

INDEPENDENCE REALTY TRUST, INC

Form 10-Q

August 07, 2014

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2014**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-36041**

**INDEPENDENCE REALTY TRUST, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>Maryland</b> <b>(State or Other Jurisdiction of</b>	<b>26-4567130</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>Cira Centre</b>	
<b>2929 Arch St., 17th Floor</b>	
<b>Philadelphia, PA</b> <b>(Address of Principal Executive Offices)</b>	<b>19104</b> <b>(Zip Code)</b>
<b>(215) 243-9000</b> <b>(Registrant's Telephone Number, Including Area Code)</b>	
<b>N/A</b>	
<b>(Former name, former address and former fiscal year, if changed since last report)</b>	

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

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

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

Large Accelerated filer ☐

Accelerated filer ☐

Non-Accelerated filer ☒

Smaller reporting company ☐

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

As of August 5, 2014 there were 25,801,540 shares of the Registrant's common stock issued and outstanding.

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**INDEPENDENCE REALTY TRUST, INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Independence Realty Trust, Inc. and Subsidiaries****Consolidated Balance Sheets****(Unaudited and dollars in thousands, except share and per share data)**

	<b>As of June 30, 2014</b>	<b>As of December 31, 2013</b>
<b>ASSETS:</b>		
Investments in real estate:		
Investments in real estate at cost	\$ 362,323	\$ 190,096
Accumulated depreciation	(18,804)	(15,775)
Investments in real estate, net	343,519	174,321
Cash and cash equivalents	8,054	3,334
Restricted cash	2,698	1,122
Accounts receivable and other assets	2,682	1,731
Intangible assets, net of accumulated amortization of \$2,513 and \$569, respectively	1,126	517
Deferred costs, net of accumulated amortization of \$293 and \$151, respectively	1,568	846
Total Assets	\$ 359,647	\$ 181,871
<b>LIABILITIES AND EQUITY:</b>		
Indebtedness	\$ 215,628	\$ 103,303
Accounts payable and accrued expenses	5,725	2,374
Accrued interest payable	30	63
Dividends payable	1,076	515
Other liabilities	946	708
Total Liabilities	223,405	106,963
<b>Equity:</b>		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized, 0 and 0 shares issued and outstanding, respectively		
Common stock, \$0.01 par value; 300,000,000 shares authorized, 17,751,540 and 9,652,540 shares issued and outstanding, including 40,000 unvested restricted common share awards, as of June 30, 2014	177	96
Additional paid-in capital	140,973	78,112
Retained earnings (accumulated deficit)	(6,867)	(3,300)

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Total shareholders' equity	134,283	74,908
Noncontrolling interests	1,959	
Total Equity	136,242	74,908
Total Liabilities and Equity	\$ 359,647	\$ 181,871

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

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## Independence Realty Trust, Inc. and Subsidiaries

## Consolidated Statements of Operations

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

	For the Three-Month Periods Ended June 30		For the Six-Month Periods Ended June 30	
	2014	2013	2014	2013
<b>REVENUE:</b>				
Rental income	\$ 10,613	\$ 4,218	\$ 17,966	\$ 8,396
Tenant reimbursement income	436	220	802	443
Other income	600	262	1,016	549
Total revenue	11,649	4,700	19,784	9,388
<b>EXPENSES:</b>				
Property operating expenses	5,585	2,241	9,573	4,406
General and administrative expenses	378	94	546	271
Asset Management Fees	501	79	647	161
Acquisition expenses	152		514	
Depreciation and amortization	3,232	1,063	5,355	2,099
Total expenses	9,848	3,477	16,635	6,937
<b>Operating income</b>	1,801	1,223	3,149	2,451
Interest expense	(1,930)	(899)	(3,229)	(1,787)
Interest income	1	0	5	0
Gain (loss) on assets			2,882	
<b>Net income (loss):</b>	(128)	324	2,807	664
Income allocated to preferred shares	0	(4)	0	(8)
Income (loss) allocated to noncontrolling interest	0	(272)	0	(604)
<b>Net income (loss) allocable to common shares</b>	\$ (128)	\$ 48	\$ 2,807	\$ 52
<b>Earnings (loss) per share:</b>				
Basic	\$ (0.01)	\$ 0.01	\$ 0.17	\$ 0.03
Diluted	\$ (0.01)	\$ 0.01	\$ 0.17	\$ 0.03
<b>Weighted-average shares:</b>				
Basic	17,707,287	3,556,349	16,459,623	1,959,998
Diluted	17,707,287	3,556,349	16,484,357	1,959,998

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



**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Consolidated Statements of Changes in Equity****(Unaudited and dollars in thousands, except share information)**

	<b>Common Shares</b>	<b>Par Value Common Shares</b>	<b>Additional Paid In Capital</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Shareholder Equity</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
Balance, January 1, 2014	9,652,540	\$ 96	\$ 78,112	\$ (3,300)	\$ 74,908	\$	\$ 74,908
Net income (loss)				2,807	2,807		2,807
Common dividends declared				(6,374)	(6,374)		(6,374)
Stock compensation expense	49,000	0	143		143		143
Common shares issued, net	8,050,000	81	62,718		62,799		62,799
Issuance of noncontrolling interests						1,986	1,986
Distributions to noncontrolling interests						(27)	(27)
Balance, June 30, 2014	17,751,540	\$ 177	\$ 140,973	\$ (6,867)	\$ 134,283	\$ 1,959	\$ 136,242

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

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited and dollars in thousands)**

	<b>For the Six-Month Periods Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Net income (loss)	\$ 2,807	\$ 664
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depreciation and amortization	5,355	2,099
Amortization of deferred financing costs and debt discounts	(265)	36
Share based compensation	143	
(Gain) loss on assets	(2,882)	
Changes in assets and liabilities:		
Accounts receivable and other assets	(630)	(665)
Accounts payable and accrued expenses	1,455	(116)
Accrued interest payable	(33)	0
Other liabilities	(66)	38
Net cash from operating activities	5,884	2,056
Cash flows from investing activities:		
Acquisition of real estate properties	(97,913)	
Capital expenditures	(1,283)	(673)
(Increase) decrease in restricted cash	(1,255)	294
Net cash from investing activities	(100,451)	(379)
Cash flows from financing activities:		
Debt borrowings	50,421	
Debt repayments	(8,093)	(53)
Proceeds from issuance of common stock	62,799	207
(Payments) reimbursements for deferred financing costs		(102)
Distributions on common stock	(5,827)	(333)
Distributions on preferred stock		(8)
Distributions to noncontrolling interests	(13)	(1,673)
Net cash from financing activities	99,287	(1,962)
Net change in cash and cash equivalents	4,720	(285)
Cash and cash equivalents, beginning of period	3,334	2,533
Cash and cash equivalents, end of the period	\$ 8,054	\$ 2,248

Supplemental cash flow information:

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Cash paid for interest	\$ 3,527	\$ 1,752
Non cash decrease in noncontrolling interest from conversion of common limited partnership units to share of common stock	\$	\$ 43,532
Mortgage debt assumed	\$ 66,963	\$

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

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**Independence Realty Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of June 30, 2014**

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

**NOTE 1: Organization**

Independence Realty Trust, Inc. was formed on March 26, 2009 as a Maryland corporation that has elected to be taxed as a real estate investment trust, or REIT, commencing with the taxable year ended December 31, 2011. We are externally managed by a subsidiary of RAIT Financial Trust, or RAIT, a publicly traded Maryland REIT whose common shares are listed on the New York Stock Exchange under the symbol RAS. As used herein, the terms we, our, and us refer to Independence Realty Trust, Inc. and, as required by context, Independence Realty Operating Partnership, LP, which we refer to as our operating partnership, and their subsidiaries. We own apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We own substantially all of our assets and conduct our operations through our operating partnership, of which we are the sole general partner.

As of June 30, 2014, we owned nineteen apartment properties with 5,342 units located in ten states.

**NOTE 2: Summary of Significant Accounting Policies**

***a. Basis of Presentation***

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles, or GAAP. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2013 included in our Annual Report on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations and cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

***b. Principles of Consolidation***

The consolidated financial statements reflect our accounts and the accounts of our operating partnership and other wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

***c. Use of Estimates***

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

Actual results could differ from those estimates.

***d. Investments in Real Estate***

*Allocation of Purchase Price of Acquired Assets*

We account for acquisitions of properties that meet the definition of a business pursuant to FASB ASC Topic 805, Business Combinations . The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases for acquired in-place leases and the value of tenant relationships, based in each case on their fair values. Purchase accounting is applied to assets and liabilities associated with the real estate acquired. Transaction costs and fees incurred related to acquisitions are expensed as incurred. Transaction costs and fees incurred related to the financing of an acquisition are capitalized and amortized over the life of the loan.

