PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
August 07, 2017

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File 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

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 x No ¨

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

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

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

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

The number of shares outstanding of the registrant's Common Stock, as of July 27, 2017 was 32,668,731.

PART I - FINANCIAL INFORMATION

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

	June 30, 2017	December 31, 2016
Assets		
Real estate		
Land	$311,350,832	$299,547,501
Building and improvements	1,621,575,150	1,513,293,760
Tenant improvements	33,544,458	23,642,361
Furniture, fixtures, and equipment	149,377,900	126,357,742
Construction in progress	13,045,259	2,645,634
Gross real estate	2,128,893,599	1,965,486,998
Less: accumulated depreciation	(127,310,989)	(103,814,894)
Net real estate	2,001,582,610	1,861,672,104
Real estate loans, net of deferred fee income	234,031,624	201,855,604
Real estate loans to related parties, net	159,357,590	130,905,464
Total real estate and real estate loans, net	2,394,971,824	2,194,433,172
Cash and cash equivalents	13,055,897	12,321,787
Restricted cash	47,905,398	55,392,984
Notes receivable	17,296,399	15,499,699
Note receivable and revolving line of credit from related party	22,620,235	22,115,976
Accrued interest receivable on real estate loans	24,871,043	21,894,549
Acquired intangible assets, net of amortization of $56,616,712 and $46,396,254	81,455,656	79,156,400
Deferred loan costs on Revolving Line of Credit, net of amortization of $776,614 and $422,873	1,736,201	1,768,779
Deferred offering costs	5,351,680	2,677,023
Tenant lease inducements, net of amortization of $107,375 and $14,904	7,408,163	261,492
Tenant receivables (net of allowance of $559,873 and $663,912) and other assets	22,860,026	15,310,741
Total assets	$2,639,532,522	$2,420,832,602
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs of $24,759,432 and $22,007,641	$1,400,670,042	$1,305,870,471
Revolving line of credit	38,500,000	127,500,000
Term note payable, net of deferred loan costs of $5,590 and $40,095	10,994,410	10,959,905
Real estate loan participation obligation	18,598,928	20,761,819
Deferred revenues	16,029,840	—
Accounts payable and accrued expenses	25,525,913	20,814,910
Accrued interest payable	3,443,723	3,541,640
Dividends and partnership distributions payable	12,731,472	10,159,629
Acquired below market lease intangibles, net of amortization of $5,729,048 and $3,771,393	29,065,548	29,774,033
Security deposits and other liabilities	6,571,096	6,189,033

Total liabilities	1,562,130,972	1,535,571,440
Commitments and contingencies (Note 11)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, $0.01 par value per share; 3,050,000 shares authorized; 1,064,054 and 924,855 shares issued; 1,043,551 and 914,422 shares outstanding at June 30, 2017 and December 31, 2016, respectively	10,436	9,144
Series M Redeemable Preferred Stock, $0.01 par value per share; 500,000 shares authorized; 7,850 and 0 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	79	—
Common Stock, $0.01 par value per share; 400,066,666 shares authorized; 32,420,391 and 26,498,192 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	324,204	264,982
Additional paid in capital	1,065,382,200	906,737,470
Accumulated earnings (deficit)	9,038,150	(23,231,643)
Total stockholders' equity	1,074,755,069	883,779,953
Non-controlling interest	2,646,481	1,481,209
Total equity	1,077,401,550	885,261,162
Total liabilities and equity	$2,639,532,522	$2,420,832,602

The accompanying notes are an integral part of these consolidated financial statements.
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Preferred Apartment Communities, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	$48,241,306	$30,966,738	$93,604,827	$59,222,337
Other property revenues	8,821,245	4,308,360	17,257,356	8,068,443
Interest income on loans and notes receivable	8,490,327	6,847,724	16,438,138	13,789,883
Interest income from related parties	5,338,035	3,731,122	10,151,927	6,509,062
Total revenues	70,890,913	45,853,944	137,452,248	87,589,725
Operating expenses:				
Property operating and maintenance	7,198,159	4,356,923	13,736,798	8,378,285
Property salary and benefits reimbursement to related party	3,218,870	2,516,605	6,247,220	4,880,068
Property management fees (including $1,571,448, $1,140,603, $3,005,919, and $2,211,691 to related parties)	2,060,774	1,356,409	3,962,557	2,584,430
Real estate taxes	7,680,277	5,494,608	15,584,078	10,668,049
General and administrative	1,653,999	1,191,520	3,159,509	2,111,472
Equity compensation to directors and executives	871,153	618,867	1,744,255	1,229,292
Depreciation and amortization	28,457,001	17,969,975	53,283,190	33,316,701
Acquisition and pursuit costs (including $0, $313,398, $0 and $491,409 to related party)	5,000	2,764,742	14,002	5,528,327
Asset management fees to related party	4,864,397	2,958,991	9,376,911	5,725,077
Insurance, professional fees and other expenses	1,376,545	1,571,514	2,667,949	2,878,495
Total operating expenses	57,386,175	40,800,154	109,776,469	77,300,196
Contingent asset management and general and administrative expense fees	(170,838)	(451,684)	(345,920)	(721,285)
Net operating expenses	57,215,337	40,348,470	109,430,549	76,578,911
Operating income	13,675,576	5,505,474	28,021,699	11,010,814
Interest expense	16,397,895	9,559,501	31,406,598	18,454,331
Loss on extinguishment of debt	888,428	—	888,428	—
Net (loss) before gain on sale of real estate	(3,610,747)	(4,054,027)	(4,273,327)	(7,443,517)
Gain on sale of real estate, net of disposition expenses	6,914,949	4,271,506	37,639,009	4,271,506
Net income (loss)	3,304,202	217,479	33,365,682	(3,172,011)
Consolidated net (income) loss attributable to non-controlling interests	(96,823)	(7,961)	(1,095,889)	80,600
Net income (loss) attributable to the Company	3,207,379	209,518	32,269,793	(3,091,411)
Dividends declared to Series A preferred stockholders	(15,235,138)	(9,444,282)	(29,621,185)	(17,326,017)

Earnings attributable to unvested restricted stock	(5,736)	(4,824)	(7,441)	(6,275)
Net (loss) income attributable to common stockholders	$(12,033,495)	$(9,239,588)	$2,641,167	$(20,423,703)
Net (loss) income per share of Common Stock available to common stockholders, basic and diluted	$(0.40)	$(0.40)	$0.09	$(0.88)
Dividends per share declared on Common Stock	$0.235	$0.2025	$0.455	$0.395
Weighted average number of shares of Common Stock outstanding, Basic and diluted	29,893,736	23,325,663	28,423,171	23,154,702

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

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

	Series A Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated (Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2016	$ 4,830	$ 227,616	$ 536,450,877	$ (13,698,520)	$ 522,984,803	$ 2,468,987	$ 525,453,790
Issuance of Units	2,026	—	202,456,260	—	202,458,286	—	202,458,286
Redemptions of Series A Preferred Stock	(21)	—	(1,854,531)	—	(1,854,552)	—	(1,854,552)
Exercises of Warrants	—	8,155	8,387,549	—	8,395,704	—	8,395,704
Syndication and offering costs	—	—	(23,857,575)	—	(23,857,575)	—	(23,857,575)
Equity compensation to executives and directors	—	44	231,956	—	232,000	—	232,000
Vesting of restricted stock	—	151	(151)	—	—	—	—
Conversion of Class A Units to Common Stock	—	956	647,642	—	648,598	(648,598)	—
Current period amortization of Class B Units	—	—	—	—	—	1,024,298	1,024,298
Net loss	—	—	—	(3,091,411)	(3,091,411)	(80,600)	(3,172,011)
Class A Units issued for property acquisition	—	—	—	—	—	5,072,659	5,072,659
Reallocation adjustment to non-controlling interests	—	—	6,435,718	—	6,435,718	(6,435,718)	—
Distributions to non-controlling interests	—	—	—	—	—	(296,844)	(296,844)
Dividends to series A preferred stockholders ($5.00 per share per month)	—	—	(17,326,017)	—	(17,326,017)	—	(17,326,017)

