amended and Restated Management Agreement, entered into as of October 5, 2016, effective as of August 29, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC
10.3 (2)	The Company's 2011 Stock Incentive Plan
10.4 (3)	Trademark License and Assignment Agreement dated September 17, 2010, between Preferred Apartment Communities, Inc. and Preferred Apartment Advisors, LLC
10.5 (2)	Form of Restricted Stock Agreement pursuant to the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan
10.6 (4)	Form of Indemnification Agreement
10.7 (5)	First Amendment to Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan
10.8 (9)	Form of Preferred Apartment Communities, Inc. 2014 Class B Unit Award Agreement
10.9 (17)	Form of Preferred Apartment Communities, Inc. 2015 Class B Unit Award Agreement
10.10 (23)	Form of Preferred Apartment Communities, Inc. 2016 Class B Unit Award Agreement (1 year)
10.11 (23)	Form of Preferred Apartment Communities, Inc. 2016 Class B Unit Award Agreement (3 year)
10.12 (25)	Form of Preferred Apartment Communities, Inc. 2017 Class B Unit Award Agreement (1 year)

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10.13 (25) Form of Preferred Apartment Communities, Inc. 2017 Class B Unit Award Agreement (3 year) 10.14 (7) Intellectual Property Assignment and License Agreement dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc. 10.15 (7) Trademark License Agreement dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc. 10.16 (7) Trademark Assignment dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc. 10.17 (12) Second Amendment to 2011 Stock Incentive Plan 10.18 (14) Capital On Demand Sales AgreementTM dated May 4, 2016 between Preferred Apartment Communities, Inc. and JonesTrading Institutional Services, LLC 10.19 (14) Capital On Demand Sales AgreementTM dated May 4, 2016 between Preferred Apartment Communities, Inc. and FBR Capital Markets & Co. 10.20 (14) Capital On Demand Sales AgreementTM dated May 4, 2016 between Preferred Apartment Communities, Inc. and Canaccord Genuity Inc 10.21 (17) Agreement of Sale and Purchase between HR Venture Properties I LLC and New Market Properties, LLC dated as of June 24, 2016 (TX) 10.22 (17) Agreement of Sale and Purchase between HR Venture Properties I LLC, HR Parkland LLC and New Market Properties, LLC dated as of June 24, 2016 (FL) 10.23 (17) Agreement of Sale and Purchase between HR Venture Properties I LLC, HR Thompson Bridge LLC and New Market Properties, LLC dated as of June 24, 2016 (GA) 10.24 (17) Agreement of Sale and Purchase between HR Heritage Station LLC and New Market Properties, LLC dated as of June 24, 2016 (NC) 10.25 (17) 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) 10.26 (17) 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) 10.27 (17) 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) 10.28 (18) 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 thereto and KeyBank National Association 10.29 (18) 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 subsidiaries of the Borrower party thereto and KeyBank National Association 10.30 (18) Fourth Amended and Restated Guaranty dated as of August 5, 2016 by and among Preferred Apartment Communities, Inc., each of the guarantors party thereto and KeyBank National Association 10.31 (19) Form of Buy-Sell Agreement with KeyBank National Association 10.32 (24) Third Amendment to 2011 Stock Incentive Plan 10.33 (21) Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of August 11, 2015 10.34 (21) First Amendment to Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of September 15, 2015 10.35 (21) Second Amendment to Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of September 25, 2015