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**Independence Realty Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of June 30, 2014**

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

Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets and liabilities (consisting of above and below-market leases, in-place leases and tenant relationships), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months of the acquisition date. We did not make any adjustments to the purchase price allocation during the three months ended June 30, 2014.

In determining the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the differences between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease. The capitalized above-market lease values and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term. We did not acquire any above-market or below-market in-place leases during the three and six-month periods ending June 30, 2014.

The aggregate value of in-place leases is determined by evaluating various factors, including an estimate of carrying costs during the expected lease-up periods, current market conditions and similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, legal and other related costs. The value assigned to this intangible asset is amortized over the assumed lease up period, typically six months. For the three and six-months ended June 30, 2013 we recorded \$118 and \$235 of amortization expense for intangible assets, respectively. For the three and six-months ended June 30, 2014 we recorded \$1,214 and \$1,944 of amortization expense for intangible assets, respectively. As of June 30, 2014, we expect to record additional amortization expense on current in-place lease intangible assets of \$1,126 for the remainder of 2014.

*Impairment of Long-Lived Assets*

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

Management evaluates the long-lived assets on an ongoing basis and records an impairment charge when there is an indicator of impairment. The estimated cash flows used for the impairment analysis and the determination of

estimated fair value are based on our plans for the respective assets and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the respective and/or comparable properties, and recent sales data for comparable properties. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses, which, under the applicable accounting guidance, could be substantial.

*Depreciation and Amortization*

Depreciation expense for real estate assets are computed using a straight-line method based on a life of 40 years for buildings and improvements and five to ten years for equipment and fixtures. Expenditures for tenant improvements are capitalized and amortized over the initial term of each lease. For the three and six-months ended June 30, 2013 we recorded \$947 and \$1,864 of depreciation expense, respectively. For the three and six-months ended June 30, 2014 we recorded \$2,018 and \$3,412 of depreciation expense, respectively.

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**Independence Realty Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of June 30, 2014**

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

***e. Fair Value of Financial Instruments***

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

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

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

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

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



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

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

FASB ASC Topic 825, Financial Instruments requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. The fair value of mortgage indebtedness is based on a discounted cash flows valuation technique, which classifies this as a level 3 liability within the fair value hierarchy. The carrying value and fair value of mortgage indebtedness as of June 30, 2014 is \$203,478 and \$202,750, respectively. The carrying value and fair value of mortgage indebtedness as of December 31, 2013 was \$100,803 and \$101,272, respectively. The fair value of secured credit facility, cash and cash equivalents and restricted cash approximates cost due to the nature of these instruments.

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****As of June 30, 2014****(Unaudited and dollars in thousands, except share and per share data)*****f. Recent Accounting Pronouncements***

In April 2014, the FASB issued an accounting standard classified under FASB ASC Topic 205, *Presentation of Financial Statements*. This accounting standard amends existing guidance to change reporting requirements for discontinued operations by requiring the disposal of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This standard is effective for interim and annual reporting periods beginning on or after December 15, 2014. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

In May 2014, the FASB issued an accounting standard classified under FASB ASC Topic 606, *Revenue from Contracts with Customers*. This accounting standard generally replaces existing guidance by requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard is effective for annual reporting periods beginning after December 15, 2016. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

**NOTE 3: Investments in Real Estate**

As of June 30, 2014, our investments in real estate consisted of 19 apartment properties with 5,342 units. The table below summarizes our investments in real estate:

	<b>As of June 30, 2014</b>	<b>As December 31, 2013</b>	<b>Depreciable Lives (In years)</b>
Land	\$ 72,194	\$ 37,418	
Building	286,209	149,657	40
Furniture, fixtures and equipment	3,920	3,021	5-10
Total investment in real estate	362,323	190,096	
Accumulated depreciation	(18,804)	(15,775)	
Investments in real estate, net	\$ 343,519	\$ 174,321	

***Acquisitions***

On June 4, 2014, we acquired a 170-unit apartment residential community located in Ridgeland, Mississippi, known as Arbors at the Reservoir. We acquired the property for an aggregate purchase price of \$20,250 exclusive of closing costs.

On May 7, 2014, we acquired a 202-unit apartment residential community located in Little Rock, Arkansas, known as Carrington. We acquired the property for an aggregate purchase price of \$21,500 exclusive of closing costs. In connection with the acquisition our operating partnership issued 222,062 limited partnership units valued at \$1,986.

On March 31, 2014, we acquired a 152-unit apartment residential community, known as King's Landing, in Creve Coeur, Missouri. We acquired the property for an aggregate purchase price of \$32,700 exclusive of closing costs. In connection with the acquisition we assumed an existing loan with an outstanding principal balance of \$21,200 secured by the property, bearing interest at 4.0% per annum, and maturing on June 1, 2021.

On February 28, 2014, we acquired a portfolio of five apartment properties with 1,658 units located in Oklahoma and referred to as the Oklahoma portfolio or, the OKC Portfolio. We acquired the property for an aggregate purchase price of \$65,000 exclusive of closing costs. In connection with the acquisition we assumed an existing loan with an outstanding principal balance of \$45,763 secured by the property, bearing interest at 5.6% per annum and maturing on April 1, 2016. The fair value of the properties acquired and debt assumed was \$70,431 and \$48,312, respectively, generating a net gain of \$2,882.

On January 31, 2014, we acquired a 370-unit apartment residential community located in Waukegan, Illinois, known as The Reserve at Eagle Ridge. We acquired the property for an aggregate purchase price of \$29,000 exclusive of closing costs.

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****As of June 30, 2014****(Unaudited and dollars in thousands, except share and per share data)**

The following table summarizes the aggregate fair value of the assets and liabilities associated with the properties acquired during the six-month period ended June 30, 2014, on the date of each acquisition, for the real estate accounted for under FASB ASC Topic 805.

<b>Description</b>	<b>Fair Value of Assets Acquired During the Six-Month Period Ended June 30, 2014</b>
Assets acquired:	
Investments in real estate	\$ 171,328
Restricted cash	320
Other assets	1,140
Deferred financing costs	548
Intangible asset	2,553
<b>Total assets acquired</b>	<b>\$ 175,889</b>
Liabilities assumed:	
Loans payable on real estate	\$ 69,512
Accounts payable and accrued expenses	1,908
Other liabilities	(658)
<b>Total liabilities assumed</b>	<b>70,762</b>
<b>Estimated fair value of net assets acquired</b>	<b>\$ 105,127</b>

Our consolidated unaudited pro forma information, after including the acquisition of real estate properties, is presented below as if the acquisitions occurred on January 1, 2013. These pro forma results are not necessarily indicative of the results which actually would have occurred if the acquisition occurred on the first day of the periods presented, nor does the pro forma financial information purport to represent the results of operations for future periods:

**Description**

	<b>For the Six-Month Period Ended June 30, 2014</b>	<b>For the Six-Month Period Ended June 30, 2013</b>
Total revenue from acquisitions, as reported	\$ 6,917	\$ 0
Pro forma revenue	11,699	11,361
Net income (loss) allocable to common shares from acquisitions, as reported(1)	2,629	0
Pro forma net income (loss) allocable to common shares	3,732	1,896
Earnings (loss) per share		
Basic-as reported	\$ 0.16	\$ 0.00
Diluted-as reported	\$ 0.16	\$ 0.00
Basic-pro forma	\$ 0.23	\$ 0.97
Diluted-pro forma	\$ 0.23	\$ 0.97

(1) The fair value of a property acquired exceeded the purchase price and a gain of \$2,882 was recorded. We have not yet completed the process of estimating the fair value of assets acquired and liabilities assumed. Accordingly, our preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as we complete the process. In accordance with FASB ASC Topic 805, changes, if any, to the preliminary estimates and allocation will be reported in our financial statements retrospectively. We did not make any adjustments to the purchase price allocation during the three month period ended June 30, 2014.

