PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
November 06, 2017

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

FORM 10-Q

---

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-34995

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

Maryland	27-1712193
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3284 Northside Parkway NW, Suite 150, Atlanta, GA 30327
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (770) 818-4100

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

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

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

The number of shares outstanding of the registrant's Common Stock, as of October 31, 2017 was 36,692,002.

PART I - FINANCIAL INFORMATION

INDEX

	Page No.
Item 1. Financial Statements	
Consolidated Balance Sheets (unaudited) – as of September 30, 2017 and December 31, 2016	1
Consolidated Statements of Operations (unaudited) – Three Months and Nine Months Ended September 30, 2017 and 2016	2
Consolidated Statements of Stockholders' Equity (unaudited) – Nine Months Ended September 30, 2017 and 2016	3
Consolidated Statements of Cash Flows (unaudited) – Nine Months Ended September 30, 2017 and 2016	5
Notes to Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3. Quantitative and Qualitative Disclosures About Market Risk	73
Item 4. Controls and Procedures	74
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	74
Item 1A. Risk Factors	74
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	74
Item 3. Defaults Upon Senior Securities	74
Item 4. Mine Safety Disclosures	74
Item 5. Other Information	75
Item 6. Exhibits	75
SIGNATURES	76

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

	September 30, 2017	December 31, 2016
Assets		
Real estate		
Land	$345,110,008	$299,547,501
Building and improvements	1,802,229,802	1,513,293,760
Tenant improvements	45,208,781	23,642,361
Furniture, fixtures, and equipment	183,879,719	126,357,742
Construction in progress	11,946,666	2,645,634
Gross real estate	2,388,374,976	1,965,486,998
Less: accumulated depreciation	(147,799,077)	(103,814,894)
Net real estate	2,240,575,899	1,861,672,104
Real estate loans, net of deferred fee income	243,974,963	201,855,604
Real estate loans to related parties, net	165,229,952	130,905,464
Total real estate and real estate loan investments, net	2,649,780,814	2,194,433,172
Cash and cash equivalents	17,054,190	12,321,787
Restricted cash	50,645,432	55,392,984
Notes receivable	18,287,857	15,499,699
Note receivable and revolving line of credit due from related party	24,063,639	22,115,976
Accrued interest receivable on real estate loans	27,726,412	21,894,549
Acquired intangible assets, net of amortization of $64,043,523 and $46,396,254	86,295,192	79,156,400
Deferred loan costs on Revolving Line of Credit, net of amortization of $960,072 and $422,873	1,548,798	1,768,779
Deferred offering costs	6,025,155	2,677,023
Tenant lease inducements, net of amortization of $251,941 and $14,904	11,914,367	261,492
Tenant receivables (net of allowance of $488,953 and $663,912) and other assets	34,377,412	15,310,741
Total assets	$2,927,719,268	$2,420,832,602
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs of $26,994,828 and $22,007,641	$1,569,569,425	$1,305,870,471
Revolving line of credit	43,000,000	127,500,000
Term note payable, net of deferred loan costs of $5,806 and $40,095	10,994,194	10,959,905
Real estate loan participation obligation	17,877,914	20,761,819
Deferred revenue	23,361,489	—
Accounts payable and accrued expenses	34,298,797	20,814,910
Accrued interest payable	4,099,239	3,541,640
Dividends and partnership distributions payable	13,729,774	10,159,629
Acquired below market lease intangibles, net of amortization of $6,858,914 and $3,771,393	31,691,040	29,774,033
Security deposits and other liabilities	8,946,216	6,189,033

Total liabilities	1,757,568,088	1,535,571,440
Commitments and contingencies (Note 11)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, $0.01 par value per share; 3,050,000 shares authorized; 1,141,331 and 924,855 shares issued; 1,115,616 and 914,422 shares outstanding at September 30, 2017 and December 31, 2016, respectively	11,156	9,144
Series M Redeemable Preferred Stock, $0.01 par value per share; 500,000 shares authorized; 12,396 and 0 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	124	—
Common Stock, $0.01 par value per share; 400,066,666 shares authorized; 35,597,744 and 26,498,192 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	355,977	264,982
Additional paid-in capital	1,157,030,161	906,737,470
Accumulated earnings (deficit)	9,079,810	(23,231,643)
Total stockholders' equity	1,166,477,228	883,779,953
Non-controlling interest	3,673,952	1,481,209
Total equity	1,170,151,180	885,261,162
Total liabilities and equity	$2,927,719,268	$2,420,832,602

The accompanying notes are an integral part of these consolidated financial statements.
1

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenues	$50,072,135	$37,319,207	$143,676,962	$96,541,544
Other property revenues	9,334,939	5,221,887	26,592,295	13,290,330
Interest income on loans and notes receivable	9,673,536	7,194,742	26,111,674	20,984,625
Interest income from related parties	5,819,589	3,801,501	15,971,516	10,310,563
Total revenues	74,900,199	53,537,337	212,352,447	141,127,062
Operating expenses:				
Property operating and maintenance	7,900,753	5,504,848	21,637,551	13,883,133
Property salary and benefits (including reimbursements of $3,199,836, $2,790,335, $8,995,087 and $7,670,403 to related party)	3,402,623	2,808,402	9,649,843	7,688,470
Property management fees (including $1,576,118, $1,444,518, $4,582,037, and $3,656,209 to related parties)	2,053,446	1,724,411	6,016,003	4,308,841
Real estate taxes	7,705,706	4,789,085	23,289,784	15,457,134
General and administrative	1,701,574	1,144,256	4,861,083	3,255,728
Equity compensation to directors and executives	863,412	638,414	2,607,667	1,867,706
Depreciation and amortization	28,903,770	21,664,363	82,186,960	54,981,064
Acquisition and pursuit costs (including $0, $89,631, $0 and $141,548 to related party)	—	1,357,537	14,002	6,885,864
Asset management fees to related party	5,147,606	3,759,084	14,524,517	9,484,161
Insurance, professional fees and other expenses	1,156,056	1,338,343	3,820,010	4,216,838
Total operating expenses	58,834,946	44,728,743	168,607,420	122,028,939
Contingent asset management and general and administrative expense fees	(655,944)	(736,960)	(1,001,864)	(1,458,245)
Net operating expenses	58,179,002	43,991,783	167,605,556	120,570,694
Operating income	16,721,197	9,545,554	44,746,891	20,556,368
Interest expense	16,678,418	12,234,174	48,085,016	30,688,505
Loss on extinguishment of debt	—	—	888,428	—
Net income (loss) before gain on sale of real estate	42,779	(2,688,620)	(4,226,553)	(10,132,137)
Gain on sale of real estate, net of disposition expenses	—	—	37,635,014	4,271,506
Net income (loss)	42,779	(2,688,620)	33,408,461	(5,860,631)
Consolidated net (income) loss attributable to non-controlling interests	(1,119)	86,484	(1,097,008)	175,045

Net income (loss) attributable to the Company	41,660	(2,602,136)	32,311,453	(5,685,586)
Dividends declared to preferred stockholders	(16,420,996)	(11,015,706)	(46,042,181)	(28,341,723)
Earnings attributable to unvested restricted stock	(4,302)	(6,159)	(11,743)	(12,434)
Net loss attributable to common stockholders	$(16,383,638)	$(13,624,001)	$(13,742,471)	$(34,039,743)
Net loss per share of Common Stock available to common stockholders, basic and diluted	$(0.49)	$(0.56)	$(0.46)	$(1.45)
Dividends per share declared on Common Stock	$0.235	$0.2025	$0.69	$0.5975
Weighted average number of shares of Common Stock outstanding, Basic and diluted	33,539,920	24,340,791	30,147,497	23,552,951