Dividends to common stockholders ($0.395 per share)	—	—	(9,208,076)	—	(9,208,076)	—	(9,208,076)
Balance at June 30, 2016	$ 6,835	$236,922	$702,363,652	$(16,789,931)	$685,817,478	$ 1,104,184	$686,921,662

The accompanying notes are an integral part of these consolidated financial statements.
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Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity, continued
For the six-month periods ended June 30, 2017 and 2016
(Unaudited)

	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings(Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	$9,144	$264,982	$906,737,470	$(23,231,643)	$883,779,953	$1,481,209	$885,261,162
Issuance of Units	1,471	—	146,845,540	—	146,847,011	—	146,847,011
Redemptions of Series A Preferred Stock	(100)	3,578	(3,912,002)	—	(3,908,524)	—	(3,908,524)
Issuance of Common Stock	—	38,955	58,345,263	—	58,384,218	—	58,384,218
Exercises of warrants	—	14,620	17,676,806	—	17,691,426	—	17,691,426
Syndication and offering costs	—	—	(18,299,399)	—	(18,299,399)	—	(18,299,399)
Equity compensation to executives and directors	—	—	246,535	—	246,535	—	246,535
Vesting of restricted stock	—	155	(155)	—	—	—	—
Conversion of Class A Units to Common Stock	—	1,914	1,676,579	—	1,678,493	(1,678,493)	—
Current period amortization of Class B Units	—	—	—	—	—	1,497,720	1,497,720
Net income	—	—	—	32,269,793	32,269,793	1,095,889	33,365,682
Reallocation adjustment to non-controlling interests	—	—	(660,678)	—	(660,678)	660,678	—
Distributions to non-controlling interests	—	—	—	—	—	(410,522)	(410,522)
Dividends to series A preferred stockholders							

($5.00 per share per month)	—	—	(29,674,234)	—	(29,674,234)	—	(29,674,234)
Dividends to mShares preferred stockholders	—	—	(89,491)	—	(89,491)	—	(89,491)
Dividends to common stockholders ($0.455 per share)	—	—	(13,510,034)	—	(13,510,034)	—	(13,510,034)
Balance at June 30, 2017	$10,515	$324,204	$1,065,382,200	$9,038,150	$1,074,755,069	$2,646,481	$1,077,401,550

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

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

	Six months ended June 30, 2017	2016
Operating activities:		
Net income (loss)	$33,365,682	$(3,172,011)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Depreciation expense	39,063,687	23,973,536
Amortization expense	14,219,503	9,343,165
Amortization of above and below market leases	(1,561,873)	(593,455)
Deferred revenues and fee income amortization	(804,532)	(492,490)
Lease incentive cost amortization	92,471	—
Deferred loan cost amortization	2,649,602	1,393,318
(Increase) decrease in accrued interest income on real estate loans	(2,976,494)	543,167
Equity compensation to executives and directors	1,744,255	1,256,296
Other	189,400	(1,067)
Gain on sale of real estate	(37,639,009)	(4,271,506)
Loss on extinguishment of debt	888,428	—
Changes in operating assets and liabilities:		
Decrease (increase) in tenant receivables and other assets	(3,619,041)	433,419
(Increase) in tenant lease incentives	(7,239,142)	—
Increase in accounts payable and accrued expenses	4,136,539	3,374,618
Decrease (increase) in accrued interest payable	(159,833)	1,072,770
Net cash provided by operating activities	42,349,643	32,859,760
Investing activities:		
Investments in real estate loans	(70,319,643)	(75,603,964)
Repayments of real estate loans	9,866,000	27,695,229
Notes receivable issued	(3,728,561)	(8,051,980)
Notes receivable repaid	1,967,124	9,615,213
Note receivable issued to and draws on line of credit by related party	(14,978,535)	(18,653,990)
Repayments of line of credit by related party	14,254,008	13,842,681
Origination fees received on real estate loans	834,888	2,249,137
Origination fees paid on real estate loans	(417,444)	(1,124,226)
Acquisition of properties	(191,992,655)	(404,186,508)
Disposition of properties, net	118,241,692	10,606,386
Additions to real estate assets - improvements	(7,763,257)	(3,990,551)
Deposits paid on acquisitions	(919,534)	(11,194,950)
Decrease (increase) in restricted cash	7,108,164	(4,291,485)
Net cash used in investing activities	(137,847,753)	(463,089,008)
Financing activities:		
Proceeds from mortgage notes payable	156,280,000	249,840,000
Repayments mortgage notes payable	(116,052,865)	(4,692,524)
Payments for deposits and other mortgage loan costs	(6,038,969)	(9,616,676)
Payments for mortgage prepayment costs	(817,313)	—
Proceeds from real estate loan participants	165,840	135,398
Payments to real estate loan participants	(2,466,500)	—

Proceeds from lines of credit	97,000,000	195,500,000
Payments on lines of credit	(186,000,000)	(201,500,000)
Proceeds from Term Loan	—	46,000,000
Repayment of the Term Loan	—	(5,000,000)
Proceeds from sales of Units, net of offering costs and redemptions	128,699,644	180,446,649
Proceeds from sales of Common Stock	56,115,635	—
Proceeds from exercises of warrants	14,900,868	9,380,346
Common Stock dividends paid	(11,711,273)	(8,750,488)
Series A Preferred Stock dividends paid	(28,990,642)	(16,284,348)
Distributions to non-controlling interests	(393,699)	(170,630)
Payments for deferred offering costs	(4,458,506)	(1,780,973)
Net cash provided by financing activities	96,232,220	433,506,754
Net increase in cash and cash equivalents	734,110	3,277,506
Cash and cash equivalents, beginning of period	12,321,787	2,439,605
Cash and cash equivalents, end of period	$13,055,897	$5,717,111

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

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

	Six months ended June 30,	
	2017	2016
Supplemental cash flow information:		
Cash paid for interest	$28,811,760	$16,231,180
Supplemental disclosure of non-cash activities:		
Accrued capital expenditures	$2,131,921	$1,369,091
Writeoff of fully depreciated or amortized assets and liabilities	$386,825	$1,124,625
Lessee-funded tenant improvements, capitalized as landlord assets	$16,199,730	$—
Dividends payable - Common Stock	$7,539,376	$4,772,587
Dividends payable - Series A Preferred Stock	$5,145,030	$3,320,938
Dividends payable - mShares Preferred Stock	$47,066	$—
Dividends declared but not yet due and payable	$11,820	$—
Partnership distributions payable to non-controlling interests	$211,781	$179,449
Accrued and payable deferred offering costs	$431,470	$1,172,932
Offering cost reimbursement to related party	$220,268	$222,206
Reclass of offering costs from deferred asset to equity	$1,751,975	$3,699,985
Extinguishment of land loan for property	$—	$6,250,000
Proceeds of like-kind exchange funds for dispositions	$31,288,252	$—
Use of like-kind exchange funds for acquisitions	$31,288,252	$—
Fair value issuances of equity compensation	$4,088,499	$3,134,281
Mortgage loans assumed on acquisitions	$57,324,227	$—
Noncash repayment of mortgages through refinance	$65,000,000	$—

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements
June 30, 2017

1. Organization and Basis of Presentation

Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009, and elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, effective with its tax year ended December 31, 2011. Unless the context otherwise requires, references to the "Company", "we", "us", or "our" refer to Preferred Apartment Communities, Inc., together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. The Company was formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of its business strategy, the Company may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, the Company also may acquire or originate senior mortgage loans, subordinate loans or real estate loan investments 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 loan investments 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 June 30, 2017, the Company had 32,420,391 shares of common stock, par value $0.01 per share, or Common Stock, issued and outstanding and was the approximate 97.3% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 901,195 at June 30, 2017 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. The year end condensed balance sheet data was derived from audited financial statements, but does not include all the

disclosures required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 1, 2017.