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****As of June 30, 2014****(Unaudited and dollars in thousands, except share and per share data)****NOTE 4: Mortgage Indebtedness**

The following table contains summary information concerning the indebtedness that encumbered our properties as of June 30, 2014:

	<b>Outstanding Principal</b>	<b>Outstanding Principal</b>	<b>Effective Interest Rate</b>	<b>Maturity Date</b>
Belle Creek Apartments	\$ 10,575	\$ 10,575	2.4%(1)	April 28, 2021
Berkshire Square Apartments	8,612	8,612	4.4%(3)	January 1, 2021
Centrepont Apartments	17,600	17,600	3.7%(2)	January 1, 2019
Copper Mill Apartments	7,245	7,245	5.7%	May 1, 2021
Crestmont Apartments	6,653	6,653	5.7%	May 1, 2021
Cumberland Glen Apartments	6,802	6,802	5.7%	May 1, 2021
Heritage Trace Apartments	5,422	5,422	5.7%	May 1, 2021
Runaway Bay Apartments	10,128	10,128	3.6%	November 1, 2022
Tresa at Arrowhead	27,500	27,500	2.4%(1)	April 28, 2021
Reserve at Eagle Ridge	18,850	18,850	4.7%	March 1, 2024
OKC Portfolio	45,435	47,578	2.8%(5)	April 1, 2016
Kings Landing	21,200	21,200	4.0%(6)	June 1, 2021
Crossings	15,313	15,313	3.9%(6)	June 1, 2024
Total mortgage debt/Weighted-Average	\$ 201,335	\$ 203,478	3.7%	
Secured Credit Facility	12,150	12,150	2.9%(4)	October 25, 2016
Total indebtedness /Weighted-Average	\$ 213,485	\$ 215,628	3.6%	

- (1) Floating rate at 225 basis points over 30-day LIBOR. As of June 30, 2014, 30-day LIBOR was 0.15%. Interest only payments are due monthly. These mortgages are held by RAIT.
- (2) Fixed rate. Interest only payments are due monthly. Beginning February 1, 2015, principal and interest payments are required based on a 30-year amortization schedule.
- (3) Fixed Rate. Interest only payments are due monthly. Beginning February 1, 2016, principal and interest payments are required based on a 30-year amortization schedule.
- (4) Floating rate at 275 basis points over 30-day LIBOR. As of June 30, 2014, 30-day LIBOR was 0.15%. Interest only payments are due monthly. As of June 30, 2014, we were in compliance with all financial covenants

contained in the credit facility.

- (5) Contractual interest rate is 5.6%. The debt was assumed and recorded at a premium that will be amortized to interest expense over the remaining term. Principal and interest payments are required based on a 30-year amortization schedule.
- (6) Fixed Rate. Interest only payments are due monthly. Beginning June 1, 2017, principal and interest payments are required based on a 30-year amortization schedule.

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****As of June 30, 2014****(Unaudited and dollars in thousands, except share and per share data)**

The following table contains summary information concerning the indebtedness that encumbered our properties as of December 31, 2013:

	<b>Outstanding Principal</b>		<b>Effective Interest Rate</b>	<b>Maturity Date</b>
		<b>Outstanding Principal</b>	<b>Effective Interest Rate</b>	<b>Maturity Date</b>
Belle Creek Apartments	\$	10,575	\$ 10,575 2.4%(1)	April 28, 2021
Berkshire Square Apartments		8,612	8,612 4.4%(3)	January 1, 2021
Centrepont Apartments		17,600	17,600 3.7%(2)	January 1, 2019
Copper Mill Apartments		7,293	7,293 5.7%	May 1, 2021
Crestmont Apartments		6,698	6,698 5.7%	May 1, 2021
Cumberland Glen Apartments		6,846	6,846 5.7%	May 1, 2021
Heritage Trace Apartments		5,457	5,457 5.7%	May 1, 2021
Runaway Bay Apartments		10,222	10,222 3.6%	November 1, 2022
Tresa at Arrowhead		27,500	27,500 2.4%(1)	April 28, 2021
Total mortgage debt/Weighted-Average	\$	100,803	\$ 100,803 3.8%	
Secured Credit Facility		2,500	2,500 2.9%(4)	October 25, 2016
Total indebtedness /Weighted-Average	\$	103,303	\$ 103,303 3.8%	

- (1) Floating rate at 225 basis points over 30-day LIBOR. As of December 31, 2013, 30-day LIBOR was 0.17%. Interest only payments are due monthly. These mortgages are held by RAIT.
- (2) Fixed rate. Interest only payments are due monthly. Beginning February 1, 2015, principal and interest payments are required based on a 30-year amortization schedule.
- (3) Fixed Rate. Interest only payments are due monthly. Beginning February 1, 2016, principal and interest payments are required based on a 30-year amortization schedule.
- (4) Floating rate at 275 basis points over 30-day LIBOR. As of December 31, 2013, 30-day LIBOR was 0.17%. Interest only payments are due monthly. As of June 30, 2014, we were in compliance with all financial covenants contained in the credit facility.

The weighted average interest rate of our mortgage indebtedness was 3.7% as of June 30, 2014. As of June 30, 2014, RAIT held \$38,075 of our mortgage indebtedness while \$163,260 was held by third parties. As of December 31, 2013, RAIT held \$38,075 of our mortgage indebtedness while \$65,228 was held by third parties. For the three and six-month period ended June 30, 2014, we paid approximately \$241 and \$479 respectively, of interest to RAIT. For the three and six-month period ended June 30, 2013, we paid approximately \$241 and \$479 respectively, of interest to



RAIT.

On July 15, 2014, we entered into a loan agreement for a \$13,150 loan secured by a first mortgage on our Arbors property. The loan bears interest at a fixed rate of 4.0% per annum, provides for monthly payments of interest only until the maturity date of August 1, 2024 when the principal balance, accrued interest and all other amounts due under the loan become due.

On July 15, 2014, we entered into a loan agreement for a \$14,235 loan secured by a first mortgage on our Carrington property. The loan bears interest at a fixed rate of 4.0% per annum, provides for monthly payments of interest only until the maturity date of August 1, 2024 when the principal balance, accrued interest and all other amounts due under the loan become due.

On May 27, 2014, we entered into a loan agreement for a \$15,313 loan secured by a first mortgage on our Crossings property. The loan bears interest at a fixed rate of 3.9% per annum, provides for monthly payments of interest only until the maturity date of June 1, 2024 when the principal balance, accrued interest and all other amounts due under the loan become due.

On March 31, 2014, in connection with the acquisition of King s Landing, we assumed \$21,200 of an existing loan secured by the property. The loan bears interest at a fixed rate of 4.0% per annum, provides for monthly payments of interest only until June 1, 2017 when principal and interest payments will be due monthly based on a 30-year amortization schedule, and matures on June 1, 2021.

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**Independence Realty Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of June 30, 2014**

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

On February 28, 2014, in connection with the acquisition of the OKC Portfolio we assumed \$45,763 of an existing loan secured by the property. The Loan bears interest at a fixed rate of 5.6% per annum, provides for monthly payments of principal and interest based on a 30-year amortization schedule and matures on April 1, 2016. We recorded the debt assumed at its fair value of \$48,312 based on a market rate of 2.8% for the remaining term. The resulting premium of \$2,549 will be amortized to interest expense over the remaining term of the mortgage.

On February 7, 2014, we entered into a loan agreement for an \$18,850 loan secured by a first mortgage on our Reserve at Eagle Ridge property. The loan bears interest at a fixed rate of 4.7% per annum, provides for monthly payments of interest only until the maturity date of March 1, 2024 when the principal balance, accrued interest and all other amounts due under the loan become due.

**NOTE 5: Shareholder Equity and Non-Controlling Interests**

***Stockholder Equity***

***Preferred Shares***

On February 28, 2013, our board of directors authorized and declared dividends on our Series A Preferred Stock for the period beginning on January 1, 2013, and ending on June 30, 2013. The dividends are payable to the holders of the Series A Preferred Stock of record at a rate of \$0.34722222 per day, which is an amount that is equivalent to a 12.5% annualized distribution rate based on a share price of \$1,000. The dividends were aggregated and paid in cash on June 28, 2013, pursuant to the requirements of our charter.

On July 25, 2013, our board of directors authorized setting aside amounts sufficient to redeem our Series A Preferred Stock with the proceeds of our underwritten offering.

On August 19, 2013, we redeemed 125 shares of our 12.5% Series A Cumulative Non-Voting Preferred Stock for an aggregate redemption price of approximately \$140 inclusive of accrued interest. The redemption of the Series A Preferred Stock was funded with cash received from the August 2013 public offering of common stock. After the redemption date, there were no shares of Series A Preferred Stock outstanding, and all rights of the holders of such shares and units were terminated.

***Common Shares***

On July 21, 2014, we completed an underwritten public offering selling 8,050,000 shares of our common stock for \$9.50 per share raising gross and net proceeds of \$76,475 and \$72,425, respectively.