The accompanying notes are an integral part of these consolidated financial statements.
2

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

	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings(Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	$9,144	$264,982	$906,737,470	$(23,231,643)	$883,779,953	$1,481,209	$885,261,162
Issuance of Units	2,289	—	228,248,476	—	228,250,765	—	228,250,765
Redemptions of Series A Preferred Stock	(153)	5,922	(4,506,174)	—	(4,500,405)	—	(4,500,405)
Issuance of Common Stock	—	49,067	76,755,412	—	76,804,479	—	76,804,479
Exercises of warrants	—	33,875	43,343,382	—	43,377,257	—	43,377,257
Syndication and offering costs	—	—	(26,725,432)	—	(26,725,432)	—	(26,725,432)
Equity compensation to executives and directors	—	—	357,300	—	357,300	—	357,300
Vesting of restricted stock	—	216	(216)	—	—	—	—
Conversion of Class A Units to Common Stock	—	1,915	1,676,579	—	1,678,494	(1,678,494)	—
Current period amortization of Class B Units	—	—	—	—	—	2,250,367	2,250,367
Net income	—	—	—	32,311,453	32,311,453	1,097,008	33,408,461
Reallocation adjustment to non-controlling interests	—	—	(1,146,165)	—	(1,146,165)	1,146,165	—
Distributions to non-controlling interests	—	—	—	—	—	(622,303)	(622,303)
Dividends to series A preferred							

stockholders ($5.00 per share per month)	—	—	(45,791,950)	—	(45,791,950)	—	(45,791,950)
Dividends to mShares preferred stockholders	—	—	(250,231)	—	(250,231)	—	(250,231)
Dividends to common stockholders ($0.69 per share)	—	—	(21,668,290)	—	(21,668,290)	—	(21,668,290)
Balance at September 30, 2017	$11,280	$355,977	$1,157,030,161	$9,079,810	$1,166,477,228	$3,673,952	$1,170,151,180

The accompanying notes are an integral part of these consolidated financial statements.
3

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

	Series A Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated (Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2016	$ 4,830	$ 227,616	$ 536,450,877	$ (13,698,520)	$ 522,984,803	$ 2,468,987	$ 525,453,790
Issuance of Units	3,233	—	322,937,157	—	322,940,390	—	322,940,390
Redemptions of Series A Preferred Stock	(43)	588	(3,020,673)	—	(3,020,128)	—	(3,020,128)
Issuance of common stock	—	1,973	2,858,311	—	2,860,284	—	2,860,284
Exercises of Warrants	—	15,163	16,181,146	—	16,196,309	—	16,196,309
Syndication and offering costs	—	—	(38,220,013)	—	(38,220,013)	—	(38,220,013)
Equity compensation to executives and directors	—	56	352,472	—	352,528	—	352,528
Vesting of restricted stock	—	228	(228)	—	—	—	—
Conversion of Class A Units to Common Stock	—	956	647,642	—	648,598	(648,598)	—
Current period amortization of Class B Units	—	—	—	—	—	1,542,182	1,542,182
Net loss	—	—	—	(5,685,586)	(5,685,586)	(175,045)	(5,860,631)
Class A Units issued for property acquisition	—	—	—	—	—	5,072,659	5,072,659
Minority interest in joint venture	—	—	—	—	—	450,000	450,000
Reallocation adjustment to non-controlling interests	—	—	6,914,403	—	6,914,403	(6,914,403)	—
Distributions to non-controlling interests	—	—	—	—	—	(476,293)	(476,293)

Dividends to Series A preferred stockholders ($5.00 per share per month)	—	—	(28,341,723)	—	(28,341,723)	—	(28,341,723)
Dividends to common stockholders ($0.5975 per share)	—	—	(14,200,114)	—	(14,200,114)	—	(14,200,114)
Balance at September 30, 2016	$ 8,020	$ 246,580	$ 802,559,257	$ (19,384,106)	$ 783,429,751	$ 1,319,489	$ 784,749,240

The accompanying notes are an integral part of these consolidated financial statements.
4

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

	Nine months ended September 30, 2017	2016
Operating activities:		
Net income (loss)	$ 33,408,461	$ (5,860,631)
Reconciliation of net income (loss) to net cash provided by operating activities:		
Depreciation expense	60,845,325	39,387,351
Amortization expense	21,341,635	15,593,713
Amortization of above and below market leases	(2,394,233)	(1,118,329)
Deferred revenues and fee income amortization	(1,526,037)	(725,913)
Amortization of market discount on assumed debt and lease incentives	364,439	—
Deferred loan cost amortization	3,906,753	2,431,809
(Increase) decrease in accrued interest income on real estate loans	(5,831,863)	(3,374,473)
Equity compensation to executives and directors	2,607,667	1,867,706
Gain on sale of real estate	(37,635,014)	(4,271,506)
Loss on extinguishment of debt	888,428	—
Other	189,400	56,582
Changes in operating assets and liabilities:		
(Increase) in tenant receivables and other assets	(7,818,433)	(1,230,183)
(Increase) in tenant lease incentives	(11,889,912)	—
Increase in accounts payable and accrued expenses	11,640,777	8,843,052
Increase in accrued interest and other	2,349,282	2,258,193

liabilities				
Net cash provided by operating activities	70,446,675		53,857,371	
Investing activities:				
Investments in real estate loans	(119,225,599	)	(123,427,150	)
Repayments of real estate loans	42,495,393		36,672,482	
Notes receivable issued	(6,249,749	)	(8,730,166	)
Notes receivable repaid	3,506,767		12,895,101	
Note receivable issued to and draws on line of credit by related party	(25,740,403	)	(25,821,121	)
Repayments of line of credit by related party	23,468,017		23,791,676	
Origination fees received on real estate loans	2,592,766		2,695,961	
Origination fees paid to Manager on real estate loans	(1,296,383	)	(1,374,828	)
Acquisition of properties	(455,619,414	)	(740,597,973	)
Disposition of properties, net	118,237,697		10,606,386	
Additions to real estate assets - improvements	(12,200,993	)	(7,613,065	)
Deposits refunded (paid) on acquisitions	2,428,908		(3,118,370	)
Decrease (increase) in restricted cash	5,389,992		(9,070,073	)
Net cash used in investing activities	(422,213,001	)	(833,091,140	)
Financing activities:				
Proceeds from mortgage notes payable	332,427,500		479,494,000	
Repayments of mortgage notes payable	(121,065,587	)	(7,748,011	)
Payments for deposits and other mortgage loan costs	(11,579,899	)	(15,400,974	)
Payments for mortgage prepayment costs	(817,313	)	—	
Proceeds from real estate loan participants	224,188		5,575,484	
Payments to real estate loan participants	(3,466,500	)	—	