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

When the Company acquires property, it allocates the aggregate purchase price to tangible assets, consisting of land, building, site improvements and furniture, fixtures and equipment, and identifiable intangible assets, consisting of the value of in- place leases

and above-market and below-market leases as described further below, using estimated fair values of each component at the time of purchase. The Company follows the guidance as outlined in ASC 805-10, Business Combinations, as amended by ASU-2017-01.

Tangible assets

The fair values of land acquired is calculated under the highest and best use model, using formal appraisals and comparable land sales, among other inputs. Building value is determined by valuing the property on a “go-dark” basis as if it were vacant, and also using a replacement cost approach, which two results are then reconciled. Site improvements are valued using replacement cost. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases, including leasing commissions and other related costs. The values of furniture, fixtures, and equipment are estimated by calculating their replacement cost and reducing that value by factors based upon estimates of their remaining useful lives.

Identifiable intangible assets

In-place leases

Multifamily communities and student housing properties

The fair value of in-place leases are estimated by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level (estimated to be 93% 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.

Grocery-anchored shopping centers and office buildings

The fair value of in-place leases 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 calculated 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.

Above-market and below-market lease values

Multifamily communities and student housing properties

These values are usually not significant or are not applicable for these properties.

Grocery-anchored shopping centers and office buildings

The values of above-market and below-market leases are developed by comparing the Company's estimate of the average market rents and expense reimbursements to the average contract rent at the property acquisition date. The amount by which contract rent and expense reimbursements exceed estimated market rent are summed for each individual lease and discounted for a singular aggregate above-market lease intangible asset for the property. The amount by which estimated market rent exceeds contract rent and expense reimbursements are summed for each individual lease and discounted for a singular aggregate below-market lease intangible liability. The above-market or below-market lease values are recorded as a reduction or increase, respectively, to rental revenue over the remaining noncancelable term of the respective leases, plus any below-market probable renewal options.

Impairment assessment

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. When qualitative factors indicate the possibility of impairment, 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.

Revenue Recognition

Multifamily communities and student housing properties

Rental revenue is recognized when earned from residents of the Company's multifamily communities, which is over the terms of rental agreements, typically of 12 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.

Grocery-anchored shopping centers and office buildings

Rental revenue from tenants' operating leases in the Company's grocery-anchored shopping centers and office buildings is recognized on a straight-line basis over the term of the lease. 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 and office building 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 rental revenue. 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 rental 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. For our office buildings, if the improvement is deemed to be a "landlord asset," and the tenant funded the tenant improvements, the cost is amortized over the term of the underlying lease as rental revenues. In order to qualify as a landlord asset, the specifics of the tenant's assets are reviewed, including the Company's approval of the tenant's detailed expenditures, whether such assets may be usable by other future tenants, whether the Company has consent to alter or remove the assets from the premises and generally remain the Company's property at the end of the lease.

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 changed the definition of a business.

Under this new guidance, most property acquisitions made by the Company will fall within the category of acquired assets rather than acquired businesses. This distinction will cause the Company to capitalize its costs for acquisitions, allocate them to the fair value of acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

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. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company anticipates selecting the modified retrospective transition method with a cumulative effect recognized as of the date of adoption and will
adopt the new standard effective January 1, 2018, when effective. 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 is continuing to evaluate the impact the adoption of ASU 2014-09 will have on its results of operations and financial condition.

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. 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 standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is currently evaluating the impacts this standard will have on its results of operations and financial condition.

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 326): Classification of Certain Cash Receipts and Cash Payments. The new standard clarifies or

establishes guidance for the presentation of various cash transactions on the statement of cash flows. The portion of the guidance applicable to the Company's business activities include the requirement that cash payments for debt prepayment or debt extinguishment costs be presented as cash out flows for financing activities. The standard is effective for the Company on January 1, 2018. The 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 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. 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 and does not expect the adoption of ASU 2016-18 to impact its results of operations and financial condition.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
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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. The Company adopted ASU 2017-01 as of January 1, 2017. The Company believes its future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing properties will generally qualify as asset acquisitions. To the extent acquisitions are deemed to be asset acquisitions, acquisition costs have been and will be capitalized and amortized rather than expensed as incurred. The impact of the adoption of ASU 2017-01 was a increase of approximately $0.5 million of the Company's reported net loss available to common stockholders for the three-month period ended June 30, 2017 and an decrease of approximately $2.7 million of the Company's reported net income available to common stockholders for the six-month period ended June 30, 2017 than it would have under previous guidance.

In February 2017, the FASB issued Accounting Standards Update 2017-05 (“ASU 2017-05”), Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets, and is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2017. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption and the Company currently expects to adopt ASU 2017-05 utilizing the prospective method but is continuing to evaluate the impact the adoption of this accounting standard will have on its financial statements.

3. Real Estate Assets

The Company's real estate assets consisted of:

	As of: 6/30/17	12/31/16
Multifamily communities:		
Properties [1]	25	24
Units	8,074	8,049
New Market Properties [2]		
Properties	33	31
Gross leasable area (square feet) [3]	3,477,941	3,295,491
Student housing properties:		
Properties	2	1
Units	444	219
Beds	1,319	679
Office buildings:		
Properties	3	3
Rentable square feet	1,094,000	1,096,834

[1] The acquired second phase 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.
(2) See note 12, Segment information.
(3) The Company also owns approximately 47,600 square feet of gross leasable area of ground floor retail space which is embedded within the Lenox Portfolio and not included in the totals above.

On January 20, 2017, the Company closed on the sale of its 364-unit multifamily community in Kansas City, Kansas, or Sandstone Creek, to an unrelated third party for a purchase price of $48.1 million, exclusive of closing costs and resulting in a gain of $0.3 million, which is net of disposition expenses including $1.4 million of debt defeasance related costs. Sandstone Creek contributed approximately $1.2 million and $(0.6) million of net income (loss) to the consolidated operating results of the Company for the six-month periods ended June 30, 2017 and 2016, respectively.

On March 7, 2017, the Company closed on the sale of its 408-unit multifamily community in Atlanta, Georgia, or Ashford Park, to an unrelated third party for a purchase price of $65.5 million, exclusive of closing costs and resulting in a gain of $30.4 million, which is net of disposition expenses including $1.1 million of debt defeasance related costs plus a prepayment premium of approximately $0.4 million. Ashford Park contributed approximately $2.3 million and $0.4 million of net income to the consolidated operating results of the Company for the six-month periods ended June 30, 2017 and 2016, respectively.

On May 25, 2017, the Company closed on the sale of its 300-unit multifamily community in Dallas, Texas, or Enclave at Vista Ridge, to an unrelated third party for a purchase price of $44.0 million, exclusive of closing costs and resulting in a gain of $6.9 million, net of disposition expenses including $2.1 million of debt defeasance related costs. Enclave at Vista Ridge contributed approximately $9.8 million and $(0.1) million of net income (loss) to the consolidated operating results of the Company for the six-month periods ended June 30, 2017 and 2016, respectively.