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10.36 (21) Third Amendment to Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of November 23, 2015 10.37 (22) Purchase and Sale Agreement by and between Village at Baldwin Park, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of December 3, 2015 10.38 (26) Purchase and Sale Agreement between SPUS6 Three Ravinia, LP and Preferred Apartment Communities Operating Partnership, L.P. dated as of November 10, 2016. 12.1 (1) Statement of Computation of Ratios 21 (1) Subsidiaries of Preferred Apartment Communities, Inc. 23.1 (1) Consent of PricewaterhouseCoopers LLP 31.1 (1) Certification of John A. Williams, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 31.2 (1) Certification of Michael J. Cronin, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 32.1 (1) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 32.2 (1) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 101 (1) XBRL (eXtensible Business Reporting Language). The following materials for the period ended December 31, 2016, formatted in XBRL: (i) Consolidated balance sheets at December 31, 2016 and December 31, 2015, (ii) consolidated statements of operations for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, (iii) consolidated statements of equity and accumulated deficit, (iv) consolidated statements of cash flows and (v) notes to consolidated financial statements. (1) Filed herewith (2) Previously filed with the Pre-effective Amendment No. 6 to Form S-11 Registration Statement (Registration No. 333-168407) filed by the Registrant with the Securities and Exchange Commission on March 4, 2011 (3) Previously filed with the Pre-effective Amendment No. 1 to Form S-11 Registration Statement (Registration No. 333-168407) filed by the Registrant with the Securities and Exchange Commission on October 4, 2010 (4) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on April 7, 2011 (5) Previously filed with the Pre-effective Amendment No. 1 to Form S-11 Registration Statement (Registration No.: 333-176604) filed by the Registrant with the Securities and Exchange Commission on November 2, 2011 (6) Previously filed with the Form S-3 Registration Statement (Registration No.: 333-214531) filed by the Registrant with the Securities and Exchange Commission on November 9, 2016 (7) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on March 15, 2012 (8) Previously filed with the Form S-3 Registration Statement (Registration No.: 333-211924) filed by the Registrant with the Securities and Exchange Commission on June 9, 2016 (9) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 7, 2014 (10) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 6, 2016 (11) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 28, 2013 (12) Previously filed as Annex B to the Definitive Proxy Statement on Schedule 14A filed by the Registrant with the Securities and Exchange Commission on March 21, 2013 (13) Previously filed with the Pre-effective Amendment No. 2 to Form S-3 Registration Statement (Registration No. 333-211924) filed by the Registrant with the Securities and Exchange Commission on November 8, 2016 (14) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on May 5, 2016 (15) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 26, 2017

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- (16) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 26, 2014 (17)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on July 15, 2016 (18)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 10, 2016 (19)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 17, 2015 (20)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 5, 2016 (21)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 4, 2015 (22)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 11, 2015 (23)
Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 8, 2016 (24)
Previously filed as Annex A to the Definitive Proxy Statement on Schedule 14A filed by the Registrant with the Securities and Exchange Commission on March 19, 2015 (25) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 9, 2017 (26) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 8, 2016 (27) Previously filed form of with the Pre-effective Amendment No. 2 to Form S-3 Registration Statement (Registration No. 333-211924) filed by the Registrant with the Securities and Exchange Commission on November 8, 2016 (28) Previously filed with the Annual Report on Form 10-K filed by the Registrant with the Securities and Exchange Commission on March 15, 2012 (29) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 15, 2013 (30) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 24, 2017
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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: March 1, 2017 By: /s/ John A. Williams John A. Williams Chief Executive Officer Date: March 1, 2017 By: /s/ Michael J. Cronin Michael J. Cronin Executive Vice President, Chief Accounting Officer and Treasurer Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Signature Title Date /s/ John A. Williams Chief Executive Officer and Chairman of the Board March 1, 2017 John A. Williams (Principal Executive Officer) /s/ Leonard A. Silverstein President, Chief Operating Officer and Director March 1, 2017 Leonard A. Silverstein /s/ Michael J. Cronin Executive Vice President, Chief Accounting Officer and Treasurer March 1, 2017 Michael J. Cronin (Principal Accounting Officer and Principal Financial Officer) /s/ Steve Bartkowski Director March 1, 2017 Steve Bartkowski /s/ Gary B. Coursey Director March 1, 2017 Gary B. Coursey /s/ Daniel M. DuPree Director March 1, 2017 Daniel M. DuPree /s/ William J. Gresham, Jr. Director March 1, 2017 William J. Gresham, Jr. /s/ Howard A. McLure Director March 1, 2017 Howard A. McLure /s/ Timothy A. Peterson Director March 1, 2017 Timothy A. Peterson /s/ John Wiens Director March 1, 2017 John Wiens