Proceeds from lines of credit	190,000,000	357,136,020
Payments on lines of credit	(274,500,000)	(309,636,020)
Proceeds from Term Loan	—	46,000,000
Repayment of the Term Loan	—	(35,000,000)
Proceeds from sales of Units, net of offering costs and redemptions	201,799,430	287,830,612
Proceeds from sales of Common Stock	74,213,118	2,810,156
Proceeds from exercises of Warrants	39,430,314	19,831,294
Common Stock dividends paid	(19,250,649)	(13,523,075)
Preferred stock dividends paid	(44,889,676)	(26,735,870)
Distributions to non-controlling interests	(605,479)	(350,079)
Payments for deferred offering costs	(5,420,718)	(3,476,989)
Contribution from non-controlling interests	—	450,000
Net cash provided by financing activities	356,498,729	787,256,548
Net increase in cash and cash equivalents	4,732,403	8,022,779
Cash and cash equivalents, beginning of period	12,321,787	2,439,605
Cash and cash equivalents, end of period	$ 17,054,190	$ 10,462,384

The accompanying notes are an integral part of these consolidated financial statements.
5

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

	Nine months ended September 30,	
	2017	2016
Supplemental cash flow information:		
Cash paid for interest	$43,493,263	$26,569,933
Supplemental disclosure of non-cash activities:		
Accrued capital expenditures	$2,531,863	$1,125,774
Writeoff of fully depreciated or amortized assets and liabilities	$620,201	$149,288
Writeoff of fully amortized deferred loan costs	$—	$826,359
Writeoff of assets due to hurricane damages	$7,939,095	$—
Lessee-funded tenant improvements, capitalized as landlord assets	$23,818,305	$—
Dividends payable - Common Stock	$8,158,256	$4,992,038
Dividends payable - Series A Preferred Stock	$5,481,080	$3,885,123
Dividends payable - mShares Preferred Stock	$90,438	$—
Dividends declared but not yet due and payable	$33,094	$—
Partnership distributions payable to non-controlling interests	$211,781	$179,449
Accrued and payable deferred offering costs	$479,441	$690,643
Offering cost reimbursement to related party	$324,638	$482,871
Reclass of offering costs from deferred asset to equity	$2,193,139	$6,080,235
Fair value of OP units issued for property	$—	$5,072,659
Extinguishment of land loan for property	$—	$12,500,000
Proceeds of like-kind exchange funds for dispositions	$31,288,252	$—
Use of like-kind exchange funds for acquisitions	$31,288,252	$—
Fair value issuances of equity compensation	$4,088,499	$3,152,312
Mortgage loans assumed on acquisitions	$57,324,227	$43,103,275
Noncash repayment of mortgages through refinance	$65,000,000	$—

The accompanying notes are an integral part of these consolidated financial statements.
6

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

1. Organization and Basis of Presentation

Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009, and elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, effective with its tax year ended December 31, 2011. Unless the context otherwise requires, references to the "Company", "we", "us", or "our" refer to Preferred Apartment Communities, Inc., together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. The Company was formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of its business strategy, the Company may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, the Company also may acquire or originate senior mortgage loans, subordinate loans or real estate loan investments secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of its assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loan investments secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by its Manager (as defined below) as appropriate for the Company. The Company is externally managed and advised by Preferred Apartment Advisors, LLC, or its Manager, a Delaware limited liability company and related party (see Note 6).

As of September 30, 2017, the Company had 35,597,744 shares of common stock, par value $0.01 per share, or Common Stock, issued and outstanding and was the approximate 97.5% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 901,195 at September 30, 2017 and represented Class A OP Units of the Operating Partnership, or Class A OP Units. The Class A OP Units are convertible at any time at the option of the holder into the Operating Partnership's choice of either cash or Common Stock. In the case of cash, the value is determined based upon the trailing 20-day volume weighted average price of the Company's Common Stock.

The Company controls the Operating Partnership through its sole general partner interest and conducts substantially all of its business through the Operating Partnership. The Company has determined the Operating Partnership is a variable interest entity, or VIE, of which the Company is the primary beneficiary. New Market Properties, LLC owns and conducts the business of our portfolio of grocery-anchored shopping centers. Preferred Office Properties, LLC owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities, LLC owns and conducts the business of our portfolio of off-campus student housing communities. Each of these entities are wholly-owned subsidiaries of the Operating Partnership.

Basis of Presentation

These consolidated financial statements include all of the accounts of the Company and the Operating Partnership presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. All significant intercompany transactions have been eliminated in consolidation. Certain adjustments have been made consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of the Company's financial condition and results of operations. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the

consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The year end condensed balance sheet data was derived from audited financial statements, but does not include all the disclosures required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 1, 2017.

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

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

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

Tangible assets

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

Identifiable intangible assets

In-place leases

Multifamily communities and student housing properties

The fair value of in-place leases are estimated by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level (estimated to be 93% occupancy) based on historical observed move-in rates for each property, and which approximate market rates. Carrying costs during these hypothetical expected lease-up periods are estimated, considering current market conditions and include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates. The intangible assets are calculated by estimating the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. The acquired in-place lease values are amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases.

Grocery-anchored shopping centers and office buildings

The fair value of in-place leases represent the value of direct costs associated with leasing, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases. Direct costs associated with obtaining a new tenant include commissions, legal and marketing costs, incentives such as tenant improvement allowances and other direct costs. Such direct costs are estimated based on our consideration of current market costs to execute a similar lease. The value of opportunity costs is calculated using the estimated market lease rates and the estimated absorption period of the space. These direct costs and opportunity costs are included in the accompanying consolidated balance sheets as acquired intangible assets and are amortized to expense over the remaining term of the respective leases.

Above-market and below-market lease values

Multifamily communities and student housing properties

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

Grocery-anchored shopping centers and office buildings

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

Impairment assessment

The Company evaluates its tangible and identifiable intangible real estate assets for impairment when events such as declines in a property's operating performance, deteriorating market conditions, or environmental or legal concerns bring recoverability of the carrying value of one or more assets into question. When qualitative factors indicate the possibility of impairment, the total

undiscounted cash flows of the asset group, including proceeds from disposition, are compared to the net book value of the asset group. If this test indicates that impairment exists, an impairment loss is recorded in earnings equal to the shortage of the book value to fair value, calculated as the discounted net cash flows of the asset group.

Revenue Recognition

Multifamily communities and student housing properties

Rental revenue is recognized when earned from residents of the Company's multifamily communities, which is over the terms of rental agreements, typically of 12 months' duration. The Company evaluates the collectability of amounts due from residents and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of residents to make required payments then due under lease agreements. The balance of amounts due from residents are generally deemed uncollectible 30 days beyond the due date, at which point they are fully reserved.

Grocery-anchored shopping centers and office buildings

Rental revenue from tenants' operating leases in the Company's grocery-anchored shopping centers and office buildings is recognized on a straight-line basis over the term of the lease. Revenue based on "percentage rent" provisions that provide for additional rents that become due upon achievement of specified sales revenue targets (as specified in each lease agreement) is recognized only after the tenant exceeds its specified sales revenue target. Revenue from reimbursements of the tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized in the period in which the related expenses are incurred. Lease termination revenues are recognized ratably over the revised remaining lease term after giving effect to the termination notice or when tenant vacates and the Company has no further obligations under the lease. Rents and tenant reimbursements collected in advance are recorded as prepaid rent within other liabilities in the accompanying consolidated balance sheets. The Company estimates the collectability of the tenant receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental revenue on a straight-line basis, by taking into consideration the Company's historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms. The Company may provide retail and office building tenants an allowance for the construction of leasehold improvements. These leasehold improvements are capitalized and depreciated over the shorter of the useful life of the improvements or the remaining lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements, the allowance is considered to be a lease incentive and is recognized over the lease term as a reduction of rental revenue. Determination of the appropriate accounting for the payment of a tenant allowance is made on a lease-by-lease basis, considering the facts and circumstances of the individual tenant lease. When the Company is the owner of the leasehold improvements, recognition of rental revenue commences when the lessee is given possession of the leased space upon completion of tenant improvements. However, when the leasehold improvements are owned by the tenant, the lease inception date is the date the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements. For our Preferred Office Properties, if the improvement is deemed to be a "landlord asset," and the tenant funded the tenant improvements, the cost is amortized over the term of the underlying lease as rental revenues. In order to qualify as a landlord asset, the specifics of the tenant's assets are reviewed, including the Company's approval of the tenant's detailed expenditures, whether such assets may be usable by other future tenants, whether the Company has consent to alter or remove the assets from the premises and generally remain the Company's property at the end of the lease.