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On January 29, 2014, we completed an underwritten public offering selling 8,050,000 shares of our common stock for \$8.30 per share resulting in gross and net proceeds of \$66,815 and \$62,984, respectively.

On February 28, 2013, our board of directors authorized and declared dividends on our common stock for the months of January through June 2013. For the months of January through March 2013, the dividends were payable to the holders of our common stock at a rate of \$0.00163934 per share per day. For the months of April through June 2013, our board of directors authorized and declared dividends on our common stock at a rate of \$0.00171233 per share per day. The dividends for each month were aggregated and paid on or before the fifteenth day following the completion of each respective month. All dividends were paid in cash.

On January 15, 2014 our board of directors declared the following dividends:

<b>Month</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend Declared Per Share</b>
January 2014	January 31, 2014	February 14, 2014	\$ 0.06
February 2014	February 28, 2014	March 17, 2014	\$ 0.06
March 2014	March 31, 2014	April 15, 2014	\$ 0.06

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****As of June 30, 2014****(Unaudited and dollars in thousands, except share and per share data)**

On April 17, 2014 our board of directors declared the following dividends:

<b>Month</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend Declared Per Share</b>
April 2014	April 30, 2014	May 15, 2014	\$ 0.06
May 2014	May 30, 2014	June 16, 2014	\$ 0.06
June 2014	June 30, 2014	July 15, 2014	\$ 0.06

On July 10, 2014 our board of directors declared the following dividends:

<b>Month</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend Declared Per Share</b>
July 2014	July 31, 2014	August 15, 2014	\$ 0.06
August 2014	August 29, 2014	September 15, 2014	\$ 0.06
September 2014	September 30, 2014	October 15, 2014	\$ 0.06

***Noncontrolling Interest***

On May 7, 2014, our operating partnership issued 222,062 limited partnership units valued at \$1,986 in connection with the Carrington acquisition.

On May 7, 2013, RAIT elected to convert 5,274,900 of its common limited partnership units to shares of our common stock according to the terms of the operating partnership's agreement of limited partnership.

On February 28, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized and declared distributions on our operating partnership's Series B Preferred Units for the period of January, February and March 2013. The distributions were paid to holders of our Series B Preferred Units of record at a rate of \$2.78 per unit per day. On May 7, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized and declared distributions on our operating partnership's Series B Preferred Units for the period of April, May and June 2013. The distributions were paid to holders of our Series B Preferred Units of record at a rate of \$2.78 per unit per day. On July 25, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized setting aside amounts sufficient to redeem our operating partnership's Series B Preferred Units with the proceeds of our August 2013 underwritten offering. Our operating partnership, had the right to redeem the Series B Preferred Units, in whole or in part, at any time or from time to time for a redemption price

equal to \$10 plus all accrued and unpaid distributions thereon to and including the date fixed for redemption.

On August 19, 2013, our operating partnership redeemed 350 of its Series B Units, all of which were owned by a wholly-owned subsidiary of RAIT, for an aggregate redemption price of approximately \$3,500. The redemption of the Series B Units was funded with cash received from the August 2013 underwritten offering of the common stock. After the redemption date, there were no Series B Units outstanding and all rights of the holders of such units were terminated.

On July 10, 2014 our board of directors declared the following distributions on our operating partnership's LP units:

<b>Month</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend Declared Per Share</b>
July 2014	July 31, 2014	August 15, 2014	\$ 0.06
August 2014	August 29, 2014	September 15, 2014	\$ 0.06
September 2014	September 30, 2014	October 15, 2014	\$ 0.06

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**Independence Realty Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of June 30, 2014**

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

**NOTE 6: Equity Compensation Plans**

*Long Term Incentive Plan*

On April 5, 2011, our board of directors approved and adopted the Long Term Incentive Plan, or the incentive plan, and the Independent Directors Compensation Plan, or the director plan. Our incentive plan provides for the grants of awards to our directors, officers and full-time employees (in the event we ever have employees), full-time employees of our advisor and its affiliates, full-time employees of entities that provide services to our advisor, directors of our advisor or of entities that provide services to it, certain of our consultants and certain consultants to our advisor and its affiliates or to entities that provide services to our advisor. The incentive plan authorizes the grant of restricted or unrestricted shares of our common stock, non-qualified and incentive stock options, restricted stock units, stock appreciation rights, dividend equivalents and other stock- or cash-based awards. On July 29, 2013, our board of directors and stockholders approved the amendment and restatement of our incentive plan to reduce the number of shares of common stock issuable thereunder to 800,000 shares.

Under the director plan, which operates as a sub-plan of our incentive plan, each of our independent directors will receive 3,000 shares of common stock annually. In addition, our independent directors may elect to receive their annual cash fee in the form of our common shares or a combination of common shares and cash. On October 29, 2013, our compensation committee made the initial stock grant under the director plan so that our independent directors received 9,000 shares of our common stock, in the aggregate valued at \$77 using our closing stock price of \$8.60. These awards vested immediately. On May 14, 2014, our compensation committee made a stock grant under the director plan so that our independence directors received 9,000 shares of our common stock, in the aggregate valued at \$81 using our closing stock price of \$8.95. These awards vested immediately.

On January 31, 2014, the compensation committee awarded 40,000 shares of restricted common stock, valued at \$328 using our closing stock price of \$8.20, to persons affiliated with our advisor, including our executive officers. These awards generally vest over three-year periods.

On January 31, 2014, the compensation committee awarded 80,000 stock appreciation rights, or SARs, valued at \$49 based on a Black-Scholes option pricing model at the date of grant, to persons affiliated with our advisor, including our executive officers. The SARs vest over a three-year period and may be exercised between the date of vesting and January 31, 2019, the expiration date of the SARs.

*Distribution Reinvestment Program*

We had adopted a distribution reinvestment program, or the DRP, through which our stockholders could elect to reinvest an amount equal to the distributions declared on their shares of common stock in additional shares in lieu of receiving cash distributions. The common stock available under the DRP was reallocated to the August 2013

underwritten offering when the amended registration statement was filed and the DRP was subsequently terminated. No selling commissions or dealer manager fees were paid on shares sold under the DRP.

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**Independence Realty Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of June 30, 2014**

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

**NOTE 7: Related Party Transactions and Arrangements**

***Fees and Expenses Paid to Our Advisor***

Effective as of May 7, 2013, we entered into the Second Amended and Restated Advisory Agreement, or the amended and restated advisory agreement. The amended and restated advisory agreement was adopted primarily to adjust the advisor's compensation and modify its duties to us.

Pursuant to the terms of the amended advisory agreement, our advisor will be compensated as follows:

Quarterly base management fee of 0.1875% of average gross real estate assets as of the last day of such quarter. Average gross real estate assets means the average of the aggregate book value of our real estate assets before reserves for depreciation or other similar noncash reserves and excluding the book values attributable to the eight properties that were acquired prior to August 16, 2013. We compute average gross real estate assets by taking the average of these book values at the end of each month during the quarter for which we are calculating the fee. The fee is payable quarterly in an amount equal to 0.1875% of average gross real estate assets as of the last day of such quarter. For the three and six-month periods ended June 30, 2014, our advisor earned \$347 and \$493 of asset management fees, respectively. For the three and six-month periods ended June 30, 2013, our advisor earned \$0 and \$82 of asset management fees, respectively.

We pay our advisor an incentive fee based on our pre-incentive fee core funds from operations, or Core FFO, a non-GAAP measure, as defined in the advisory agreement. The incentive fee is computed at the end of each fiscal quarter as follows:

no incentive fee in any fiscal quarter in which our pre-incentive fee Core FFO does not exceed the hurdle rate of 1.75% (7% annualized) of the cumulative gross amount of equity capital we have obtained; and

20% of the amount of our pre-incentive fee Core FFO that exceeds 1.75% (7% annualized) of the cumulative gross proceeds from the issuance of equity securities we have obtained.



For each of the three and six-month periods ended June 30, 2014 our advisor earned \$154 of incentive fees.

For each of the three and six-month periods ended June 30, 2013 our advisor earned \$79 of incentive fees.

These fees are included within asset management fees in our consolidated statements of operations.

As of June 30, 2014 and December 31, 2013 we had liabilities payable to our advisor for asset management fees of \$501 and \$107, respectively.