The carrying amounts of the significant assets and liabilities of the disposed properties at the dates of sale were:

	Sandstone Creek	Ashford Park	Enclave at Vista Ridge
	1/20/2017	3/7/2017	5/25/2017
Real estate assets:			
Land	$2,846,197	$10,600,000	$4,704,917
Building and improvements	41,859,684	24,075,263	29,915,903
Furniture, fixtures and equipment	5,278,268	4,222,858	2,874,403
Accumulated depreciation	(4,808,539)	(6,816,193)	(3,556,362)
Total assets	$45,175,610	$32,081,928	$33,938,861
Liabilities:			
Mortgage note payable	$30,840,135	$25,626,000	$24,862,000
Supplemental mortgage note	$—	$6,373,717	$—

Multifamily communities acquired

During the six-month periods ended June 30, 2017 and 2016, the Company completed the acquisition of the following multifamily communities and student housing property:

Acquisition date	Property	Location	Approximate purchase price (millions) [1]	Units
2/28/2017	Regents on University [2]	Tempe, Arizona	$ 53.3	225
3/3/2017	Broadstone at Citrus Village	Tampa, Florida	$ 47.4	296
3/24/2017	Retreat at Greystone	Birmingham, Alabama	$ 50.0	312
3/31/2017	Founders Village	Williamsburg, Virginia	$ 44.4	247
4/26/2017	Claiborne Crossing	Louisville, Kentucky	$ 45.2	242
				1,322

1/5/2016	Baldwin Park	Orlando, Florida	$ 110.8	528
1/15/2016	Crosstown Walk	Tampa, Florida	$ 45.8	342
2/1/2016	Overton Rise	Atlanta, Georgia	$ 61.1	294
5/31/2016	Avalon Park	Orlando, Florida	$ 92.5	487
6/1/2016	North by Northwest [3]	Tallahassee, Florida	$ 46.1	219
				1,870

[1] Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.
[2] A 640-bed student housing community located adjacent to the campus of Arizona State University in Tempe, Arizona.
[3] A 679-bed student housing community located adjacent to the campus of Florida State University in Tallahassee, Florida.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
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The Company allocated the purchase prices and, for acquisitions that closed subsequent to January 1, 2017, capitalized acquisition costs, 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.

2017 Multifamily Communities acquired	Broadstone at Citrus Village	Regents on University	Retreat at Greystone	Founders Village	Claiborne Crossing
Land	$4,809,113	$7,440,934	$4,077,262	$5,314,862	$2,147,217
Buildings and improvements	34,180,983	40,058,727	35,336,277	32,853,763	30,551,646
Furniture, fixtures and equipment	6,299,645	3,771,432	9,125,302	5,907,345	7,027,257
Lease intangibles	1,624,752	2,344,404	1,844,476	1,421,197	1,268,810
Mark to market debt assumption asset	893,385	—	—	—	4,447,751
Prepaids & other assets	744,970	808,045	871,684	938,419	1,120,728
Escrows	67,876	—	101,503	—	—
Accrued taxes	(108,286)	(71,856)	(139,046)	—	(115,728)
Security deposits, prepaid rents, and other liabilities	(24,887)	(377,735)	(108,573)	(103,204)	(130,850)
Net assets acquired	$48,487,551	$53,973,951	$51,108,885	$46,332,382	$46,316,831
Cash paid	$18,237,551	$16,488,951	$1,660,888	$1,438,320	$19,242,604
Use of 1031 proceeds	—	—	14,237,997	13,289,062	—
Mortgage debt	30,250,000	37,485,000	35,210,000	31,605,000	27,074,227
Total consideration	$48,487,551	$53,973,951	$51,108,885	$46,332,382 (1)	$46,316,831
Three months ended June 30, 2017:					
Revenue	$1,087,000	$1,422,000	$1,209,000	$1,003,000	$733,000
Net income (loss)	$(719,000)	$(1,553,000)	$(687,000)	$(507,000)	$(827,000)
Six months ended June 30, 2017:					
Revenue	$1,460,000	$1,894,000	$1,298,000	$1,003,000	$733,000
Net income (loss)	$(793,000)	$(1,895,000)	$(931,000)	$(705,000)	$(827,000)
Capitalized acquisition costs incurred by the Company	$458,000	$290,000	$383,000	$1,103,000	293,000
Acquisition costs paid to related party (included above)	$24,000	$60,000	$56,000	$8,000	22,000
Remaining amortization period of intangible assets and liabilities (months)	35.3	1.5	8.5	8.5	90.1

(1) The Company's real estate loan investment in support of Founders Village was repaid in full at the closing of the acquisition of the property.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

2016 Multifamily Communities acquired	North by Northwest	Avalon Park	Overton Rise	Baldwin Park	Crosstown Walk
Land	$8,281,054	$7,410,048	$8,511,370	$17,402,882	$5,178,375
Buildings and improvements	34,355,922	80,558,636	44,710,034	87,105,757	33,605,831
Furniture, fixtures and equipment	2,623,916	1,790,256	6,286,105	3,358,589	5,726,583
Lease intangibles	799,109	2,741,060	1,611,314	2,882,772	1,323,511
Prepaids & other assets	79,626	99,297	73,754	229,972	125,706
Escrows	1,026,419	3,477,157	354,640	2,555,753	291,868
Accrued taxes	(321,437)	(394,731)	(66,422)	(17,421)	(25,983)
Security deposits, prepaid rents, and other liabilities	(159,462)	(207,623)	(90,213)	(226,160)	(53,861)
Net assets acquired	$46,685,147	$95,474,100	$61,390,582	$113,292,144	$46,172,030
Cash paid	$12,831,872	$30,474,100	$20,090,582	$35,492,144	$13,632,030
Mortgage debt [1]	33,853,275	65,000,000	41,300,000	77,800,000	32,540,000
Total consideration	$46,685,147	$95,474,100	$61,390,582	$113,292,144	$46,172,030
Three months ended June 30, 2017:					
Revenue	$1,471,000	$2,047,000	$1,313,000	$2,351,000	$1,292,000
Net income (loss)	$(69,000)	$(1,047,000)	$(121,000)	$(686,000)	$(88,000)
Six months ended June 30, 2017:					
Revenue	$2,936,000	$4,015,000	$2,579,000	$4,714,000	$2,590,000
Net income (loss)	$(202,000)	$(2,280,000)	$(267,000)	$(1,270,000)	$(129,000)
Cumulative acquisition costs incurred by the Company	$378,000	$1,315,000	$115,000	$1,848,000	$319,000
Remaining amortization period of intangible assets and liabilities (months)	0.0	0.0	0.0	0.0	0.0

Grocery-anchored shopping centers acquired

During the six months ended June 30, 2017, the Company completed the acquisition of the following grocery-anchored shopping centers:

Acquisition date	Property	Location	Approximate purchase price (millions) [1]	Gross leasable area (square feet)
4/21/17	Castleberry-Southard	Atlanta, Georgia	$ 17.6	80,018
6/6/17	Rockbridge Village	Atlanta, Georgia	$ 20.3	102,432
				182,450

[1] Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

The Company allocated the purchase prices to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocation was based upon the Company's best estimates of the fair values of the acquired assets and liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

New Market Properties 2017 acquisitions	Castleberry-Southard	Rockbridge Village
Land	$ 3,023,731	$3,141,325
Buildings and improvements	13,471,240	15,666,091
Tenant improvements	670,376	278,340
In-place leases	990,663	1,249,694
Above market leases	123,084	59,267
Leasing costs	464,544	301,761
Below market leases	(1,081,145)	(332,725)
Other assets	67,899	7,136
Other liabilities	(162,499)	(89,212)
Net assets acquired	$ 17,567,893	$20,281,677
Cash paid	$ 2,306,703	$6,031,677
Use of 1031 proceeds	3,761,190	—
Mortgage debt	11,500,000	14,250,000
Total consideration	$ 17,567,893	$20,281,677
Three months ended June 30, 2017:		
Revenue	$ 246,000	$110,000
Net income (loss)	$ (88,000)	$8,000
Six months ended June 30, 2017:		
Revenue	$ 246,000	$110,000
Net income (loss)	$ (88,000)	$8,000
Capitalized acquisition costs incurred by the Company	$ 78,000	$114,000
Capitalized acquisition costs paid to related party (included above)	19,000	23,000
Remaining amortization period of intangible assets and liabilities (years)	10.0	7.8

During the six months ended June 30, 2016, the Company completed the acquisition of the following grocery-anchored shopping centers:

Acquisition date	Property	Location	Approximate purchase price (millions) [1]	Gross leasable area (square feet)
2/29/16	Wade Green Village	Atlanta, Georgia	$ 11.0	74,978
4/29/16	Southeastern Six Portfolio	[2]	$ 68.7	535,252
5/16/16	The Market at Victory Village	Nashville, Tennessee	$ 15.6	71,300
				681,530

[1] Purchase price shown is exclusive of acquired escrows, security deposits, prepaids, and other miscellaneous assets and assumed liabilities.
[2] The six grocery-anchored shopping centers located in Georgia, South Carolina and Alabama are referred to collectively as the Southeastern Six Portfolio.