Acquisition Costs

Through December 31, 2016, the Company expensed property acquisition costs as incurred, which include costs such as due diligence, legal, certain accounting, environmental and consulting, when the acquisition constituted a business combination. As described below in the section entitled New Accounting Pronouncements, Accounting Standards Update 2017-01 was adopted by the Company effective January 1, 2017, which changed the definition of a business. Under this new guidance, most property acquisitions made by the Company will fall within the category of acquired

assets rather than acquired businesses. This distinction will cause the Company to capitalize its costs for acquisitions (including, effective July 1, 2017, a 1% acquisition fee), allocate them to the fair value of acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company anticipates selecting the modified retrospective transition method with a cumulative effect recognized as of the date of adoption and will
adopt the new standard effective January 1, 2018, when effective. In addition, the evaluation of non-lease components under ASU 2014-09 will not be effective until Accounting Standards Update No. 2016-02, Leases (Topic 842), ("ASU 2016-02") becomes effective (see further discussion below), which will be first quarter of 2019 for the Company. The Company has determined that approximately 90% of its revenues from its New Market Properties and office building segments are derived from either long-term leases with its tenants or reimbursement of property tax and insurance expenses, which are excluded from the scope of the ASU 2014-09. Of the remaining 10% of New Market Properties and office building segment revenues, the majority is comprised of common area maintenance (“CAM”) reimbursements, which is a non-lease component under ASU 2014-09 and therefore within its scope of adoption. Based on management's assessment to date, the Company does not expect the timing of the recognition of reimbursement revenue and other miscellaneous income to change as a result of the new guidance, though certain classifications will change between rental revenue and tenant reimbursements. Similarly, the Company's multifamily communities segment derives the majority of its revenues from rental operations, to which this standard is not applicable. However, the Company does provide non-rental services to its residents related to ancillary services and is currently evaluating the various revenue streams to identify any potential sources which may require bifurcation and reclassification. The Company is continuing to evaluate the impact the adoption of ASU 2014-09 will have on its results of operations and financial condition.

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

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases and supersedes the previous standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company anticipates adopting ASC 842 utilizing the modified retrospective method and is continuing to evaluate the impacts this standard will have on its results of operations and financial condition.

In June 2016, the FASB issued Accounting Standards Update 2016-13 ("ASU 2016-13"), Financial Instruments—Credit Losses

(Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial instruments carried at amortized cost to be presented at the net amount expected to be collected, utilizing a valuation account which reflects the cumulative net adjustments from the gross amortized cost value. Under existing GAAP, entities would not record a valuation allowance until a loss was probable of occurring. The standard is effective for the Company on January 1, 2020. The Company is currently evaluating methods of deriving initial valuation accounts to be applied to its real estate loan portfolio. The Company is continuing to evaluate the pending guidance but does not believe the adoption of ASU 2016-13 will have a material impact on its results of operations or financial condition, since the Company has not yet experienced a credit loss related to any of its financial instruments.

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

In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), Statement of Cash Flows—(Topic 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents when reconciling the beginning and ending amounts in the statements of cash flows. ASU 2016-18 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company plans to adopt ASU 2016-18 on January 1, 2018. The Company currently reports changes in restricted cash within the investing activities section of its consolidated statements of cash flows and does not expect the adoption of ASU 2016-18 to impact its results of operations and financial condition.

In January 2017, the FASB issued Accounting Standards Update 2017-01 ("ASU 2017-01"), Business Combinations - (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company adopted ASU 2017-01 as of January 1, 2017. The Company believes its future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing properties will generally qualify as asset acquisitions. To the extent acquisitions are deemed to be asset acquisitions, acquisition costs have been and will be capitalized and amortized rather than expensed as incurred. The impact of the adoption of ASU 2017-01 was an decrease of approximately $3.4 million of the Company's reported net income available to common stockholders for the three-month period ended September 30, 2017 and a decrease of approximately $6.1 million of the Company's reported net loss available to common stockholders for the nine-month period ended September 30, 2017 than it would have under previous guidance.

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

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

3. Real Estate Assets

The Company's real estate assets consisted of:

	As of:	
	9/30/17	12/31/16
Multifamily communities:		
Properties [1]	29	24
Units	9,086	8,049
New Market Properties [2]		
Properties	37	31
Gross leasable area (square feet) [3]	3,854,196	3,295,491
Student housing properties:		
Properties	2	1
Units	444	219
Beds	1,319	679
Preferred Office Properties:		
Properties	3	3
Rentable square feet	1,094,000	1,096,834

[1] The acquired second phase of the Summit Crossing community is managed in combination with the initial phase and so together are considered a single property, as are the three assets that comprise the Lenox Portfolio.
[2] See note 12, Segment information.
[3] The Company also owns approximately 47,600 square feet of gross leasable area of ground floor retail space which is embedded within the Lenox Portfolio and not included in the totals above.

Storm-related costs

The Company sustained damages at its Stone Creek multifamily community from Hurricane Harvey during the third quarter. The resulting impact required the write-off of approximately $6.9 million in depreciated real estate assets. Additional storm-related costs included approximately $217,000 during the three-month period ended September 30, 2017 for the related insurance deductible, lost rent, and other related costs.

Multifamily communities sold

On January 20, 2017, the Company closed on the sale of its 364-unit multifamily community in Kansas City, Kansas, or Sandstone Creek, to an unrelated third party for a purchase price of $48.1 million, exclusive of closing costs and resulting in a gain of $0.3 million, which is net of disposition expenses including $1.4 million of debt defeasance related costs. Sandstone Creek contributed approximately $1.2 million and $(0.9) million of net income (loss) to the consolidated operating results of the Company for the nine-month periods ended September 30, 2017 and 2016, respectively.

On March 7, 2017, the Company closed on the sale of its 408-unit multifamily community in Atlanta, Georgia, or Ashford Park, to an unrelated third party for a purchase price of $65.5 million, exclusive of closing costs and resulting in a gain of $30.4 million, which is net of disposition expenses including $1.1 million of debt defeasance related costs plus a prepayment premium of approximately $0.4 million. Ashford Park contributed approximately $2.3 million and $0.6 million of net income to the consolidated operating results of the Company for the nine-month periods ended September 30, 2017 and 2016, respectively.

On May 25, 2017, the Company closed on the sale of its 300-unit multifamily community in Dallas, Texas, or Enclave at Vista Ridge, to an unrelated third party for a purchase price of $44.0 million, exclusive of closing costs and resulting in a gain of $6.9 million, net of disposition expenses including $2.1 million of debt defeasance related costs. Enclave at Vista Ridge contributed approximately $9.8 million and $(0.2) million of net income (loss) to the consolidated operating results of the Company for the nine-month periods ended September 30, 2017 and 2016, respectively.