***Property Management Fees Paid to Our Property Manager***

We have entered into property management agreements with RAIT Residential, or our property manager, which is majority owned by RAIT, with respect to each of our properties. Pursuant to the property management agreements, we pay our property manager property management and leasing fees on a monthly basis of an amount up to 4.0% of the gross revenues from the property for each month. Additionally, we may pay our property manager a separate fee for the one-time initial rent-up or leasing-up of newly constructed properties in an amount not to exceed the fee customarily charged in arm's length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area. Each management agreement has an initial one year term, subject to automatic one-year renewals unless either party gives prior notice of its desire to terminate the management agreement. For the three and six-month periods ended June 30, 2014 our property manager earned \$411 and \$732, respectively, of property management and leasing fees. For the three and six-month periods ended June 30, 2013 our property manager earned \$187 and \$373, respectively, of property management and leasing fees. As of June 30, 2014 and December 31, 2013, we had liabilities payable to our property manager for property management and leasing fees of \$144 and \$83, respectively.

**Table of Contents****Independence Realty Trust, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****As of June 30, 2014****(Unaudited and dollars in thousands, except share and per share data)****NOTE 8: Earnings (Loss) Per Share**

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three and six-month periods ended June 30, 2014 and 2013:

	<b>For the Three-Month Periods Ended June 30</b>		<b>For the Six-Month Periods Ended June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net Income (loss)	\$ (128)	\$ 324	\$ 2,807	\$ 664
(Income) loss allocated to preferred shares		(4)		(8)
(Income) loss allocated to non-controlling interests		(272)		(604)
Net Income (loss) allocable to common shares	(128)	48	2,807	52
Weighted-average shares outstanding Basic	17,707,287	3,556,349	16,459,623	1,959,998
Weighted-average shares outstanding Diluted	17,707,287	3,556,349	16,484,357	1,959,998
Earnings (loss) per share Basic	\$ (0.01)	\$ 0.01	\$ 0.17	\$ 0.03
Earnings (loss) per share Diluted	\$ (0.01)	\$ 0.01	\$ 0.17	\$ 0.03

For the three-month period ended June 30, 2014, SARS and unvested shares of 47,353, were excluded from the earnings (loss) per share computation because their effect would have been anti-dilutive.

Earnings per share is computed in accordance with FASB ASC Topic 260, *Earnings per Share*, by dividing the Net Income (loss) allocable to common shares by the weighted average number of common shares outstanding during the respective periods.

**NOTE 9: Commitments and Contingencies*****Litigation***

From time to time, we are party to various lawsuits, claims for negligence and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition, results of operations, or financial statements, taken as a whole, if determined adversely to us.

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

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

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

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

The risk factors discussed and identified in Item 1A of our Annual Report on Form 10-K filed with the SEC on March 11, 2014, and in other of our public filings with the SEC, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

**Overview**

We are a Maryland corporation that owns apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We are externally advised by a wholly-owned subsidiary of RAIT Financial Trust, or RAIT (NYSE: RAS), a multi-strategy commercial real estate company organized as an internally managed REIT with approximately \$5.3 billion of assets under management as of June 30, 2014. RAIT invests primarily in commercial mortgages and, to a lesser extent, apartment properties. RAIT owned 39.3% of our outstanding common shares as of June 30, 2014. As of August 7, 2014 RAIT owns 28.2% of our outstanding common shares. We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2011.

We seek to acquire and operate apartment properties that:

have stable occupancy;

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

in appropriate circumstances, present opportunities for repositioning or updating through capital expenditures; and

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

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On July 21, 2014, we completed an underwritten public offering of our common stock raising gross proceeds of \$76.5 million. We expect to deploy the majority of the proceeds by the end of the third quarter ending September 30, 2014. After giving effect to this offering, the percent of our outstanding common stock held by RAIT was reduced from 39.4% to 28.2%. During the six month period ending June 30, 2014, we acquired nine properties totaling 2,552 units for \$168.5 million. These acquisitions contributed to our substantial growth in a number of key financial measures this quarter when compared to the corresponding period in 2013 as follows: core funds from operations increased 162% to \$3.4 million from \$1.3 million, operating income increased 50% to \$1.8 million from \$1.2 million and total revenues grew 147% to \$11.6 million from \$4.7 million.

**Key Statistics**

(Unaudited and dollars in thousands, except per share and per unit information)

	<b>As of or For the Three-Month Periods Ended</b>				
	<b>June 30, 2014</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>September 30, 2013</b>	<b>June 30, 2013</b>
<b>Financial Statistics:</b>					
Total revenue	\$ 11,649	\$ 8,135	\$ 5,768	\$ 4,787	\$ 4,700
Earnings (loss) per share-diluted	\$ (0.01)	\$ 0.19	\$ 0.03	\$ 0.03	\$ 0.01
Funds from Operations ( FFO ) per share	\$ 0.18	\$ 0.33	\$ 0.17	\$ 0.17	\$ 0.23
Core funds from operations ( CFFO ) per share	\$ 0.19	\$ 0.17	\$ 0.20	\$ 0.17	\$ 0.23
Dividends declared per common share	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.16
Total Shares Outstanding	17,751,540	17,742,540	9,652,540	9,643,540	5,643,540
<b>Apartment Property Portfolio:</b>					
Reported investments in real estate at cost	\$ 362,323	\$ 320,437	\$ 190,096	\$ 166,665	\$ 154,040
Net operating income	\$ 6,081	\$ 4,147	\$ 3,159	\$ 2,373	\$ 2,459
Number of properties owned	19	17	10	9	8
Multifamily units owned	5,342	4,970	2,790	2,358	2,004
Portfolio weighted average occupancy	93.1%	93.9%	94.6%	94.4%	94.2%
Weighted average monthly effective rent per unit <sup>(1)</sup>	\$ 764	\$ 730	\$ 765	\$ 784	\$ 784

- (1) Weighted average monthly effective rent per occupied unit represents the average monthly rent collected for all occupied units after giving effect to tenant concessions. We do not report average effective rent per unit in the month of acquisition as it is not representative of a full month of operations. Same Store weighted average effective rent per unit was \$798, \$795, \$792, \$784, and \$784 for the periods presented above, respectively. Same Store is defined as properties in the portfolio as of March 31, 2013.

As of June 30, 2014, we own 19 apartment properties containing an aggregate of 5,342 apartment units. We refer to these apartment properties as our existing portfolio. As of June 30, 2014, our existing portfolio had an average occupancy of 93.1% and an average monthly effective rent per occupied apartment unit of \$764.

**Table of Contents****Our Properties**

The following table presents an overview of our portfolio as of June 30, 2014.

Property Name	Location	Acquisition Date	Year Built or Renovated <sup>(1)</sup>	Units <sup>(2)</sup>	Physical Occupancy	Average Monthly Effective Rent per Occupied Unit <sup>(4)</sup>
Belle Creek	Henderson, Colorado	4/29/2011	2011	162 <sup>(5)</sup>	97.5%	\$ 989
Copper Mill	Austin, Texas	4/29/2011	2010	320	97.5%	786
Crestmont	Marietta, Georgia	4/29/2011	2010	228	99.1%	716
Cumberland Glen	Smyrna, Georgia	4/29/2011	2010	222	96.4%	704
Heritage Trace	Newport News, Virginia	4/29/2011	2010	200	90.5%	687
Tresa at Arrowhead	Phoenix, Arizona	4/29/2011	2006	360	95.0%	821
Centrepont	Tucson, Arizona	12/16/2011	2006	320	95.9%	816
Runaway Bay	Indianapolis, Indiana	10/11/2012	2002	192	95.3%	909
Berkshire Square	Indianapolis, Indiana	9/19/2013	2012	354	92.1%	584
The Crossings	Jackson, Mississippi	11/22/2013	2006	432	92.4%	735
Reserve at Eagle Ridge	Waukegan, Illinois	1/31/2014	2008	370	94.6%	934
Windrush	Edmond, Oklahoma	2/28/2014	2011	160	85.6%	775
Heritage Park	Oklahoma City, Oklahoma	2/28/2014	2011	453	90.5%	619
Raindance	Oklahoma City, Oklahoma	2/28/2014	2011	504	90.5%	532
Augusta	Oklahoma City, Oklahoma	2/28/2014	2011	197	82.2%	724
Invitational	Oklahoma City, Oklahoma	2/28/2014	2011	344	93.0%	673
King s Landing	Creve Coeur, Missouri	3/31/2014	2005	152	93.6%	1,460
Carrington Park	Little Rock, Arkansas	5/07/2014	1999	202	92.6%	1,066
Arbors at the Reservoir	Ridgeland, Mississippi	6/04/2014	2000	170	93.5%	<sup>(6)</sup>
<b>Total/Weighted Average</b>				5,342	93.1%	\$ 764

- (1) All dates are for the year in which a significant renovation program was completed, except for Runaway Bay, Arbors at the Reservoir and King s Landing, which is the year construction was completed.
- (2) Units represents the total number of apartment units available for rent at June 30, 2014.
- (3) Physical occupancy for each of our properties is calculated as (i) total units rented as of June 30, 2014 divided by (ii) total units available as of June 30, 2014, expressed as a percentage.
- (4) Average monthly effective rent per occupied unit represents the average monthly rent for all occupied units for the three-month period ended June 30, 2014.
- (5) Includes 6,256 square feet of retail space in six units, of which 1,010 square feet of space is occupied by RAIT Residential for use as the leasing office. The remaining 5,246 square feet of space is 86% occupied by four



tenants with an average monthly base rent of \$1,603, or \$16 per square foot per year. These four tenants are principally engaged in the following businesses: grocery, retail and various retail services.