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Exhibit 12 Statement of Ratios Preferred Apartment Communities, Inc. Ratio of Earnings to Combined Fixed Charges and Preferred Dividends Year ended December 31, 2016 2015 2014 2013 2012

Earnings:	Net income (loss)	\$ (9,843,414)	\$ (2,425,989)	\$ 2,127,203	\$ (4,205,492)	\$ (146,630)
Add:	Fixed charges	44,284,144	21,315,731	10,188,187	5,780,526	2,504,679
	Less: Net (income) loss attributable to non-controlling interests	310,291	25,321	(33,714)	222,404	—
	Total earnings	\$ 34,751,021	\$ 18,915,063	\$ 12,281,676	\$ 1,797,438	\$ 2,358,049
	Fixed charges:	Interest expense	\$ 40,688,714	\$ 19,841,455	\$ 9,183,128	\$ 4,921,797
		Amortization of deferred loan costs related to mortgage indebtedness	3,595,429	1,474,276	1,005,059	858,729
	Total fixed charges	44,284,143	21,315,731	10,188,187	5,780,526	2,504,679
	Preferred dividends	41,080,645	18,751,934	7,382,320	3,963,146	450,806
	Total Combined fixed charges and preferred dividends	\$ 85,364,788	\$ 40,067,665	\$ 17,570,507	\$ 9,743,672	\$ 2,955,485
	Ratio of Earnings to Combined fixed charges and preferred dividends	0.41	0.47	0.7	0.18	0.80

(A) The computation of our ratios of earnings to combined fixed charges and preferred stock dividends indicates that earnings were inadequate to cover combined fixed charges and preferred stock dividends by approximately \$50.6 million, \$21.2 million, \$5.3 million, \$7.9 million, and \$597,000 for the twelve months ended December 31, 2016, 2015, 2014, 2013 and 2012, respectively. Our net loss to common stockholders for the year ended December 31, 2013 includes the effect of a one-time deemed non-cash dividend of approximately \$7.0 million related to a beneficial conversion feature within our Series B Preferred Stock, all of which was converted to Common Stock on May 16, 2013. Combined fixed charges and preferred dividends for the twelve months ended December 31, 2013 do not reflect the deemed non-cash dividend.

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Exhibit 21 Subsidiaries of Preferred Apartment Communities, Inc. Name Jurisdiction of Formation 360 Forsyth Lending, LLC Delaware 360 Ft. Myers Lending, LLC Delaware 360 Irvine Lending, LLC Delaware 525 Avalon Park, LLC Delaware Altman Pasco Capital Lending, LLC Delaware Altman Pasco Lending, LLC Delaware Ashford Park, LLC Delaware Barclay Crossing, LLC Delaware Bristol Birmingham Lending, LLC Delaware City Park Mezzanine Lending, LLC Delaware City Park II Capital Lending, LLC Delaware Claiborne Crossing, LLC Delaware Crescent Ave Lending, LLC Delaware Deltona Landing, LLC Delaware Encore Capital Lending, LLC Delaware Haven Charlotte Capital Lending, LLC Delaware Haven Charlotte Lending, LLC Delaware Haven Fayetteville Lending, LLC Delaware Haven Northgate Lending, LLC Delaware Haven Lubbock Lending, LLC Delaware Haven Lubbock II Lending, LLC Delaware Haven Tampa Lending, LLC Delaware Haven Waco Lending, LLC Delaware Haven West Mezzanine Lending, LLC Georgia Hidden River Capital Lending, LLC Delaware Irvine Mezzanine Lending, LLC Georgia Kennesaw Mezzanine Lending, LLC Georgia Lake Cameron, LLC Delaware Main Street Apartment Homes, LLC Maryland Main Street Baldwin, LLC Delaware Main Street Stone Creek, LLC Delaware Manassas Mezzanine Lending, LLC Georgia New Market – Anderson, LLC Delaware New Market – Champions, LLC Delaware New Market – Cherokee, LLC Delaware New Market – Cumming, LLC Delaware New Market – East Gate, LLC Delaware New Market – Fairview, LLC Delaware New Market – Furys Ferry, LLC Delaware