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.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

New Market Properties 2016 acquisition	The Market at Victory Village	Southeastern Six Portfolio	Wade Green Village
Land	$2,271,224	$14,081,647	$1,840,284
Buildings and improvements	11,872,222	48,598,731	8,159,147
Tenant improvements	402,973	993,530	251,250
In-place leases	847,939	4,906,398	841,785
Above market leases	100,216	86,234	107,074
Leasing costs	253,640	992,143	167,541
Below market leases	(198,214)	(1,069,877)	—
Other assets	157,775	600,069	10,525
Other liabilities	(179,546)	(437,008)	(59,264)
Net assets acquired	$15,528,229	$68,751,867	$11,318,342
Cash paid	$6,278,229	$43,751,867	$6,245,683 [1]
Class A OP Units granted	—	—	5,072,659 [2]
Mortgage debt	9,250,000 [3]	25,000,000	— [4]
Total consideration	$15,528,229	$68,751,867	$11,318,342
Three months ended June 30, 2017:			
Revenue	$337,000	$1,593,000	$247,000
Net income (loss)	$(31,000)	$(84,000)	$(77,000)
Six months ended June 30, 2017:			
Revenue	$695,000	$3,154,000	$521,000
Net income (loss)	$(51,000)	$(177,000)	$(180,000)
Cumulative acquisition costs incurred by the Company	$111,000	$633,000	$297,000
Remaining amortization period of intangible assets and liabilities (years)	7.9	4.0	1.9

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

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

[3] The Company assumed the existing mortgage in conjunction with its acquisition of The Market at Victory Village.

[4] Subsequent to the closing of the acquisition, the Company closed on a mortgage loan on Wade Green Village in the amount of $8.2 million.

Office buildings

In the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company reported a misclassified amount of tenant improvements on its acquisition of the Three Ravinia office building. The impact on the Company's Consolidated Balance Sheet for the year ended December 31, 2016 was an understatement of buildings and improvements of approximately $14.2 million and an overstatement of tenant improvements of the same amount, as shown in the table below. The Company assessed the impact of the error, both quantitatively and qualitatively, in accordance with the SEC’s Staff Accounting Bulletin (SAB) No. 99 and SAB No. 108 and concluded that it was not material to the Company’s previously issued Financial Statements. In order to conform previous financial statements with the current period, the Company elected to revise previously issued financial statements the next time such financial statements are filed. The revision had no impact on the Consolidated Statement of Operations, Consolidated Statement of Stockholder’s Equity, or the Consolidated Statement of Cash Flows.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

Consolidated balance sheet as of December 31, 2016	As previously reported	Adjustment	As revised
Real estate			
Building and improvements	$1,499,129,649	$14,164,111	$1,513,293,760
Tenant improvements	$37,806,472	$(14,164,111)	$23,642,361

Three Ravinia acquisition	As previously reported	Adjustment	As revised
Real estate			
Buildings and improvements	$133,323,658	$14,164,111	$147,487,769
Tenant improvements	$20,698,893	$(14,164,111)	$6,534,782

The error in the prior year purchase price allocation for the Three Ravinia acquisition was related to the expenditure timing of landlord funded tenant allowances and the related recognition of value at the acquisition date.

The Company recorded aggregate amortization and depreciation expense of:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Depreciation:				
Buildings and improvements	$13,423,643	$7,832,592	$25,844,692	$14,613,736
Furniture, fixtures, and equipment	7,352,433	4,937,888	13,218,995	9,359,800
	20,776,076	12,770,480	39,063,687	23,973,536
Amortization:				
Acquired intangible assets	7,520,630	5,184,271	14,020,200	9,318,164
Deferred leasing costs	149,371	10,032	181,762	14,889
Website development costs	10,924	5,192	17,541	10,112
Total depreciation and amortization	$28,457,001	$17,969,975	$53,283,190	$33,316,701

At June 30, 2017, the Company had recorded gross intangible assets of $138.1 million, and accumulated amortization of $56.6 million; gross intangible liabilities of $34.8 million and accumulated amortization of $5.7 million. Net intangible assets and liabilities as of June 30, 2017 will be amortized over the weighted average remaining amortization periods of approximately 6.2 years and 9.4 years, respectively.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

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

At June 30, 2017, our portfolio of fixed rate, interest-only real estate loans consisted of:

	June 30, 2017	December 31, 2016
Number of loans	27	26
Drawn amount	$395,023,885	$334,570,242
Deferred loan origination fees	(1,634,671)	(1,809,174)
Carrying value	$393,389,214	$332,761,068
Unfunded loan commitments	$46,990,969	$76,546,234
Weighted average current interest, per annum (paid monthly)	8.50 %	8.26 %
Deferred interest, per annum	5.15 %	5.26 %

	Principal balance	Deferred loan origination fees	Carrying value
December 31, 2016	$334,570,242	$(1,809,174)	$332,761,068
Loan fundings	70,319,643	—	70,319,643
Loan repayments	(9,866,000)	—	(9,866,000)
Commitment fees collected	—	586,947	586,947
Amortization of commitment fees	—	(412,444)	(412,444)
Balances as of June 30, 2017	$395,023,885	$(1,634,671)	$393,389,214

Property type	Number of loans	Carrying value	Commitment amount	Percentage of portfolio
Multifamily communities	17	$235,634,091	$259,983,510	60 %
Student housing properties	9	144,903,432	169,174,339	37 %
Grocery-anchored shopping centers	1	12,851,691	12,857,005	3 %
Balances as of June 30, 2017	27	$393,389,214	$442,014,854	

The Palisades, Green Park, Stadium Village and 360 Forsyth 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, returns of principal and purchase option discount (if applicable). 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 June 30, 2017 was approximately $18.6 million.

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,

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

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 June 30, 2017, none of the Company's real estate loans were delinquent.

At June 30, 2017, our portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of: 6/30/2017	12/31/2016	Interest rate
360 Residential, LLC [1]	3/20/2013	12/31/2017	$ 2,000,000	$ 1,830,677	$ 1,472,571	12 %
Preferred Capital Marketing Services, LLC [2]	1/24/2013	12/31/2017	1,500,000	1,034,198	1,082,311	10 %
Oxford Contracting, LLC [1]	8/27/2013	[3]	1,500,000	—	1,475,000	8 %
Preferred Apartment Advisors, LLC [1,2,4]	8/21/2012	12/31/2018	15,000,000	14,261,133	13,708,761	8 %
Haven Campus Communities, LLC [1,2]	6/11/2014	12/31/2017	11,110,000	7,324,904	7,324,904	12 %
Oxford Capital Partners, LLC [1,5]	10/5/2015	12/31/2017	10,150,000	8,119,446	7,870,865	12 %
Newport Development Partners, LLC [1]	6/17/2014	6/30/2018	3,000,000	—	—	12 %
360 Residential, LLC II [1]	12/30/2015	12/31/2017	3,255,000	3,109,457	2,884,845	15 %
Mulberry Development Group, LLC [1]	3/31/2016	6/30/2018	500,000	385,000	177,000	12 %
360 Capital Company, LLC [1]	5/24/2016	12/31/2017	3,900,000	3,876,137	1,678,999	12 %
Unamortized loan fees				(24,318)	(59,581)	
			$ 51,915,000	$ 39,916,634	$ 37,615,675	

[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] Note was repaid on April 6, 2017 and terminated at its maturity date of April 30, 2017.
[4] 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. See note 16.
[5] 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Real estate loans:				
Current interest payments	$ 7,979,350	$ 5,917,452	$ 15,040,923	$ 11,010,122
Additional accrued interest	4,475,333	3,443,642	8,888,473	6,716,297

