

PREFERRED APARTMENT COMMUNITIES INC
Form 8-K/A
October 24, 2016

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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 24, 2016

Preferred Apartment Communities, Inc.

(Exact Name of Registrant as Specified in its Charter)

Maryland	001-34995	27-1712193
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

3284 Northside Parkway NW, Suite 150, Atlanta, Georgia	30327
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (770) 818-4100

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.01 Completion of Acquisition or Disposition of Assets.

On August 8, 2016: (i) New Market-Thompson Bridge, LLC ("Thompson Bridge Purchaser"), an indirect, wholly owned subsidiary of Preferred Apartment Communities Operating Partnership, L.P. ("PAC-OP"), completed the acquisition of a fee simple interest in a grocery-anchored shopping center in Gainesville, Georgia ("Thompson Bridge Commons"); (ii) New Market-Cherokee, LLC ("Cherokee Purchaser"), an indirect, wholly owned subsidiary of PAC-OP, completed the acquisition of a grocery-anchored shopping center in Atlanta, Georgia ("Cherokee Plaza"); (iii) New Market-Sandy Plains, LLC ("Sandy Plains Purchaser"), an indirect, wholly owned subsidiary of PAC-OP, completed the acquisition of a grocery-anchored shopping center near Atlanta, Georgia ("Sandy Plains Exchange"); (iv) New Market-Parkland, LLC ("Parkland Purchaser"), an indirect, wholly owned subsidiary of PAC-OP, completed the acquisition of a grocery-anchored shopping center in Parkland, Florida near Miami, Florida ("Shoppes of Parkland"); (v) New Market-University Palms, LLC ("University Palms Purchaser"), an indirect, wholly owned subsidiary of PAC-OP, completed the acquisition of a grocery-anchored shopping center in Oviedo, Florida near Orlando, Florida ("University Palms"); (vi) New Market-Heritage, LLC ("Heritage Purchaser"), an indirect, wholly owned subsidiary of PAC-OP, completed the acquisition of a grocery-anchored shopping center in Wake Forest, North Carolina ("Heritage Station"); and (vii) New Market-Oak Park, LLC, ("Oak Park Purchaser" and together with Thompson Bridge Purchaser, Cherokee Purchaser, Sandy Plains Purchaser, Parkland Purchaser, University Palms Purchaser and Heritage Purchaser, each a "Purchaser" and, collectively, the "Purchasers"), an indirect, wholly owned subsidiary of PAC-OP, completed the acquisition of a grocery-anchored shopping center in San Antonio, Texas ("Oak Park Village" and together with Thompson Bridge, Cherokee Plaza, Sandy Plains, Parkland, University Palms and Heritage Station, each an "Acquired Property", and collectively, the "Acquired Properties", or the "Sunbelt Seven Portfolio") from HR Venture Properties I LLC, HR Parkland LLC, HR Thompson Bridge LLC and HR Heritage Station LLC (collectively the "Sellers").

The aggregate purchase price paid by the Purchasers to the Sellers was approximately \$158.0 million, exclusive of acquisition- and financing-related transaction costs. Preferred Apartment Communities, Inc. (the "Company") is the general partner of, and as of June 30, 2016 was the owner of an approximate 96.4% interest in, PAC-OP. Outside of the acquisition of the Acquired Communities, there is no relationship between the Company, PAC-OP or the Purchasers and any of the Sellers.

The Company hereby amends the Current Report on Form 8-K filed on August 9, 2016, reporting events on and after August 8, 2016, to provide certain financial information related to its acquisition of the Acquired Communities required by Item 9.01(a) of Form 8-K.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

Southeastern Seven Portfolio	F - 1
Independent Auditors' Report	F - 2
Combined Statements of Revenues and Certain Expenses for the six months ended June 30, 2016 (unaudited) and the year ended December 31, 2015	F - 3
Notes to Combined Statements of Revenues and Certain Expenses	F - 4

(b) Pro Forma Financial Information.