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

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

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

Multifamily communities acquired

During the nine-month period ended September 30, 2017, the Company completed the acquisition of the following multifamily communities and student housing property:

Acquisition date	Property	Location	Approximate purchase price (millions) [1]	Units
2/28/2017	SoL [2]	Tempe, Arizona	$ 53.3	225
3/3/2017	Broadstone at Citrus Village	Tampa, Florida	$ 47.4	296
3/24/2017	Retreat at Greystone	Birmingham, Alabama	$ 50.0	312
3/31/2017	Founders Village	Williamsburg, Virginia	$ 44.4	247
4/26/2017	Claiborne Crossing	Louisville, Kentucky	$ 45.2	242
7/26/2017	Luxe at Lakewood Ranch	Sarasota, Florida	$ 56.1	280
9/27/2017	Adara Overland Park	Kansas City, Kansas	$ 45.5	260
9/29/2017	Aldridge at Town Village	Atlanta, Georgia	$ 54.2	300
9/29/2017	The Reserve at Summit Crossing	Atlanta, Georgia	$ 30.9	172
				2,334

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

13

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

The Company allocated the purchase prices and, for acquisitions that closed subsequent to January 1, 2017, capitalized acquisition costs, to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities.

2017 Multifamily Communities acquired	Broadstone at Citrus Village	SoL	Retreat at Greystone	Founders Village	Claiborne Crossing	Luxe at Lakewood Ranch	Adara Overland Park	Aldridg Town
Land	$4,809,113	$7,440,934	$4,077,262	$5,314,862	$2,147,217	$4,851,844	$2,854,466	$7,122
Buildings and improvements	34,180,983	40,058,727	35,336,277	32,853,763	30,551,646	43,694,577	31,005,403	34,683
Furniture, fixtures and equipment	6,299,645	3,771,432	9,125,302	5,907,345	7,027,257	7,338,151	11,024,144	10,735
Lease intangibles	1,624,752	2,344,404	1,844,476	1,421,197	1,268,810	1,014,150	1,279,589	2,270,9
Mark to market debt assumption asset	893,385	—	—	—	4,447,751	—	—	—
Prepaids & other assets	744,970	808,045	871,684	938,419	1,120,728	1,387,129	604,973	779,94
Escrows	67,876	—	101,503	—	—	—	—	—
Accrued taxes	(108,286)	(71,856)	(139,046)	—	(115,728)	(404,690)	(308,299)	—
Security deposits, prepaid rents, and other liabilities	(24,887)	(377,735)	(108,573)	(103,204)	(130,850)	(57,933)	(31,941)	(143,0
Net assets acquired	$48,487,551	$53,973,951	$51,108,885	$46,332,382	$46,316,831	$57,823,228	$46,428,335	$55,44
Cash paid	$18,237,551	$16,488,951	$1,660,888	$1,438,320	$19,242,604	$18,535,728	$14,578,335	$5,185
Use of 1031 proceeds	—	—	14,237,997	13,289,062	—	—	—	—
Mezzanine loan conversion	—	—	—	—	—	—	—	12,253
Mortgage debt	30,250,000	37,485,000	35,210,000	31,605,000	27,074,227	39,287,500	31,850,000	38,010
Total consideration	$48,487,551	$53,973,951	$51,108,885	$46,332,382	$46,316,831	$57,823,228	$46,428,335	$55,44

Three months ended September 30, 2017:								
Revenue	$1,168,000	$1,412,000	$1,215,000	$1,029,000	$1,035,000	$877,000	$32,000	$1,000
Net income (loss)	$(621,000)	$(1,213,000)	$(789,000)	$(508,000)	$(836,000)	$(679,000)	$(179,000)	$(219,(
Nine months ended September 30, 2017:								
Revenue	$2,628,000	$3,305,000	$2,513,000	$2,032,000	$1,767,000	$877,000	$32,000	$1,000
Net income (loss)	$(1,414,000)	$(3,108,000)	$(1,719,000)	$(1,213,000)	$(1,663,000)	$(679,000)	$(179,000)	$(219,(
Capitalized acquisition costs incurred by the Company	$458,000	$290,000	$383,000	$1,103,000	$293,000	$759,000	$646,000	$602,0
Acquisition costs paid to related party (included above)	$24,000	$60,000	$56,000	$8,000	$22,000	$561,000	$455,000	$542,0
Remaining amortization period of intangible assets and liabilities (months)	38.4	0	5.5	5.5	126.1	6.5	9.5	13.5

[1] The Company's real estate loan investment in support of Founders Village was repaid in full at the closing of the acquisition

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

2016 Multifamily Communities acquired	North by Northwest	Avalon Park	Overton Rise	Baldwin Park	Crosstown Walk	City Vista	Sorrel
Land	$8,281,054	$7,410,048	$8,511,370	$17,402,882	$5,178,375	$4,081,683	$4,412,164
Buildings and improvements	34,355,922	80,558,636	44,710,034	87,105,757	33,605,831	36,084,007	35,512,257
Furniture, fixtures and equipment	2,623,916	1,790,256	6,286,105	3,358,589	5,726,583	5,402,228	6,705,040
Lease intangibles	799,109	2,741,060	1,611,314	2,882,772	1,323,511	2,100,866	1,495,539
Prepaids & other assets	79,626	99,297	73,754	229,972	125,706	167,797	—
Escrows	1,026,419	3,477,157	354,640	2,555,753	291,868	599,983	623,791
Accrued taxes	(321,437)	(394,731)	(66,422)	(17,421)	(25,983)	(245,326)	(437,510)
Security deposits, prepaid rents, and other liabilities	(159,462)	(207,623)	(90,213)	(226,160)	(53,861)	(141,238)	(68,828)
Net assets acquired	$46,685,147	$95,474,100	$61,390,582	$113,292,144	$46,172,030	$48,050,000	$48,242,453
Cash paid	$12,831,872	$30,474,100	$20,090,582	$35,492,144	$13,632,030	—	$14,642,453
Real estate loan settled	—	—	—	—	—	12,500,000	—
Joint venture partner	—	—	—	—	—	(450,000)	—
Mortgage debt	33,853,275	65,000,000	41,300,000	77,800,000	32,540,000	36,000,000	33,600,000
Total consideration	$46,685,147	$95,474,100	$61,390,582	$113,292,144	$46,172,030	$48,050,000	$48,242,453
Three months ended September 30, 2017:							
Revenue	$1,551,000	$2,044,000	$1,309,000	$2,421,000	$1,339,000	$1,143,000	$1,102,000
Net income (loss)	$(37,000)	$(573,000)	$(144,000)	$(645,000)	$(121,000)	$(341,000)	$(441,000)

Nine months ended September 30, 2017:							
Revenue	$4,486,000	$6,059,000	$3,888,000	$7,135,000	$3,929,000	$3,311,000	$3,315,000
Net income (loss)	$(166,000)	$(2,853,000)	$(411,000)	$(1,915,000)	$(250,000)	$(1,889,000)	$(1,668,000)
Capitalized acquisition costs incurred by the Company	$40,000	$1,314,000	$116,000	$1,847,000	$320,000	$18,000	$529,000