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New Market – Heritage, LLC Delaware New Market – Oak Park, LLC Delaware New Market – Overlook, LLC Delaware New Market – Parkland, LLC Delaware New Market – Parkland Outparcel, LLC Delaware New Market – Plano, LLC Delaware New Market Properties, LLC Maryland New Market – Rosewood, LLC Delaware New Market – Royal Lakes, LLC Delaware New Market – Sandy Plains, LLC Delaware New Market – Southgate, LLC Delaware New Market – Summit Point, LLC Delaware New Market – Thompson Bridge, LLC Delaware New Market – University Palms, LLC Delaware New Market – Victory Village, LLC Delaware New Market – Wade Green, LLC Delaware New Town Mezzanine Lending, LLC Georgia Newport Bishop Lending, LLC Delaware Newport Kennesaw Mezzanine Lending, LLC Delaware NMP Kingwood Glen, LLC Delaware Oxford Encore Lending, LLC Georgia Oxford Hidden River Lending, LLC Delaware Oxford Overture Lending, LLC Delaware PAC Brookwood Center, LLC Delaware PAC Carveout, LLC Delaware PAC Citilakes, LLC Delaware PAC Citrus Village, LLC Delaware PAC Citypark View, LLC Delaware PAC City Vista Apartments, LLC Delaware PAC Creekside, LLC Delaware PAC Crosstown Walk, LLC Delaware PAC Cypress, LLC Delaware PAC Enclave at Vista Ridge, LLC Delaware PAC Dawson Lending, LLC Delaware PAC Galleria 75, LLC Delaware PAC Lending, LLC Delaware PAC Lenox, LLC Delaware PAC Lenox Regent, LLC Delaware PAC Lenox Retreat, LLC Delaware PAC Lenox Village, LLC Delaware PAC Naples, LLC Delaware PAC Overton Rise, LLC Delaware PAC Northpointe, LLC Delaware PAC Retreat at Greystone, LLC Delaware PAC Sarasota, LLC Delaware PAC Sorrel, LLC Delaware

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PAC Summit Crossing, LLC Georgia PAC Summit Crossing II, LLC Delaware PAC Vineyards, LLC Delaware PACOP Special Member, Inc. Delaware
Parkway Centre, LLC Delaware Parkway Town Centre, LLC Delaware PCC Tallahassee, LLC Delaware PCC Tempe, LLC Delaware
POP 3 Ravinia, LLC Delaware Powder Springs-Macland Retail, LLC Delaware Preferred Apartment Communities Operating Partnership, L.P. Delaware
Preferred Campus Communities, LLC Maryland Preferred Office Properties, LLC Maryland Salem Cove, LLC Delaware Sandstone Creek, LLC Delaware
SE Grocery LLC Delaware Spring Hill Plaza, LLC Delaware Starkville Mezzanine Lending, LLC Georgia Stoneridge Farms Hunt Club, LLC Delaware
Stone Rise Apartments, LLC Delaware Summit Crossing III Mezzanine Lending, LLC Delaware Sunbelt Retail, LLC Delaware
Sweetgrass Corner, LLC Delaware WAM McNeil Ranch, LLC Delaware Weems Mezzanine Lending, LLC Delaware Woodstock Crossing Center, LLC Georgia

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EXHIBIT CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-181165, No. S33-191418, and No. 333-210281) and Form S-3 (No. 333-211178, No. 333-211924, and No. 333-214531) of Preferred Apartment Communities, Inc. of our report dated March 1, 2017 relating to the financial statements, financial statement schedules, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K. /s/ PricewaterhouseCoopers Atlanta, Georgia March 1, 2017

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EXHIBIT 31.1 CERTIFICATIONS I, John A. Williams, certify that: Q. I have reviewed this annual report on Form 10-K of Preferred Apartment Communities, Inc.; R. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; S. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; T. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and U. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions): (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting. Date: March 1, 2017 /s/ John A. Williams John A. Williams Chief Executive Officer