Unaudited Pro Forma Condensed Consolidated Financial Statements	F - 7
Unaudited Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2016	F - 8
Unaudited Pro Forma Condensed Consolidated Statement of Operations for the six months ended June 30, 2016	F - 9
Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2015	F - 10
Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements	F - 11

(c) Exhibits

23.1 Consent of Deloitte & Touche LLP

SOUTHEASTERN SEVEN PORTFOLIO
COMBINED STATEMENTS OF REVENUES AND CERTAIN EXPENSES
WITH INDEPENDENT AUDITORS' REPORT
FOR THE SIX MONTHS ENDED JUNE 30, 2016 (UNAUDITED) AND
THE YEAR ENDED DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

To Preferred Apartment Communities, Inc.:

We have audited the accompanying Combined Statement of Revenues and Certain Expenses of the Southeastern 7 Portfolio, seven separate grocery-anchored shopping centers located in the Southeastern United States, for the year ended December 31, 2015, and the related notes (the "Statement").

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of this Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues and certain expenses described in Note 2 of the Statement for the year ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 2 of the Statement, which describes that the accompanying Statement was prepared for the purpose of complying with the rules and regulations under Rule 3-14 of Regulation S-X of the Securities and Exchange Commission (for inclusion in the Form 8-K/A of Preferred Apartment Communities, Inc.) and is not intended to be a complete presentation of Southeastern 7 Portfolio's revenues and expenses. Our opinion is not modified with respect to this matter.

/s/ Deloitte & Touche LLP

Houston, Texas

October 24, 2016

Southeastern Seven Portfolio
Combined Statements of Revenues and Certain Expenses

	Six months ended June 30, 2016 (unaudited)	Year ended December 31, 2015
REVENUES:		
Base rent	\$4,647,012	\$9,227,618
Operating escalations and tenant reimbursements	1,230,493	2,339,202
Other income	24,070	46,691
TOTAL REVENUES	5,901,575	11,613,511
CERTAIN EXPENSES:		
Repairs and maintenance	323,697	702,124
Real estate taxes	669,344	1,257,612
Property management fees	192,917	382,029
Insurance	43,639	88,447
Utilities	198,758	403,251
Bad debt expense (recoveries)	55,743	(2,539)
Professional fees	47,697	58,121
General and administrative	27,510	56,718
TOTAL CERTAIN EXPENSES	1,559,305	2,945,763
REVENUES IN EXCESS OF CERTAIN EXPENSES	\$4,342,270	\$8,667,748

See accompanying Notes to Combined Statements of Revenues and Certain Expenses.

Southeastern Seven Portfolio

Notes to Combined Statements of Revenues and Certain Expenses
for the six months ended June 30, 2016 (unaudited) and
the year ended December 31, 2015

1. ORGANIZATION

Preferred Apartment Communities, Inc. (the “Company”) was formed as a Maryland corporation on September 18, 2009, and has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, effective with its tax year ended December 31, 2011. The Company was formed to acquire multifamily and retail properties in select targeted markets throughout the United States. The Company is a majority owner in Preferred Apartment Communities Operating Partnership, L.P., which acquired the below retail properties (the “Southeastern Seven Portfolio”) from unaffiliated third parties (the “Sellers”) on August 8, 2016. Prior to August 8, 2016, the Sellers were responsible for all accounting and management decisions of the properties.

Property	Location	Unaudited Anchor/SF	Total SF	Occupancy	
				as of June 30, 2016	
Cherokee Plaza	Atlanta, GA	Kroger / 81,718	102,864	100	%
Heritage Station	Raleigh, NC	Harris Teeter / 57,723	72,946	100	%
Oak Park Village	San Antonio, TX	H.E.B. / 54,276	64,287	100	%
Sandy Plains Exchange	Atlanta, GA	Publix / 44,270	72,784	98.3	%
Shoppes of Parkland	Miami, FL	BJ's Wholesale Club / 108,532	145,720	95.0	%
Thompson Bridge Commons	Atlanta, GA	Kroger / 70,327	92,587	97.3	%
University Palms	Orlando, FL	Publix / 56,077	99,172	98.3	%
			650,360		

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A.Basis of Presentation

The accompanying combined statements of revenues and certain expenses has been prepared for the purpose of complying with Rule 3-14 of Regulation S-X promulgated under the Securities Act of 1933, as amended, and accordingly, are not representative of the actual results of operations of the properties for the periods presented, due to the exclusion of the following revenue and expenses which may not be comparable to the proposed future operations of the Southeastern Seven Portfolio:

• Depreciation expense;

• Interest income and expense, including amortization of mortgage loan origination costs;

• Income tax expense;

• Amortization of in-place leases, above/below market lease intangibles, and lease origination costs, and

• Amortization of mortgage discounts and premiums.