Deferred origination fee amortization	327,772	196,127	586,946	435,726
Total real estate loan revenue	12,782,455	9,557,221	24,516,342	18,162,145
Interest income on notes and lines of credit	1,045,907	1,021,625	2,073,723	2,136,800
Interest income on loans and notes receivable	$13,828,362	$10,578,846	$26,590,065	$20,298,945

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 within a specific time window following project completion and stabilization, the sufficiency of the borrowers' investment at risk and the existence of payment and performance guaranties provided by the borrowers, 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 June 30, 2017 of approximately $342.6 million. The maximum aggregate amount of loans to be funded as of June 30, 2017 was approximately $385.5 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, 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 June 30, 2017 totaled approximately $105.1 million (with a total commitment amount of approximately $110.0 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

On February 14, 2017, the Company terminated its offering of up to 900,000 Units, or 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, subject to adjustment if a participating broker-dealer reduces its commission. Each share of Preferred Stock ranks senior to Common Stock with respect to dividend rights 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 $19.50 per share. The current market price per share of the Common Stock is determined using the closing price of the common stock immediately preceding the issuance of such Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance. The Units are being offered by Preferred Capital Securities, LLC, or PCS, an affiliate of the Company, 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 $1.5 Billion Follow-on Registration Statement, the terms of the $1.5 Billion Unit Offering are substantially similar to those under the Follow-on Offering. As of February 14, 2017, which was the final closing of the Follow-on Offering, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $97.2 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 $15.0 million. As of February 14, 2017, the Company had issued all available Units under the Primary Series A Offering and the Follow-on Offering and collected net proceeds of approximately $891.2 million after commissions. Since the maximum number of Units available to be issued under the Primary Series A Offering and the Follow-on Offering were issued, the Company consequently recognized 100.0% of the approximate $15.0 million deferred offering costs as a reduction of stockholders' equity.

For the $1.5 Billion Unit Offering, as of June 30, 2017, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $7.5 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 $2.5 million. As of June 30, 2017, the Company had issued 74,646 Units and collected net proceeds of approximately $67.1 million after commissions under the $1.5 Billion Unit Offering. The number of Units issued was approximately 5.0% of the maximum number of Units anticipated to be issued under the $1.5 Billion Unit Offering.

Consequently, the Company cumulatively recognized approximately 5.0% of the approximate $2.5 million deferred to date, or approximately $126,000 as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately $2.4 million, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at June 30, 2017. The remainder of current and future deferred offering costs related to the $1.5 Billion Unit 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 approximately 1.5% (discussed further below) of the total gross proceeds raised during the Unit offerings.

Cumulatively, a total of 20,503 shares of Preferred Stock have been subsequently redeemed from the Primary Series A Offering, the Follow-on Offering, and the $1.5 Billion Unit 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 the Company will reimburse its Manager up to 1.5% of the gross proceeds of such offering 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 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 $1.6 million as of June 30, 2017, of which $389,000 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 $1,210,000, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at June 30, 2017.

On May 12, 2017, the Company sold 2,750,000 shares of its Common Stock at a price of $15.25 per share pursuant to an underwritten public offering. On May 30, 2017, the Company sold an additional 412,500 shares of Common Stock at $15.25 per share pursuant to the exercise in full of an option received in connection with the public offering. The combined gross proceeds of the two sales was approximately $48.2 million before deducting underwriting discounts and commissions and other estimated offering expenses.

The Company filed a prospectus 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 the sales agents named in the prospectus. 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. As of June 30, 2017, the Company cumulatively sold 2.4 million shares of common stock through the ATM Offering and collected net proceeds of approximately $32.9 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 PCS on a "reasonable best efforts" basis. The price per mShare is $1,000. Each mShare ranks senior to Common Stock and on parity with the Series A Preferred Stock with respect to dividend rights and carries a cumulative annual dividend of 5.75% per annum. Beginning one year from the date of

original issuance of each mShare, and on each one year anniversary thereafter, the dividend rate increases by 0.25% per annum, up to a maximum of 7.5% per annum. Dividends are payable monthly as declared by the Company's board of directors and begin accruing on the date of issuance. The redemption schedule of the mShares allows redemptions at the option of the holder from the date of issuance of the Preferred Stock through the first year subject to a 2% redemption fee. After year one, the redemption fee decreases to 1% and after year two there is no redemption fee. Any redeemed mShares 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 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.

As of June 30, 2017, offering costs specifically identifiable to mShares Offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $0.4 million. These costs are reflected as a reduction of stockholders' equity at the time of closing. In addition, the costs related to the offering not related to a specific closing transaction totaled approximately $1.8 million. As of June 30, 2017, the Company had issued 7,850 mShares and collected net proceeds of approximately $7.5 million after commissions under the mShares Offering. The number of mShares issued was approximately

1.6% of the maximum number of mShares anticipated to be issued under the mShares Offering. Consequently, the Company cumulatively recognized approximately 1.6% of the approximate $1.8 million deferred to date, or approximately $28,000 as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately $1.8 million, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at June 30, 2017. The remainder of current and future deferred offering costs related to the mShares Offering will likewise be recognized as a reduction of stockholders' equity in the proportion of the number of mShares issued to the maximum number of mShares anticipated to be issued. Offering costs not related to a specific closing transaction are subject to an overall cap of approximately 1.5% (discussed further below) of the total gross proceeds raised during the mShares Offering.

Aggregate offering expenses, including dealer manager fees, are capped at 11.5% of the aggregate gross proceeds of the mShares Offering, of which the Company will reimburse its Manager up to 1.5% of the gross proceeds of such offering for all organization and offering expenses incurred, excluding 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.

The Company's Series A Preferred Stock and mShares are redeemable at the option of the holder in either cash or the Company's Common Stock, at the Company's option. Since the Company controls the form of redemption, it presents its Series A Preferred Stock and mShares as components of permanent rather than temporary or mezzanine equity on its Consolidated Balance Sheets.

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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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:

		Three months ended June 30,		Six months ended June 30,	
Type of Compensation	Basis of Compensation	2017	2016	2017	2016
Loan origination fees	1.0% of the maximum commitment of any real estate loan, note or line of credit receivable	$417,444	$422,857	$417,444	$1,124,226
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)]	955,368	2,424,148	3,009,508	4,685,609
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	3,058,859	1,751,501	6,121,942	3,512,505
Property management fees	Monthly fee equal to 4% of the monthly gross revenues of the properties managed	1,559,876	1,128,285	2,985,277	2,190,753
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	1,259,702	768,124	2,543,121	1,512,225
Construction management fees	Quarterly fee for property renovation and takeover projects	89,257	32,235	160,409	72,511
		$7,340,506	$6,527,150	$15,237,701	$13,097,829

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

The Manager may, in its discretion, forfeit some or all of the asset management, property management, or general and administrative fees for properties owned by the Company. The forfeited fees are converted at the time of forfeiture into contingent fees, which are earned by the Manger only in the event of a sales transaction, and whereby the Company’s capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle.

On May 25, 2017,we closed on the sale of our Enclave at Vista Ridge multifamily community to an unrelated third party. At such date, the Manager collected a cumulative total of approximately $387,000 of contingent fees. The sales transaction, and the fact that the Company’s capital contributions for the Enclave at Vista Ridge property achieved a greater than 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle.

A cumulative total of approximately $4.5 million of combined asset management and general and administrative fees related to acquired properties as of June 30, 2017 have been forfeited by the Manager. A total of $3.6 million remains contingent and could possibly be earned by the Manager in the future.

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

Three months ended June 30,		Six months ended June 30,	
2017	2016	2017	2016
$3,018,284	$2,516,605	$5,795,251	$4,880,068

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

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 $220,182 and $252,210 for the six-month periods ended June 30, 2017 and 2016, respectively and PCS was reimbursed $511,390 and $508,204 for the six-month periods ended June 30, 2017 and 2016, respectively. These costs are recorded as deferred offering costs until such time as additional closings occur on the $1.5 Billion Unit Offering, mShares Offering or the Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders' equity.