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EXHIBIT 31.2 CERTIFICATIONS I, Michael J. Cronin, certify that: Q. I have reviewed this annual report on Form 10-K of Preferred Apartment Communities, Inc.; R. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; S. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; T. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and U. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions): (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting. Date: March 1, 2017 /s/ Michael J. Cronin Michael J. Cronin Executive Vice President, Chief Accounting Officer and Treasurer

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Exhibit 32.1 Furnished (but not filed) as an exhibit to the periodic report identified in the Certification. CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Annual Report of Preferred Apartment Communities, Inc. (the "Company") on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, John A. Williams, President and Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. Date: March 1, 2017 /s/ John A. Williams John A. Williams Chief Executive Officer

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Exhibit 32.2 Furnished (but not filed) as an exhibit to the periodic report identified in the Certification. CERTIFICATION PURSUANT TO Q8 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 In connection with the Annual Report of Preferred Apartment Communities, Inc. (the "Company") on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Michael J. Cronin, Chief Accounting Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. Date: March 1, 2017 /s/ Michael J. Cronin Michael J. Cronin Executive Vice President, Chief Accounting Officer and Treasurer

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OUR GOAL IS TO HAVE EXCEPTIONAL RESIDENT EXPERIENCES AND SUPERB CUSTOMER SERVICE THROUGH OUR PORTFOLIO. ? ???? ???? OUR SUCCESS HAS BEEN BUILT, IN NO SMALL PART, ON THE ABILITY OF OUR ASSOCIATES TO FIND SOLUTIONS TO PROBLEMS WHERE OTHERS THROW IN THE TOWEL. ?????????? ??????? ????PAC HAS SEEN TREMENDOUS GROWTH IN FUNDING THROUGH THE SALE OF ITS PREFERRED STOCK AND WARRANTS UTILIZING THE INDEPENDENT BROKE-DEALER CHANNEL MANAGED BY PREFERRED CAPITAL SECURITIES. ??????? ???? ??? AS OF THE END OF 2016, WE OWNED AN AGGREGATE OF 24 MULTIFAMILY COMMUNITIES, 31 GROCERY-ANCHORED SHOPPING CENTERS, AND 23 REAL ESTATE LOAN INVESTMENTS, 1 STUDENT HOUSING COMMUNITY AND 3 OFFICE BUILDINGS. WE BELIEVE PAC HAS A FORTRESS-LIKE BALANCE SHEET Lorem ipsum

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ALL BUSINESS UNITS HAVE 2017 GOALS THAT DRIVE THE PERFORMANCE OF OUR COMPANY. OUR TEAM IS FOCUSED ON PROTECTING THE PHYSICAL ASSETS, MANAGING RISK AND DRIVING FINANCIAL PERFORMANCE BY DRAWING ON DECADES OF ASSET MANAGEMENT EXPERIENCE. WITH IMPLEMENTATION OF NEW ACCOUNTING SYSTEMS IN 2016, WE ARE SEEING THE BENEFITS AND EFFICIENCIES OF ADVANCED TECHNOLOGY. 2016 WAS A TRANSFORMATIVE YEAR IN THE GROWTH AND OPERATIONAL SUCCESS OF OUR SUNBELT GROCERY-ANCHORED SHOPPING CENTER INITIATIVE.

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OUR INVESTMENT THESIS IS DRIVEN BY SUPERIOR PRODUCT, IRREPLACEABLE LOCATION AND VALUE PROPOSITION.
?????? ????? ?????????? ??? ??? ?????? OUR GOAL AT PREFERRED CAPITAL SECURITIES IS TO BUILD A BEST OF
CLASS FINANCIAL PRODUCTS DISTRIBUTION COMPANY. ?????????? ????? OUR ASSOCIATES ARE AMONG OUR MOST
VALUABLE ASSETS TODAY'S STUDENT HOUSING RESIDENT IS TOMORROW'S MULTIFAMILY RESIDENT. ??????? ?????
THIS IS A COMPANY THAT HAS THE UNIQUE ABILITY TO SEEK OUT AND CAPITALIZE ON OPPORTUNITY. ?????? ?????
OUR CORE OBJECTIVE WILL ALWAYS BE TO PROVIDE OUR STUDENT RESIDENTS WITH A HIGH-QUALITY LIVING AND
LEARNING ENVIRONMENT THAT WILL FACILITATE THEIR ACADEMIC ACHIEVEMENTS, AND ULTIMATELY THEIR FUTURE
SUCCESSSES. ??????????????