15

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

Grocery-anchored shopping centers acquired

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

Acquisition date	Property	Location	Approximate purchase price (millions) [1]	Gross leasable area (square feet)
4/21/2017	Castleberry-Southard	Atlanta, Georgia	$ 17.6	80,018
6/6/2017	Rockbridge Village	Atlanta, Georgia	$ 20.3	102,432
7/26/2017	Irmo Station	Columbia, SC	$ 16.0	99,384
8/25/2017	Maynard Crossing	Raleigh, NC	$ 29.9	122,781
9/8/2017	Woodmont Village	Atlanta, GA	$ 13.5	85,639
9/22/2017	West Town Market	Charlotte, NC	$ 14.3	67,883
				558,137

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

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

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

New Market Properties 2017 acquisitions	Castleberry-Southard	Rockbridge Village	Irmo Station	Maynard Crossing	Woodmont Village	West Town Market
Land	$ 3,023,731	$ 3,141,325	$ 3,602,466	$ 6,303,787	$ 2,712,907	$ 1,936,572
Buildings and improvements	13,471,240	15,666,091	11,555,942	21,773,900	9,836,799	12,092,823
Tenant improvements	670,376	278,340	303,449	791,792	193,347	205,557
In-place leases	990,663	1,249,694	773,530	1,479,507	1,721,425	1,042,631
Above market leases	123,084	59,267	12,811	338,002	—	—
Leasing costs	464,544	301,761	214,340	465,414	413,237	315,624
Below market leases	(1,081,145)	(332,725)	(225,228)	(866,380)	(1,521,305)	(1,142,446)
Other assets	67,899	7,136	132,622	258,658	—	146,864
Other liabilities	(162,499)	(89,212)	(59,395)	(95,119)	(82,041)	(76,323)
Net assets acquired	$ 17,567,893	$ 20,281,677	$ 16,310,537	$ 30,449,561	$ 13,274,369	$ 14,521,302
Cash paid	$ 2,306,703	$ 6,031,677	$ 5,660,537	$ 11,949,561	$ 4,499,369	$ 5,521,302
Use of 1031 proceeds	3,761,190	—	—	—	—	—
Mortgage debt	11,500,000	14,250,000	10,650,000	18,500,000	8,775,000	9,000,000
Total consideration	$ 17,567,893	$ 20,281,677	$ 16,310,537	$ 30,449,561	$ 13,274,369	$ 14,521,302
Three months ended September 30, 2017:						
Revenue	$ 394,000	$ 408,000	$ 248,000	$ 229,000	$ 88,000	$ 32,000
Net income (loss)	$ 3,000	$ (43,000)	$ (75,000)	$ (98,000)	$ 7,000	$ (17,000)
Nine months ended September 30, 2017:						
Revenue	$ 640,000	$ 518,000	$ 248,000	$ 229,000	$ 88,000	$ 32,000
Net income (loss)	$ (85,000)	$ (35,000)	$ (75,000)	$ (98,000)	$ 7,000	$ (17,000)
Capitalized acquisition costs incurred by the Company	$ 78,000	$ 131,000	$ 226,000	$ 379,000	$ 200,000	$ 201,000
Capitalized acquisition costs paid to related party (included above)	$ 19,000	$ 23,000	$ 161,000	$ 307,000	$ 135,000	$ 144,000
Remaining amortization period of intangible assets and liabilities (years)	9.8	7.7	2.9	5.1	7.9	8.6

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

New Market Properties 2016 acquisitions	Market at Victory Village	Southeastern Six Portfolio	Wade Green Village	Lakeland Plaza	Sunbelt 7 Portfolio
Land	$2,271,224	$14,081,647	$1,840,284	$7,079,408	$36,198,658
Buildings and improvements	11,872,222	48,598,731	8,159,147	32,258,335	109,504,038
Tenant improvements	402,973	993,530	251,250	828,966	2,143,404
In-place leases	847,939	4,906,398	841,785	2,947,175	11,005,662
Above-market leases	100,216	86,234	107,074	1,349,624	458,353
Leasing costs	253,640	992,143	167,541	1,287,825	4,116,560
Below-market leases	(198,214)	(1,069,877)	—	(797,729)	(7,617,485)
Other assets	157,775	600,069	10,525	—	3,409,838
Other liabilities	(179,546)	(437,008)	(59,264)	(180,331)	(1,196,579)
Net assets acquired	$15,528,229	$68,751,867	$11,318,342	$44,773,273	$158,022,449
Cash paid	$6,278,229	$43,751,867	$6,245,683 [1]	$14,773,273	$60,368,449
Class A OP Units granted	—	—	5,072,659 [2]	—	—
Mortgage debt	9,250,000 [3]	25,000,000	— [4]	30,000,000	97,654,000
Total consideration	$15,528,229	$68,751,867	$11,318,342	$44,773,273	$158,022,449
Three months ended September 30, 2017:					
Revenue	$331,000	$1,604,000	$260,000	$933,000	$3,278,000
Net loss	$(36,000)	$(52,000)	$(79,000)	$(100,000)	$(248,000)
Nine months ended September 30, 2017:					
Revenue	$1,026,000	$4,759,000	$781,000	$2,822,000	$9,837,000
Net loss	$(87,000)	$(229,000)	$(259,000)	$(346,000)	$(1,227,000)
Cumulative acquisition costs incurred by the Company	$111,000	$633,000	$297,000	$255,000	$691,000
Remaining amortization period of intangible assets and liabilities (years)	7.9	3.9	1.7	6.9	9.0

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

[2] As partial consideration for the property contribution, the Company granted 419,228 Class A OP Units to the contributor, net of contribution adjustments at closing. The value and number of Class A OP Units to be granted at closing was determined during the contract process and remeasured at fair value as of the contribution date of

February 29, 2016. Class A OP Units are exchangeable for shares of Common Stock on a one-for-one basis, or cash, at the election of the Operating Partnership. Therefore, the Company determined the fair value of the Units to be equivalent to the price of its common stock on the closing date of the acquisition.

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

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

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

Preferred Office Properties

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

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

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

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

The Company recorded aggregate amortization and depreciation expense of:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Depreciation:				
Buildings and improvements	$14,084,126	$9,637,960	$39,928,817	$24,251,696
Furniture, fixtures, and equipment	7,697,513	5,775,856	20,916,508	15,135,655
	21,781,639	15,413,816	60,845,325	39,387,351
Amortization:				
Acquired intangible assets	6,724,543	6,205,194	20,744,743	15,523,359
Deferred leasing costs	381,103	38,621	562,865	53,510
Website development costs	16,485	6,732	34,027	16,844
Total depreciation and amortization	$28,903,770	$21,664,363	$82,186,960	$54,981,064

At September 30, 2017, the Company had recorded gross intangible assets of $164.4 million, and accumulated amortization of $64.0 million; gross intangible liabilities of $38.5 million and accumulated amortization of $6.9 million. Net intangible assets and liabilities as of September 30, 2017 will be amortized over the weighted average remaining amortization periods of approximately 7.0 years and 8.9 years, respectively.