The Company's Haven West, Haven 12, Stadium Village, 18 Nineteen, Haven South, 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 disposition fees totaling $1,576,000 on the sale of the Ashford Park, Sandstone Creek and Enclave at Vista Ridge properties, which are included 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 Company holds a promissory note in the amount of $1,034,198 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. See note 16.

7. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions on its Series A Preferred Stock and, beginning in March 2017, on its Series M 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:

2017			2016		
Record date	Number of shares	Aggregate dividends declared	Record date	Number of shares	Aggregate dividends declared
January 31, 2017	932,413	$4,641,149	January 30, 2016	482,774	$2,481,086

February 28, 2017	977,267	4,849,032	February 27, 2016	516,017	2,630,601
March 31, 2017	979,309	4,893,598	March 31, 2016	544,129	2,770,048
April 28, 2017	992,774	4,962,210	April 29, 2016	582,720	2,979,196
May 31, 2017	1,019,046	5,072,564	May 31, 2016	617,994	3,143,567
June 30, 2017	1,041,187	5,190,812	June 30, 2016	651,439	3,321,519
	Total	$29,609,365		Total	$17,326,017

Preferred Apartment Communities, Inc.
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June 30, 2017

The Company's dividend activity on its Common Stock for the six-month periods ended June 30, 2017 and 2016 was:

2017				2016			
Record date	Number of shares	Dividend per share	Aggregate dividends paid	Record date	Number of shares	Dividend per share	Aggregate dividends paid
March 15, 2017	27,139,354	$ 0.22	$5,970,658	March 15, 2016	23,041,502	$0.1925	$4,435,489
June 15, 2017	32,082,451	0.235	7,539,376	June 15, 2016	23,568,328	0.2025	4,772,587
		$ 0.455	$13,510,034			$0.395	$9,208,076

The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At June 30, 2017, the Company had 901,195 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:

2017			2016		
Record date	Payment date	Aggregate distributions	Record date	Payment date	Aggregate distributions
March 15, 2017	April 14, 2017	$ 198,742	March 15, 2016	April 15, 2016	$ 117,395
June 15, 2017	July 14, 2017	211,781	May 5, 2016	July 15, 2016	179,449
		$ 410,523			$ 296,844

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:

	Three months ended June 30,		Six months ended June 30,		Unamortized expense as of June 30,
	2017	2016	2017	2016	2017
Quarterly board member committee fee grants	$—	$5,982	$—	$29,991	$ —

Class B Unit awards:					
Executive officers - 2015	—	—	—	5,236	—
Executive officers - 2016	74,470	517,884	163,244	1,019,062	449,224
Executive officers - 2017	678,176	—	1,334,476	—	2,079,316
Restricted stock grants:					
2015	—	26,668	—	106,670	—
2016	34,167	68,333	136,667	68,333	—
2017	60,003	—	60,003	—	300,015
Restricted stock units	24,337	—	49,865	—	255,287
Total	$871,153	$618,867	$1,744,255	$1,229,292	$ 3,083,842

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

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 restricted stock grants for the 2015 and 2016 service years vested (or are scheduled to vest) on a pro-rata basis over the four consecutive 90-day periods following the date of grant.

Service year	Shares	Fair value per share	Total compensation cost
2015	30,133	10.62	320,012
2016	30,990	13.23	409,998
2017	24,408	14.75	360,018

Class B OP Units

On January 2, 2015, the Company caused the Operating Partnership to grant 176,835 Class B Units of the Operating Partnership, or 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. On January 3, 2017, the Company caused the Operating Partnership to grant 286,392 Class B OP Units for service to be rendered during 2017, 2018 and 2019.

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 due to an event other than as a result of a qualified event, which is generally the death or disability of the holder. Continuous service through the final valuation date is required for the Vested Class B Units to qualify to become fully Earned Class B Units.

Because of the market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, a Monte Carlo simulation was utilized to calculate the total fair values, which will be amortized as compensation expense over the one-year periods beginning on the grant dates through the Initial Valuation Dates. On January 2, 2016, the 176,835 outstanding Class B Units for 2015 became fully vested and earned and automatically converted to Class A Units of the Operating Partnership. On January 4, 2017, all of the 265,931 Class B Units granted on January 4, 2016 became earned and 206,534 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 29,698 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.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

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

Grant dates	1/3/2017	1/4/2016
Stock price	$14.79	$12.88
Dividend yield	5.95 %	5.98 %
Expected volatility	26.4 %	26.10 %
Risk-free interest rate	2.91 %	2.81 %
Number of Units granted:		
One year vesting period	198,184	176,835
Three year vesting period	88,208	89,096
	286,392	265,931
Calculated fair value per Unit	$11.92	$10.03
Total fair value of Units	$3,413,793	$2,667,288
Target market threshold increase	$4,598,624	$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 $0.22 for the 2017 awards and $0.1925 for the 2016 awards.

For the 2017 and 2016 awards, the Company's own stock price history was utilized as the basis for deriving the expected volatility 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.

Restricted Stock Units

On January 3, 2017, the Company caused the Operating Partnership to grant 26,900 restricted stock units, or RSUs, for service to be rendered during 2017, 2018 and 2019. The RSUs 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 RSUs become earned RSUs and automatically convert into Common Stock on a one-to-one basis. Vested RSUs may become Earned RSUs 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 RSUs that do not become Earned RSUs on the Initial Valuation Date are subsequently remeasured on a quarterly basis until such time as all Vested RSUs become Earned RSUs or are forfeited due to termination of continuous service 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 RSUs to qualify to become fully Earned RSUs. As of June 30, 2017, a total of 1,800 RSUs had been forfeited.

Because RSUs are valued using the identical market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, the same valuation assumptions and Monte Carlo result of $11.92 per RSU were utilized to calculate the total fair value of the RSUs of $320,648, which will be amortized as compensation expense over the three one-year periods ending on each of January 2, 2018, 2019 and 2020.

9. Indebtedness

Mortgage Notes Payable

Mortgage Financing of Property Acquisitions

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

The Company partially financed the real estate properties acquired during the six-month period ended June 30, 2017 with mortgage debt as shown in the following table:

Property	Date	Initial principal amount	Fixed/Variable rate	Rate / spread over 1 month LIBOR	Maturity date	Interest only through date
Regents on University	2/28/2017	$37,485,000	Variable	200 BPS	3/1/2022	3/1/2022
Citrus Village	3/3/2017	30,250,000	Fixed	3.65 %	6/10/2023	6/9/2017
Retreat at Greystone	3/24/2017	35,210,000	Variable	185 BPS	3/1/2022	2/28/2022
Founders Village	3/31/2017	31,605,000	Fixed	4.31 %	4/1/2027	N/A
Claiborne Crossing	4/26/2017	28,179,500	Fixed	2.89 %	6/1/2054	N/A
Castleberry-Southard	4/21/2017	11,500,000	Fixed	3.99 %	5/1/2027	N/A
Rockbridge Village	6/6/2017	14,250,000	Fixed	3.73 %	7/5/2027	N/A
		$188,479,500				

Repayments and Refinancings

In conjunction with the sale of the Enclave at Vista Ridge multifamily community, the Company recorded a defeasance fee of approximately $2.06 million, the effect of which is recorded as an offset against the gain on sale of real estate line of the Consolidated Statements of operations for the three-month and six-month periods ended June 30, 2017. In doing so, the Company extinguished the existing mortgage debt with a principal amount due of $24.86 million.

On June 22, 2017, the Company refinanced the existing $16.3 million mortgage on its Stone Creek multifamily community which bore interest at a fixed 3.75% rate per annum into a mortgage of $20.6 million, which bears interest at a fixed rate of 3.22% per annum. In doing so, the Company recorded a prepayment penalty of approximately $817,000, which is included on the Loss on extinguishment of debt on the Consolidated Statements of operations.