- (6) We do not report average effective rent per unit in the month of acquisition as it is not representative of a full month of operations.

**Table of Contents****Non-GAAP Financial Measures*****Funds from Operations and Core Funds from Operations***

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

Core FFO is a computation made by analysts and investors to measure a real estate company's operating performance by removing the effect of items that do not reflect ongoing property operations, including acquisition expenses, expensed costs related to the issuance of shares of our common stock, gains or losses on real estate transactions and equity-based compensation expenses, from the determination of FFO. We incur acquisition expenses in connection with acquisitions of real estate properties and expense those costs when incurred in accordance with U.S. GAAP. As these expenses are one-time and reflective of investing activities rather than operating performance, we add back these costs to FFO in determining Core FFO.

Our calculation of Core FFO differs from the methodology used for calculating Core FFO by some other REITs and, accordingly, our Core FFO may not be comparable to Core FFO reported by other REITs. Our management utilizes FFO and Core FFO as measures of our operating performance, and believes they are also useful to investors, because they facilitate an understanding of our operating performance after adjustment for certain non-cash items, such as depreciation and amortization expenses, and with respect to Core FFO, acquisition expenses and pursuit costs that are required by GAAP to be expensed but may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. Furthermore, although FFO, Core FFO and other supplemental performance measures are defined in various ways throughout the REIT industry, we also believe that FFO and Core FFO may provide us and our investors with an additional useful measure to compare our financial performance to certain other REITs. We also use Core FFO for purposes of determining the quarterly incentive fee, if any, payable to our advisor.

Neither FFO nor Core FFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore, FFO and Core FFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor Core FFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

Set forth below is a reconciliation of net income (loss) to FFO and Core FFO for the three and six-months ended June 30, 2014 and 2013 (in thousands, except share and per share information):

	<b>For the Three-Month Period Ended June 30, 2014</b>		<b>For the Three-Month Period Ended June 30, 2013</b>	
	<b>Amount</b>	<b>Per Share</b>	<b>Amount</b>	<b>Per Share</b>
<b>Funds From Operations:</b>				
Net income (loss)	\$ (128)	\$ (0.01)	\$ 324	\$ 0.06

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Adjustments:				
Income allocated to preferred shares			(4)	(0.00)
Income allocated to preferred units			(88)	(0.02)
Real estate depreciation and amortization	3,232	0.19	1,063	0.19
Funds From Operations	\$ 3,104	\$ 0.18	\$ 1,295	\$ 0.23
Weighted-average shares diluted	17,707,287	17,707,287	5,643,122	5,643,122
<b>Core Funds From Operations:</b>				
Funds From Operations	\$ 3,104	\$ 0.18	\$ 1,295	\$ 0.23
Adjustments:				
Equity based compensation	112	0.00		
Acquisition fees and expenses	152	0.01		
Core Funds From Operations	\$ 3,368	\$ 0.19	\$ 1,295	\$ 0.23
Weighted-average shares diluted	17,707,287	17,707,287	5,643,122	5,643,122

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	For the Six-Month Period Ended June 30, 2014		For the Six-Month Period Ended June 30, 2013	
	Amount	Per Share	Amount	Per Share
<b>Funds From Operations:</b>				
Net income (loss)	\$ 2,807	\$ 0.17	\$ 664	\$ 0.12
<b>Adjustments:</b>				
Income allocated to preferred shares			(8)	(0.00)
Income allocated to preferred units			(175)	(0.03)
Real estate depreciation and amortization	5,355	0.32	2,099	0.37
<b>Funds From Operations</b>	<b>\$ 8,162</b>	<b>\$ 0.49</b>	<b>\$ 2,580</b>	<b>\$ 0.46</b>
Weighted-average shares diluted	16,484,357	16,484,357	5,632,028	5,632,028
<b>Core Funds From Operations:</b>				
Funds From Operations	\$ 8,162	\$ 0.49	\$ 2,580	\$ 0.46
<b>Adjustments:</b>				
Acquisition fees and expenses	514	0.03		
Equity based compensation	142	0.01		
(Gains) losses on assets	(2,882)	(0.17)		
<b>Core Funds From Operations</b>	<b>\$ 5,936</b>	<b>\$ 0.36</b>	<b>\$ 2,580</b>	<b>\$ 0.46</b>
Weighted-average shares diluted	16,484,357	16,484,357	5,632,028	5,632,028

**Results of Operations**

*Three-Month Period Ended June 30, 2014 Compared to the Three-Month Period Ended June 30, 2013*

**Revenue**

**Rental income.** Rental revenue increased \$6.4 million to \$10.6 million for the three-month period ended June 30, 2014 from \$4.2 million for the three-month period ended June 30, 2013. \$6.3 million of the increase is due to the acquisition of nine properties during the six-month period ended June 30, 2014 and from two properties acquired in September 2013 and November 2013. The remaining increase is due to improved occupancy and rental rates at the historical properties.

**Tenant reimbursement income.** Reimbursement income increased \$0.2 million to \$0.4 million for the three-month period ended June 30, 2014 from \$0.2 million for the three-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-month period ended June 30, 2014 and from two properties acquired in September 2013 and November 2013.

**Other income.** Other income increased \$0.3 million to \$0.6 million for the three-month period ended June 30, 2014 from \$0.3 million for the three-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and

November 2013.

***Expenses***

*Property operating expenses.* Property operating expenses increased \$3.3 million to \$5.6 million for the three-month period ended June 30, 2014 from \$2.2 million for the three-month period ended June 30, 2013. \$3.1 million of the increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and November 2013. The remaining increase is due to a one time increase in real estate tax expense related to 2013 and repairs and maintenance expense at the historical properties.

*General and administrative expense.* General and administrative expense increased \$0.3 million to \$0.4 million for the three-month period ended June, 30 2014 from \$0.1 million for the three-month period ended June 30, 2013. The increase is due to an increase in annual report and proxy filing costs, stock compensation during the three-month period ended June 30, 2014 and reimbursement of stock transfer agent fees from our advisor during the three-month period ended June 30, 2013.

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*Asset management fees.* Asset management fee expense increased \$0.4 million to \$0.5 for the three-month period ended June 30, 2014 from \$0.1 million for the three-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-month period ended June 30, 2014, from two properties acquired in September 2013 and November 2013, and the incentive fee of \$0.2 million payable under our amended advisory agreement.

*Acquisition expenses.* Acquisition expenses were \$0.2 million for the three-month period ended June 30, 2014. These expenses were incurred in connection with the acquisition of two properties during the three-months ended June 30, 2014.

*Depreciation and amortization.* Depreciation and amortization expense increased \$2.1 million to \$3.2 million for the three-month period ended June 30, 2014 from \$1.1 million for the three-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and November 2013.

*Interest expense.* Interest expense increased \$1.0 million to \$1.9 million for the three-month period ended June 30, 2014 from \$0.9 for the three-month period ended June 30, 2013. The increase is due to the \$18.9 million first mortgage obtained on Eagle Ridge, the \$67.8 million of debt assumed on the OKC Portfolio and King's Landing during the three-months ended March 31, 2014 and the \$15.3 million first mortgage obtained on The Crossings during the three-month period ended June 30, 2014.

*Six-Month Period Ended June 30, 2014 Compared to the Six-Month Period Ended June 30, 2013*

***Revenue***

*Rental income.* Rental revenue increased \$9.6 million to \$18.0 million for the six-month period ended June 30, 2014 from \$8.4 million for the six-month period ended June 30, 2013. \$9.3 million of the increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and November 2013. The remaining increase is due to improved occupancy and rental rates at the historical properties.

*Tenant reimbursement income.* Reimbursement income increased \$0.4 million to \$0.8 million for the six-month period ended June 30, 2014 from \$0.4 million for the six-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and November 2013.