Except as noted above, management is not aware of any material factors relating to the properties that would cause the reported financial information not to be indicative of future operating results. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for the fair presentation of these Combined Statements of Revenues and Certain Expenses have been included.

The Combined Statement of Revenues and Certain Expenses and notes thereto for the six months ended June 30, 2016 included in this report is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of revenues and certain expenses have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

B. Use of Estimates

The preparation of these combined statements of revenues and certain expenses in conformity with accounting

F - 4

Southeastern Seven Portfolio

Notes to Combined Statements of Revenues and Certain Expenses

for the six months ended June 30, 2016 (unaudited) and

the year ended December 31, 2015

principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of revenues and certain expenses. Actual results could differ from those estimates.

C. Revenue Recognition

Rental revenue is recognized on a straight-line basis. As such, the rental revenue for those leases that contain rent abatements and contractual increases are recognized on a straight-line basis over the applicable terms of the related lease. Percentage rents, which are based on tenants' sales, are recognized once the sales reported by such tenants exceed any applicable breakpoints as specified in the tenants' leases. The percentage rents are recognized based upon the measurement dates specified in the leases. Reimbursements from tenants for real estate taxes, insurance and other shopping center operating expenses are recognized as revenue in the period that the applicable costs are incurred.

D. Operating expenses

Operating expenses represent the direct expenses of operating the properties and consist primarily of repairs and maintenance, real estate taxes, management fees, insurance, utilities and other operating expenses that are expected to continue in the proposed future operations of the properties.

E. Subsequent events

The Company has evaluated events through October 24, 2016, the date the combined statement of revenues and certain expenses were available to be issued and concluded that no subsequent events have occurred that would require recognition in the combined financial statements or disclosure in the notes to combined statements of revenues and certain operating expenses.

3. OPERATING LEASES

The future minimum lease payments to be received under non-cancelable operating leases in effect as of December 31, 2015 are as follows:

2016	\$9,032,284
2017	8,626,592
2018	8,115,063
2019	6,706,182
2020	5,706,945
thereafter	29,095,565

Total \$67,282,631

Three tenants each accounted for more than 10% of minimum rent revenue of the Southeastern Seven Portfolio for the year ended December 31, 2015.

4. COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. There is no material

litigation nor to management's knowledge is any material litigation currently threatened against the properties other than routine litigation, claims and administrative proceedings arising in the ordinary course of business.

5. MANAGEMENT AGREEMENT

In connection with the management of the rental operations, a property management fee was paid to an affiliated internal property manager. The property management fee was calculated as 3% of gross cash receipts, plus \$1,250 per quarter. Property management fees of \$192,917 (unaudited) and \$382,029, were recorded for the six-month period ended June 30, 2016 and the year ended December 31, 2015, respectively.

F - 5

Southeastern Seven Portfolio
Notes to Combined Statements of Revenues and Certain Expenses
for the six months ended June 30, 2016 (unaudited) and
the year ended December 31, 2015

6. CONCENTRATION OF RISK

The Southeastern Seven Portfolio's real estate assets are located in Texas and the Southeastern region of the United States. This geographic concentration of assets are subject to local and national economic growth trends and the risks of real property ownership. The Southeastern Seven Portfolio earned approximately 57.0% of its base rent revenue from its anchor tenants for the year ended December 31, 2015. The loss of any of these tenants could have a significant negative impact on operations.

F - 6

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company's unaudited pro forma condensed consolidated balance sheet at June 30, 2016 illustrates the estimated effects of the purchase of the Southeastern Seven Portfolio referred to in Item 2.01 above (the "Transaction") as if it had occurred on such date.

The accompanying unaudited pro forma condensed consolidated statements of operations of the Company are presented for the six months ended June 30, 2016 and the year ended December 31, 2015 (the "Pro Forma Periods"), illustrating the estimated effects of the Transaction as if it had occurred on January 1, 2015.

This unaudited pro forma condensed consolidated financial information is presented for informational purposes only and does not purport to be indicative of the Company's financial results as if the transactions reflected herein had occurred on the date or been in effect during the period indicated. This pro forma condensed consolidated financial information should not be viewed as indicative of the Company's financial results in the future and should be read in conjunction with the Company's financial statements as filed on Form 10-K for the year ended December 31, 2015 and on Form 10-Q for the interim period ended June 30, 2016.

Preferred Apartment Communities, Inc.
Unaudited Pro Forma Condensed Consolidated Balance Sheet
as of June 30, 2016