On June 15, 2017, the Company refinanced the existing $61.75 million mortgage on its 525 Avalon multifamily community which bore interest at a variable rate of 1 Month LIBOR plus 200 basis points per annum and the secondary financing note of $3.25 million which bore interest at a variable rate of 1 Month LIBOR plus 1100 basis points per annum into a single mortgage of $67.38 million, which bears interest at a fixed rate of 3.98% per annum. Fees paid of approximately $170,000 in conjunction with this debt modification were recorded as debt origination costs and will be amortized into interest expense over the life of the new mortgage.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

The following table summarizes our mortgage notes payable at June 30, 2017:

Fixed rate mortgage debt:	Principal balances due	Weighted-average interest rate		Weighted average remaining life
Multifamily communities	$656,178,566	3.66	%	7.6 years
Grocery-anchored shopping centers	285,309,654	3.81	%	7.0 years
Office buildings	153,709,013	4.25	%	21.6 years
Student housing projects	33,135,181	4.02	%	5.2 years
Total fixed rate mortgage debt	$1,128,332,414	3.79	%	9.3 years
Variable rate mortgage debt:				
Multifamily communities	$196,786,310	3.26	%	4.1 years
Grocery-anchored shopping centers	62,825,750	3.85	%	4.0 years
Office buildings	—	—		—
Student housing projects	37,485,000	3.23	%	4.7 years
Total variable rate mortgage debt	$297,097,060	3.38	%	4.2 years
Total mortgage debt:				
Multifamily communities	$852,964,876	3.57	%	6.8 years
Grocery-anchored shopping centers	348,135,404	3.81	%	6.5 years
Office buildings	153,709,013	4.25	%	21.6 years
Student housing projects	70,620,181	3.60	%	4.9 years
Total mortgage debt	$1,425,429,474	3.70	%	8.2 years

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 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 June 30, 2017, 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 3.72% as of June 30, 2017.

The mortgage note secured by our Champions Village property has a maximum commitment of $34.16 million. As of June 30, 2017, 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 has a variable interest of the greater of (i) 3.25% or (ii) the sum of the 3.00% plus the LIBOR Rate, which was 4.23% as of June 30, 2017.

As of June 30, 2017, the weighted-average remaining life of deferred loan costs related to the Company's mortgage indebtedness was approximately 9.0 years.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

Credit Facility

The Company has a credit facility, or Credit Facility, with KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), 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, or the Amended and Restated Credit Agreement. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus 3.25% 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. The weighted average interest rate for the Revolving Line of Credit was 4.42% for the six-month period ended June 30, 2017. The Revolving Line of Credit also bears a commitment fee on the average daily unused portion of the Revolving Line of Credit of 0.35% per annum.

On January 5, 2016, we entered into a $35.0 million term loan with KeyBank 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 KeyBank, or the Interim Term Loan, to partially finance the acquisition of Anderson Central, a grocery-anchored 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 was extended to August 23, 2017 during the second quarter 2017. The weighted average interest rate for the Interim Term Loan was 3.44% for the six-month period ended June 30, 2017.
The Fourth 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 June 30, 2017, the Company was in compliance with all covenants related to the Revolving Line of Credit, as shown in the following table:

Covenant [1]	Requirement		Result
Net worth	Minimum $995,194,798	[2]	$1,077,401,550
Debt yield	Minimum 8.0%		9.25%
Payout ratio	Maximum 95%	[3]	92.3%
Total leverage ratio	Maximum 65.0%		58.7%
Debt service coverage ratio	Minimum 1.50x		2.03x

[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 $995 million as of June 30, 2017.
[3]Calculated on a trailing four-quarter basis. For the six-month period ended June 30, 2017, the maximum dividends and distributions allowed under this covenant was approximately $80.7 million.

Loan fees and closing costs for the establishment and subsequent amendments of the Credit Facility are amortized utilizing the straight line method over the life of the Credit Facility. At June 30, 2017, unamortized loan fees and closing costs for the Credit Facility were approximately $1.4 million, which will be amortized over a remaining loan life of approximately 2.1 years. Loan fees and closing costs for the mortgage debt on the Company's properties are amortized utilizing the effective interest rate method over the lives of the loans.

Acquisition Facility

On February 28, 2017, the Company entered into a credit agreement, or Acquisition Credit Agreement, with Freddie Mac through KeyBank to obtain an acquisition revolving credit facility, or Acquisition Facility, with a maximum borrowing capacity of $200

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

million. The purpose of the Acquisition Facility is to finance acquisitions of multifamily communities and student housing communities. The maximum borrowing capacity on the Acquisition Facility may be increased at the Company's request up to $300 million at any time prior to March 1, 2021. The Acquisition Facility accrues interest at a variable rate of one month LIBOR plus a margin of between 1.75% per annum and 2.20% per annum, depending on the type of assets acquired and the resulting property debt service coverage ratio. The Acquisition Facility has a maturity date of March 1, 2022 and has two one-year extension options, subject to certain conditions described therein. At June 30, 2017, unamortized loan fees and closing costs for the establishment of the Acquisition Facility were approximately $0.4 million, which will be amortized over a remaining loan life of approximately 4.7 years.

Interest Expense

Interest expense, including amortization of deferred loan costs was:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Multifamily communities	$8,501,497	$6,665,222	$15,909,267	$13,034,047
New Market Properties	3,510,202	1,645,824	6,840,455	2,973,022
Office buildings	1,676,852	—	3,353,627	—
Student housing communities	719,202	120,294	1,195,836	120,294
Interest paid to real estate loan participants	585,465	430,507	1,256,329	858,859
Total	14,993,218	8,861,847	28,555,514	16,986,222
Credit Facility and Acquisition Facility	1,404,677	697,654	2,851,084	1,468,109
Interest Expense	$16,397,895	$9,559,501	$31,406,598	$18,454,331

Future Principal Payments

The Company’s estimated future principal payments due on its debt instruments as of June 30, 2017 were:

Period	Future principal payments
2017	$59,781,560 [1]
2018	42,390,967
2019	239,968,069
2020	61,651,487
2021	118,152,940
thereafter	952,984,451
Total	$1,474,929,474

[1] Includes the principal amount due of the Company's Revolving Line of Credit of $38.5 million and Term Note of $11.0 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 as of June 30, 2017 and December 31, 2016.

11. 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 June 30, 2017, the amount guarantied by the Company was $6.7 million and is reduced by $619,304 per lease year over the term of the lease.
Certain officers and employees of the Manager have been assigned company credit cards. As of June 30, 2017, the Company guarantied up to $640,000 on these credit cards.
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 $4.5 million of asset management and general and administrative fees related to acquired properties as of June 30, 2017 have been forfeited by the Manager. The forfeited fees are converted at the time of forfeiture into contingent fees, which are earned by the Manger only in the event of a sales transaction, and whereby the Company’s capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle. As of June 30, 2017, a total of $3.6 million remains contingent and could possibly be earned by the Manager in the future.

At June 30, 2017, the Company had unfunded balances on its real estate loan portfolio of approximately $47.0 million.

12. 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 and student housing properties.

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 grocery-anchored shopping center 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 grocery-anchored shopping center 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.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
June 30, 2017

	June 30, 2017	December 31, 2016
Assets:		
Multifamily communities	$1,271,621,536	$1,166,766,664
Financing	444,571,394	379,070,918
New Market Properties	607,722,562	579,738,707
Office buildings	300,037,214	285,229,700
Other	15,579,816	10,026,613
Consolidated assets	$2,639,532,522	$2,420,832,602

Total capitalized expenditures (inclusive of additions to construction in progress, but exclusive of the purchase price of acquisitions) for the three months and six months ended June 30, 2017 and 2016 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Capitalized expenditures:				
Multifamily communities	$3,734,956	$2,794,400	$6,108,436	$4,087,907
New Market Properties	1,216,650			