*Other income.* Other income increased \$0.5 million to \$1.0 million for the six-month period ended June 30, 2014 from \$0.5 million for the six-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and November 2013.

***Expenses***

*Property operating expenses.* Property operating expenses increased \$5.2 million to \$9.6 million for the six-month period ended June 30, 2014 from \$4.4 million for the six-month period ended June 30, 2013. \$4.7 million of the increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September 2013 and November 2013. The remaining increase is due to an increase in real estate tax expense and repairs and maintenance expense at the historical properties.

*General and administrative expense.* General and administrative expense increased \$0.2 million to \$0.5 million for the six-month period ended June 30, 2014 from \$0.3 million for the three-month period ended June 30, 2013. The increase is due to an increase in annual report and proxy filing costs during the six-month period ended June 30, 2014 and reimbursement of stock transfer agent fees from our advisor during the six-months ended June 30, 2013.

*Asset management fees.* Asset management fee expense increased \$0.5 million to \$0.7 for the six-month period ended June 30, 2014 from \$0.2 million for the six-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-months ended June 30, 2014, from two properties acquired in September 2013 and November 2013, and the incentive fee payable under our amended advisory agreement.

*Acquisition expenses.* Acquisition expenses were \$0.5 million for the six-month period ended June 30, 2014. These expenses were incurred in connection with the acquisition of nine properties during the six-month period ended June 30, 2014.

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*Depreciation and amortization.* Depreciation and amortization expense increased \$3.3 million to \$5.4 million for the six-month period ended June 30, 2014 from \$2.1 million for the six-month period ended June 30, 2013. The increase is due to the acquisition of nine properties during the six-months ended June 30, 2014 and from two properties acquired in September, 2013 and November 2013.

*Interest expense.* Interest expense increased \$1.4 million to \$3.2 million for the six-month period ended June 30, 2014 from \$1.8 for the six-month period ended June 30, 2013. The increase is due to the \$18.9 million first mortgage obtained on Eagle Ridge, the \$67.8 million of debt assumed on the OKC Portfolio and King's Landing and the \$15.3 million first mortgage obtained on The Crossings during the six-month period ended June 30, 2014

## **Liquidity and Capital Resources**

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay distributions and other general business needs.

We believe our available cash balances, and other financing arrangements and cash flows from operations will be sufficient to fund our liquidity requirements with respect to our existing portfolio for the next 12 months. We expect that our existing cash, which was obtained principally in our underwritten offering, together with borrowings we may obtain and the future acquisitions we expect to make as a result of the completion of our underwritten offering will have a significant impact on our future results of operations. In general, we expect that our income and expenses related to our portfolio will increase in future periods as a result of anticipated future acquisitions of real estate. Should our liquidity needs exceed our available sources of liquidity, we believe that we could sell assets to raise additional cash. We may not be able to obtain additional financing when we desire to do so or on terms and conditions acceptable to us. If we fail to obtain additional financing, our ability to maintain or grow our business will be constrained.

Our primary cash requirements are to:

make investments and fund the associated costs;

repay our indebtedness;

pay our operating expenses, including fees paid to our advisor and our property manager; and

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

We intend to meet these liquidity requirements primarily through:

the use of our cash and cash equivalent balance of \$8.1 million as of June 30, 2014;



cash generated from operating activities;

if required, proceeds from future borrowings and offerings.

We will seek to enhance our growth through the use of prudent amounts of leverage. In general, we intend to limit our aggregate leverage to 65% of the combined initial purchase price of all of our real estate properties. However, we are not subject to any limitations on the amount of leverage we may use, and, accordingly, the amount of leverage we use may be significantly less or greater than we currently anticipate. By operating on a leveraged basis, we expect to have more funds available for property acquisitions and other purposes, which we believe will allow us to acquire more properties than would otherwise be possible, resulting in a larger and more diversified portfolio. We may employ greater leverage in order to more quickly build a diversified portfolio of assets.

On July 21, 2014, we completed an underwritten public offering selling 8,050,000 shares of our common stock for \$9.50 per share raising gross and net proceeds of \$76.5 million and \$72.4 million, respectively.

On January 29, 2014, we completed an underwritten public offering selling 8,050,000 shares of our common stock for \$8.30 per share raising gross and net proceeds of \$66.8 million and \$63.0 million, respectively.

On October 25, 2013, we entered into a \$20 million secured revolving credit agreement with The Huntington National Bank to be used to acquire properties, for capital expenditures and for general corporate purposes. The facility has a 3-year term, bears interest at LIBOR plus 2.75% and contains customary financial covenants for this type of revolving credit agreement. As of June 30, 2014, there was \$7.9 million of availability under this facility.

**Table of Contents*****Cash Flows***

As of June 30, 2014 and 2013, we maintained cash and cash equivalents of approximately \$8.1 million and \$2.2 million, respectively. Our cash and cash equivalents were generated from the following activities (dollars in thousands):

	<b>For the Six-Month Periods Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Cash flow from operating activities	\$ 5,884	\$ 2,056
Cash flow from investing activities	(100,451)	(379)
Cash flow from financing activities	99,287	(1,962)
Net change in cash and cash equivalents	4,720	(285)
Cash and cash equivalents at beginning of period	3,334	2,533
Cash and cash equivalents at end of period	\$ 8,054	\$ 2,248

Our increased cash inflow from operating activities during the six-month period ended June 30, 2014 is primarily due to the operations of the nine additional properties acquired during the six-month period ended June 30, 2014 and two properties acquired in September 2013 and November 2013.

Our increased cash outflow from investing activities during the six-month period ended June 30, 2014 is primarily due to the acquisition of nine properties during the six-months ended June 30, 2014.

The increased cash flow from our financing activities during the six-month period ended June 30, 2014 is primarily due to the completion of our January underwritten public offering and financing secured by our Reserve at Eagle Ridge and The Crossings properties.

**Off-Balance Sheet Arrangements**

None.

**Critical Accounting Estimates and Policies**

Our Annual Report on Form 10-K for the year ended December 31, 2013 contains a discussion of our critical accounting policies. Management discusses our critical accounting policies and management's judgments and estimates with our Audit Committee.

**Recent Accounting Pronouncements**

In April 2014, the FASB issued an accounting standard classified under FASB ASC Topic 205, Presentation of Financial Statements. This accounting standard amends existing guidance to change reporting requirements for discontinued operations by requiring the disposal of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on an entity's operations and financial results. This standard is effective for interim and annual reporting periods beginning on or after December 15, 2014. Management

is currently evaluating the impact that this standard may have on our consolidated financial statements.

In May 2014, the FASB issued an accounting standard classified under FASB ASC Topic 606, Revenue from Contracts with Customers . This accounting standard generally replaces existing guidance by requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This standard is effective for annual reporting periods beginning after December 15, 2016. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

**Table of Contents****Item 3. Qualitative and Quantitative Disclosure About Market Risk.**

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

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

**Interest Rate Risk and Sensitivity**

Interest rates may be affected by economic, geo-political, monetary and fiscal policy, market supply and demand and other factors generally outside our control, and such factors may be highly volatile. A change in market interest rates applicable to the fixed-rate portion of our indebtedness affects the fair value, but it has no effect on interest incurred or cash flows. A change in market interest rates applicable to the variable portion of our indebtedness affects the interest incurred and cash flows, but does not affect the fair value.

As of June 30, 2014, our only interest rate sensitive assets or liabilities related to our \$213.5 million of outstanding indebtedness, of which \$50.2 million is floating-rate and \$163.3 million is fixed-rate indebtedness. We monitor interest rate risk routinely and seek to minimize the possibility that a change in interest rates would impact the interest incurred and our cash flows. To mitigate such risk, we may use interest rate derivative contracts. As of June 30, 2014 and December 31, 2013, we did not have any interest rate derivatives in effect.

As of June 30, 2014, the fair value of our \$163.3 million of fixed-rate indebtedness was \$165.0 million. The fair value estimate of our fixed rate debt was estimated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated at June 30, 2014. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

The following table summarizes the interest income and interest expense for a 12-month period, and the change in the net fair value of our investments and indebtedness assuming an instantaneous increase or decrease of 100 basis points in the LIBOR interest rate curve, both adjusted for the effects of our interest rate hedging activities (dollars in

thousands):

	<b>Liabilities Subject to Interest Rate Sensitivity (Par Amount)</b>	<b>100 Basis Point Increase</b>	<b>100 Basis Point Decrease(1)</b>
Interest expense from variable-rate indebtedness	(50,225)	(502)	75
Fair value of fixed-rate indebtedness	(164,980)	(7,992)	8,567

- (1) Assumes the LIBOR interest rate will not decrease below 0%. The quoted 30-day LIBOR rate was 0.15% at June 30, 2014.