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EXECUTIVE MANAGEMENT & LEADERSHIP TEAM John A. Williams Chief Executive Officer Leonard A. Silverstein President and Chief Operating Officer Daniel M. DuPree Chief Investment Officer Michael J. Cronin Executive Vice President, Chief Accounting Officer and Treasurer Paul Cullen Chief Marketing Officer, Preferred Apartment Communities; Chief Executive Officer, Preferred Campus Communities James P. Curtis President, Chief Compliance Officer and General Counsel, Preferred Capital Securities Boone DuPree Chief Executive Officer, Preferred Office Properties William R. Forth Executive Vice President, Chief Asset Management Officer Albert V. Haworth Chief Executive Officer, Preferred Capital Securities Kimberly Barkwell Hodge President and Chief Executive Officer, Preferred Campus Management Rob Gayle Chief Operating Officer Preferred Residential Management John Isakson Chief Capital Officer William F. Leseman Executive Vice President – Property Management Joel T. Murphy Chief Executive Officer, New Market Properties Jeffery D. Sherman Executive Vice President, Director of Multifamily Investments BOARD OF DIRECTORS John A. Williams Chairman of the Board and Chief Executive Officer Daniel M. DuPree Vice Chairman of the Board and Chief Investment Officer Leonard A. Silverstein President and Chief Operating Officer Steve Bartkowski Business Development, DPR Construction, Inc. Gary B. Coursey Founder, Gary B. Coursey & Associates Architects William J. Gresham, Jr. Consultant, Gresham Real Estate Advisors, Inc. Howard A. McLure Lead Independent Director Timothy A. Peterson Partner and Chief Financial Officer, Altman Development Corporation John M. Wiens Vice President of Portfolio Management, Stadion Money Management LEGAL COUNSEL Jeffrey R. Sprain Senior Vice President-Legal, General Counsel, and Corporate Secretary Proskauer Rose LLP New York, NY AUDITOR PricewaterhouseCoopers LLP Atlanta, GA TAX ADVISORS Ernst and Young, LLP Atlanta, GA TRANSFER AGENT Computershare Trust Company, N.A. Canton, MA PREFERRED APARTMENT COMMUNITIES, INC. S284 Northside Parkway NW, Suite 150, Atlanta, GA 30327 On February 14, 2017, the Securities and Exchange Commission (the “SEC”) declared effective our registration statement on Form S-3 (file number 333-211924, the “Series A Registration Statement”) for our offering of up to 1,500,000 Units, with each Unit consisting of one share of our Series A redeemable preferred stock, and one warrant to purchase 20 shares of our Common Stock, which is offered by the dealer manager on a “reasonable best efforts” basis. On December 2, 2016, the SEC declared effective our registration statement on Form S-3 (file number 333-214531, the “Series M Registration Statement”) for our offering of up to 500,000 shares of Series M redeemable preferred stock, which is offered by the dealer manager on a “reasonable best efforts” basis. This Annual Report shall not constitute an offer to sell or the solicitation of an offer to buy the securities offered by the Company pursuant to either the Series A Registration Statement or the Series M Registration Statement, nor shall there be any offer or sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Each offering will be made only by means of a prospectus which is part of each of the Series A Registration Statement and the Series M Registration Statement. SAFE HARBOR NOTICE This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this Annual Report, including in the section entitled “Forward-Looking Statements” included elsewhere in this Annual Report. You should also review the section of this Annual Report entitled “Risk Factors” for a discussion of various risks that could adversely affect us.