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

Our portfolio of fixed rate, interest-only real estate loans consisted of:

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

	September 30, 2017	December 31, 2016
Number of loans	27	26
Drawn amount	$411,300,449	$334,570,242
Deferred loan origination fees	(2,095,534)	(1,809,174)
Carrying value	$409,204,915	$332,761,068
Unfunded loan commitments	$92,666,156	$76,546,234
Weighted average current interest, per annum (paid monthly)	8.48 %	8.26 %
Weighted average accrued interest, per annum	5.10 %	5.26 %

	Principal balance	Deferred loan origination fees	Carrying value
Balances as of December 31, 2016	$334,570,242	$(1,809,174)	$332,761,068
Loan fundings	119,225,599	—	119,225,599
Loan repayments	(42,495,392)	—	(42,495,392)
Commitment fees collected	—	(1,281,383)	(1,281,383)
Amortization of commitment fees	—	995,023	995,023
Balances as of September 30, 2017	$411,300,449	$(2,095,534)	$409,204,915

Property type	Number of loans	Carrying value	Commitment amount	Percentage of portfolio
Multifamily communities	16	$234,186,944	$299,657,110	57 %
Student housing properties	9	154,177,450	182,952,490	38 %
Grocery-anchored shopping centers	1	12,852,591	12,857,005	3 %
Other	1	7,987,930	8,500,000	2 %
Balances as of September 30, 2017	27	$409,204,915	$503,966,605	

The Palisades, Green Park and Stadium Village (see note 16) loans are subject to a loan participation agreement with a syndicate of unaffiliated third parties, under which the syndicate is to fund approximately 25% of the loan commitment amount and collectively receive approximately 25% of interest payments, returns of principal and purchase option discount (if applicable). The Company's Encore loan is subject to a loan participation agreement of 49% of the loan commitment amount, interest payments, and return of principal. The aggregate amount of the Company's liability under the loan participation agreements at September 30, 2017 was approximately $17.9 million.

The Company's real estate loans are collateralized by 100% of the membership interests of the underlying project entity, and, where considered necessary, by unconditional joint and several repayment guaranties and performance guaranties by the principal(s) of the borrowers. These guaranties generally remain in effect until the receipt of a final certificate of occupancy. All of the guaranties are subject to the rights held by the senior lender pursuant to a standard intercreditor agreement. The Crescent Avenue, Haven Northgate, Brentwood, and Berryessa loans are also collateralized by the acquired land or property. The18 Nineteen and Haven South loans are additionally collateralized by an assignment by the developer of security interests in unrelated projects. Prepayment of the real estate loans are permitted in whole, but not in part, without the Company's consent.

Management monitors the credit quality of the obligors under each of the Company's real estate loans by tracking the timeliness of scheduled interest and principal payments relative to the due dates as specified in the loan documents, as well as draw requests on the loans relative to the project budgets. In addition, management monitors the actual progress of development and construction relative to the construction plan, as well as local, regional and national economic conditions that may bear on our current and target markets. The credit quality of the Company’s borrowers is primarily based on their payment history on an individual loan basis, and as such, the Company does not assign quantitative credit value measures or categories to its real estate loans and notes receivable in credit quality categories. At September 30, 2017, none of the Company's real estate loans were delinquent.

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

Our portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of: 9/30/2017	12/31/2016	Interest rate
360 Residential, LLC [1]	3/20/2013	12/31/2017	$ 2,000,000	$ 1,958,998	$ 1,472,571	12 %
Preferred Capital Marketing Services, LLC [2]	1/24/2013	12/31/2017	1,500,000	926,422	1,082,311	10 %
Oxford Contracting, LLC [1]	8/27/2013	[3]	-3	—	1,475,000	8 %
Preferred Apartment Advisors, LLC [1,2,4]	8/21/2012	12/31/2018	18,000,000	15,812,313	13,708,761	8 %
Haven Campus Communities, LLC [1,2]	6/11/2014	12/31/2017	11,110,000	7,324,904	7,324,904	12 %
Oxford Capital Partners, LLC [1,5]	10/5/2015	12/31/2017	10,150,000	8,972,378	7,870,865	12 %
Newport Development Partners, LLC [1]	6/17/2014	6/30/2018	3,000,000	—	—	12 %
360 Residential, LLC II [1]	12/30/2015	12/31/2017	3,255,000	3,230,232	2,884,845	15 %
Mulberry Development Group, LLC [1]	3/31/2016	6/30/2018	500,000	420,000	177,000	12 %
Mulberry Alexandria Group, LLC	7/31/2017	12/31/2017	1,400,000	990,154	—	12 %
360 Capital Company, LLC [1]	5/24/2016	12/31/2017	3,900,000	2,730,499	1,678,999	12 %
Unamortized loan fees				(14,404)	(59,581)	
			$ 54,815,000	$ 42,351,496	$ 37,615,675	

[1] The amounts payable under the terms of these revolving credit lines are collateralized by a personal guaranty of repayment by the principals of the borrower.
[2] See related party disclosure in Note 6.
[3] Note was repaid on April 6, 2017 and terminated at its maturity date of April 30, 2017.
[4] The amounts payable under this revolving credit line were collateralized by an assignment of the Manager's rights to fees due under the Sixth Amended and Restated Management Agreement between the Company and the Manager.
[5] The amounts payable under the terms of this revolving credit line, up to the lesser of 25% of the loan balance or $2,000,000 are collateralized by a personal guaranty of repayment by the principals of the borrower.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Real estate loans:				
Current interest payments	$ 8,956,012	$ 5,902,915	$ 23,996,934	$ 16,913,037
Additional accrued interest	5,005,796	3,917,641	13,894,268	10,633,937
Deferred origination fee amortization	408,077	201,147	995,023	636,875
Total real estate loan revenue	14,369,885	10,021,703	38,886,225	28,183,849
Interest income on notes and lines of credit	1,123,240	974,540	3,196,965	3,111,339

Interest income on loans and notes receivable	$15,493,125	$10,996,243	$42,083,190	$31,295,188

The Company extends loans for purposes such as to partially finance the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities, and for other real estate or real estate related projects. Certain of these loans include characteristics such as exclusive options to purchase the project within a specific time window following project completion and stabilization, the sufficiency of the borrowers' investment at risk and the existence of payment and performance guaranties provided by the borrowers, can cause the loans to create variable interests to the Company and require further evaluation as to whether the variable interest creates a variable interest entity, or VIE, which would necessitate consolidation of the project.

The Company considers the facts and circumstances pertinent to each entity borrowing under the loan, including the relative amount of financing the Company is contributing to the overall project cost, decision making rights or control held by the Company, guarantees provided by third parties, and rights to expected residual gains or obligations to absorb expected residual losses that could be significant from the project. If the Company is deemed to be the primary beneficiary of a VIE, consolidation treatment would be required.

The Company has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. The Company has concluded that it is not the primary beneficiary of the borrowing entities and therefore it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of September 30, 2017 of approximately $371.3 million. The maximum aggregate amount of loans to be funded as of September 30, 2017 was approximately $461.6 million.

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

The Company is also subject to a geographic concentration of risk that could be considered significant with regard to the Encore, Encore Capital, Green Park, Stadium Village, Bishop Street, Dawsonville Marketplace, Crescent Avenue, 360 Forsyth, Morosgo and TP Kennesaw loans, all of which are partially supporting proposed various real estate projects in or near Atlanta, Georgia. The drawn amount of these loans as of September 30, 2017 totaled approximately $98.4 million (with a total commitment amount of approximately $142.7 million) and in the event of a total failure to perform by the borrowers and guarantors, would subject the Company to a total possible loss of that amount.