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### **Item 4. Controls and Procedures.**

#### ***Disclosure Controls and Procedures***

As of the end of the period covered by this report, management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act). Based upon, and as of the date of, the evaluation, our principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective at the reasonable assurance level in recording, processing, summarizing and reporting on a timely basis, information required to be disclosed by us in our reports that we file or submit under the Exchange Act.

#### ***Changes in Internal Control Over Financial Reporting***

There have been no significant changes in our internal control over financial reporting that occurred during the three-month period ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, we are party to various lawsuits, claims for negligence and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition, results of operations, or financial statements, taken as a whole, if determined adversely to us.

### **Item 1A. Risk Factors.**

There have not been any material changes from the risk factors previously disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

### **Item 2. Unregistered Sales of Equity Securities and use of proceeds.**

The information called for by this item was disclosed in our current report on Form 8-K filed with the Securities and Exchange Commission on May 7, 2014.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

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

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**SIGNATURES**

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

Independence Realty Trust, Inc.

Date: August 7, 2014

By: /s/ SCOTT F. SCHAEFFER  
Scott F. Schaeffer  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

Date: August 7, 2014

By: /s/ JAMES J. SEBRA  
James J. Sebra  
Chief Financial Officer and Treasurer  
(Principal Financial Officer and Principal  
Accounting Officer)



**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
3.1	Articles of Restatement of Independence Realty Trust, Inc. (the Company ), dated as of August 20, 2013, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 20, 2013.
3.2	Second Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (the 2013 Q1 10-Q ).
4.1	Fourth Amended and Restated Agreement of Limited Partnership of Independence Realty Operating Partnership, LP, dated as of May 7, 2013, incorporated by reference to Exhibit 4.1 to the 2013 Q1 10-Q.
4.2	First Amendment, dated as of August 20, 2013, to Fourth Amended and Restated Agreement of Limited Partnership of Independence Realty Operating Partnership, LP, dated as of May 7, 2013, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 20, 2013.
4.3	Admission Agreement and Amendment dated as of May 7, 2014 to Fourth Amendment and Restated Agreement of Limited Partnership of Independence Realty Operating Partnership, LP dated as of May 7, 2013, a corrected copy was incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (the 2014 Q1 10-Q ), replacing the copy filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 7, 2014 (the 5/7/14 Form 8-K ).
4.4	Registration Rights Agreement by and among the Company, Independence Realty Operating Partnership, LP, RAIT Financial Trust and the RAIT Parties (as defined therein), dated as of July 26, 2013, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 1, 2013.
10.1	Independence Realty Trust, Inc. Long Term Incentive Plan Form of Stock Appreciation Rights Award Certificate adopted January 31, 2014, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 6, 2014 (the 2/6/14 Form 8-K ).
10.2	Independence Realty Trust, Inc. Long Term Incentive Plan a Form of Restricted Stock Award Certificate adopted January 31, 2014, incorporated by reference to Exhibit 10.2 to the 2/6/14 Form 8-K.
10.3	Loan Agreement dated as of February 7, 2014 between Bank of America, N.A., as lender, and IRT Eagle Ridge Apartments Owner, LLC, as borrower, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 12, 2014 (the 2/12/14 Form 8-K ).
10.4	Promissory Note dated February 7, 2014 made by IRT Eagle Ridge Apartments Owner, LLC, as borrower, payable to Bank of America, N.A., as lender, incorporated by reference to Exhibit 10.2 to the 2/12/14 Form 8-K.
10.5	Guaranty Agreement dated as of February 7, 2014 made by Independence Realty Operating Partnership, LP, as guarantor, for the benefit of Bank of America, N.A., as lender, incorporated by reference to Exhibit 10.2 to the 2/12/14 Form 8-K.
10.6	Purchase and Sale Agreement dated as of February 27, 2014 among Independence Realty Operating Partnership, LP, as buyer, BCMR King's Landing, a Limited Partnership, and MLP King's Landing, LLC, as sellers, incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the 2013 10-K ).

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- 10.7 Note and Mortgage Assumption Agreement dated as of February 28, 2014 among U.S. Bank National Association, a national banking association, as trustee for the registered holders of J.P. Morgan Chase Commercial Mortgage Securities Corp., Commercial Mortgage Pass-Through Certificates, Series 2006-LDP7, as lender, Kola Investments, LLC, as original borrower, IRT OKC Portfolio Owner, LLC, as new borrower, together with the Joinder by and Agreement of Original Indemnitor by Allstate Management Corp. and the Joinder by and Agreement of New Indemnitor by Independence Realty Operating Partnership, LP and the Company, incorporated by reference to Exhibit 10.37 to the 2013 10-K.
- 10.8 Loan Agreement dated as of March 3, 2006 between Kola Investments, L.L.C., as borrower, and GMAC Commercial Mortgage Corporation, as lender, incorporated by reference to Exhibit 10.38 to the 2013 10-K.
- 10.9 Consolidated Amended and Restated Promissory Note dated as of March 3, 2006 between Kola Investments, L.L.C., as borrower, and GMAC Commercial Mortgage Corporation, as lender, incorporated by reference to Exhibit 10.39 to the 2013 10-K.
- 10.10 Guaranty dated as of March 3, 2006 by Allstate Management Corp. in favor of GMAC Commercial Mortgage Corporation, as lender, incorporated by reference to Exhibit 10.40 to the 2013 10-K.

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<b>Exhibit</b>	<b>Description</b>
10.11	Environmental Indemnity Agreement dated as of March 3, 2006 by Kola Investments, L.L.C. and Allstate Management Corp. in favor of GMAC Commercial Mortgage Corporation, as lender, incorporated by reference to Exhibit 10.41 to the 2013 10-K.
10.12	Assumption and Release Agreement dated as of March 31, 2014 among the original guarantors named therein, Independence Realty Operating Partnership, LP, as the new guarantor, between King's Landing LLC, as borrower, and Fannie Mae, as lender, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 3, 2014 (the 4/3/14 Form 8-K).
10.13	First Amendment to Multifamily Loan and Security Agreement made as of March 31, 2014 between King's Landing LLC, as borrower, and Fannie Mae, as lender, incorporated by reference to Exhibit 10.2 to the 4/3/14 Form 8-K.
10.14	Multifamily Loan and Security Agreement made as of May 24, 2012 between King's Landing LLC, as borrower, and CWC Capital LLC, as lender, incorporated by reference to Exhibit 10.3 to the 4/3/14 Form 8-K.
10.15	Multifamily Note dated as of May 24, 2012 made by King's Landing LLC, as borrower, to CWC Capital LLC, as lender, incorporated by reference to Exhibit 10.4 to the 4/3/14 Form 8-K.
10.16	Guaranty of Non-Recourse Obligations dated as of May 24, 2012 made by the guarantors named therein, as guarantor, to CWC Capital LLC, as lender, incorporated by reference to Exhibit 10.5 to the 4/3/14 Form 8-K.
10.17	Contribution Agreement dated as of May 2, 2014 among Independence Realty Operating Partnership, LP and the contributors named therein, incorporated by reference to Exhibit 10.1 to the 5/7/14 Form 8-K.
10.18.1	Promissory Note dated May 7, 2014 (the 5/7/14 Note) made by the makers named therein to IRT UPREIT Lender, LP (IRT Lender), as lender incorporated by reference to Exhibit 10.2 to the 5/7/14 Form 8-K.
10.18.2	Satisfaction of Mortgage dated July 15, 2014 by IRT Lender relating to the 5/7/14 Note, filed herewith.
10.19	Loan Assumption Agreement and Release dated as of May 5, 2014 effective May 7, 2014 among the transferors named therein, IRT Carrington Apartment Owner, LLC, as transferee, and IRT Lender, incorporated by reference to Exhibit 10.19 to the 2014 Q1 10-Q.
12.1	Statements regarding computation of ratios as of June 30, 2014, filed herewith.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
101	XBRL (eXtensible Business Reporting Language). The following materials, formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, (ii) Consolidated Statements of Operations for the three-and six-month periods ended June 30, 2014 and June 30, 2013,

(iii) Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2014 and June 30, 2013, (iv) Consolidated Statements of Changes in Equity for the six-month periods ended June 30, 2014 and (v) notes to the consolidated financial statements as of June 30, 2014.