5. Redeemable Preferred Stock and Equity Offerings

On February 14, 2017, the Company terminated its offering of up to 900,000 Units, or Follow-on Offering, and on the same day, the Company’s registration statement on Form S-3 (Registration No. 333-211924) (the “$1.5 Billion Follow-on Registration Statement”) was declared effective by the SEC. This $1.5 Billion Follow-on Registration Statement allows us to offer up to a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock (the "$1.5 Billion Unit Offering"). The price per Unit is $1,000, subject to adjustment if a participating broker-dealer reduces its commission. Each share of Preferred Stock ranks senior to Common Stock with respect to dividend rights and carries a cumulative annual 6% dividend of the stated per share value of $1,000, payable monthly as declared by the Company’s board of directors. Dividends begin accruing on the date of issuance. The redemption schedule of the Preferred Stock allows redemptions at the option of the holder from the date of issuance of the Preferred Stock through the first year subject to a 13% redemption fee. After year one, the redemption fee decreases to 10%, after year three it decreases to 5%, after year four it decreases to 3%, and after year five there is no redemption fee. Any redeemed shares of Preferred Stock are entitled to any accrued but unpaid dividends at the time of redemption and any redemptions may be in cash or Common Stock, at the Company’s discretion. The Warrant is exercisable by the holder at an exercise price of 120% of the current market price per share of the Common Stock on the date of issuance of such warrant with a minimum exercise price of $19.50 per share. The current market price per share of the Common Stock is determined using the closing price of the common stock immediately preceding the issuance of such Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance. The Units are being offered by Preferred Capital Securities, LLC, or PCS, an affiliate of the Company, on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the $1.5 Billion Unit Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes. Except as described in the $1.5 Billion Follow-on Registration Statement, the terms of the $1.5 Billion Unit Offering are substantially similar to those under the Follow-on Offering. As of February 14, 2017, which was the final closing of the Follow-on Offering, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $97.2 million. These costs are reflected as a reduction of stockholders' equity at the time of closing. In addition, the costs related to the offering not related to a specific closing transaction totaled approximately $15.0 million. As of February 14, 2017, the Company had issued all available Units under the Primary Series A Offering and the Follow-on Offering and collected net proceeds of approximately $891.2 million after commissions. Since the maximum number of Units

available to be issued under the Primary Series A Offering and the Follow-on Offering were issued, the Company consequently recognized 100.0% of the approximate $15.0 million deferred offering costs as a reduction of stockholders' equity.

For the $1.5 Billion Unit Offering, as of September 30, 2017, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $14.9 million. These costs are reflected as a reduction of stockholders' equity at the time of closing. In addition, the costs related to the offering not related to a specific closing transaction totaled approximately $3.0 million. As of September 30, 2017, the Company had issued 151,923 Units and collected net proceeds of approximately $136.5 million after commissions under the $1.5 Billion Unit Offering. The number of Units issued was approximately 10.1% of the maximum number of Units anticipated to be issued under the $1.5 Billion Unit Offering. Consequently, the Company cumulatively recognized approximately 10.1% of the approximate $3.0 million deferred to date, or approximately $300,000 as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately $2.7 million, are reflected in the asset section of the consolidated

balance sheet as deferred offering costs at September 30, 2017. The remainder of current and future deferred offering costs related to the $1.5 Billion Unit Offering will likewise be recognized as a reduction of stockholders' equity in the proportion of the number of Units issued to the maximum number of Units anticipated to be issued. Offering costs not related to a specific closing transaction are subject to an overall cap of approximately 1.5% (discussed further below) of the total gross proceeds raised during the Unit offerings.

Cumulatively, a total of 25,715 shares of Preferred Stock have been subsequently redeemed from the Primary Series A Offering, the Follow-on Offering, and the $1.5 Billion Unit Offering.

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

On May 5, 2016, the Company filed a registration statement on Form S-3 (File No. 333-211178), or the New Shelf Registration Statement, for an offering of up to $300 million of equity or debt securities, or the Shelf Offering, which was declared effective by the SEC on May 17, 2016. Deferred offering costs related to this Shelf Registration Statement totaled approximately $1.9 million as of September 30, 2017, of which $628,000 has been reflected as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately $1.3 million, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at September 30, 2017.

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

The Company filed a prospectus to issue and sell up to $150 million of Common Stock from time to time in an "at the market" offering (the "2016 ATM Offering") through the sales agents named in the prospectus. The Company intends to use any proceeds from the 2016 ATM Offering to repay outstanding amounts under our existing senior secured revolving credit facility and for other general corporate purposes, which includes making investments in accordance with the Company's investment objectives. Through September 30, 2017, the Company cumulatively sold 3.4 million shares of common stock through the ATM Offering and collected net proceeds of approximately $51.0 million.

On December 2, 2016, the Company's registration statement on Form S-3 (Registration No. 333-214531) (the "mShares Registration Statement") was declared effective by the SEC. The mShares Registration Statement allows us to offer up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock ("mShares"), par value $0.01 per share (the "mShares Offering"). The mShares are being offered by PCS on a "reasonable best efforts" basis. The price per mShare is $1,000. Each mShare ranks senior to Common Stock and on parity with the Series A Preferred Stock with respect to dividend rights and carries a cumulative annual dividend of 5.75% per annum. Beginning one year from the date of original issuance of each mShare, and on each one year anniversary thereafter, the dividend rate increases by 0.25% per annum, up to a maximum of 7.5% per annum. Dividends are payable monthly as declared by the Company's board of directors and begin accruing on the date of issuance. The redemption schedule of the mShares allows redemptions

at the option of the holder from the date of issuance of the Preferred Stock through the first year subject to a 2% redemption fee. After year one, the redemption fee decreases to 1% and after year two there is no redemption fee. Any redeemed mShares are entitled to any accrued but unpaid dividends at the time of redemption and any redemptions may be in cash or Common Stock, at the Company’s discretion. The Company intends to invest substantially all the net proceeds of the mShares Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes.

As of September 30, 2017, offering costs specifically identifiable to mShares Offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $0.6 million. These costs are reflected as a reduction of stockholders' equity at the time of closing. In addition, the costs related to the offering not related to a specific closing transaction totaled approximately $2.2 million. As of September 30, 2017, the Company had issued 12,396 mShares and collected net proceeds of approximately $11.8 million after commissions under the mShares Offering. The number of mShares issued was approximately 2.5% of the maximum number of mShares anticipated to be issued under the mShares Offering. Consequently, the Company cumulatively recognized approximately 2.5% of the approximate $2.2 million deferred to date, or approximately $54,000 as a

reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately $2.1 million are reflected in the asset section of the consolidated balance sheet as deferred offering costs at September 30, 2017. The remainder of current and future deferred offering costs related to the mShares Offering will likewise be recognized as a reduction of stockholders' equity in the proportion of the number of mShares issued to the maximum number of mShares anticipated to be issued. Offering costs not related to a specific closing transaction are subject to an overall cap of approximately 1.5% (discussed further below) of the total gross proceeds raised during the mShares Offering.

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

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

6. Related Party Transactions

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

Mr. Williams, Mr. Silverstein and Michael J. Cronin, the Company's Executive Vice President, Chief Accounting Officer and Treasurer are executive officers of Williams Realty Advisors, LLC, or WRA, which is the manager of the day-to-day operations of Williams Opportunity Fund, LLC, or WOF, as well as Williams Realty Fund I, LLC, or WRF.

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

The Management Agreement entitles the Manager to receive compensation for various services it performs related to acquiring assets and managing properties on the Company's behalf:

Type of Compensation	Basis of Compensation	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Acquisition fees	As of July 1, 2017, 1.0% of the gross purchase price of real estate assets	$2,604,551	$—	$2,604,551	$—
Loan origination fees	1.0% of the maximum commitment of any real estate loan, note or line of credit receivable	878,939	250,602	1,296,383	1,374,828
Loan coordination fees	As of January 1, 2016, 1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property. Effective July 1, 2017, the fee was reduced to 0.6% of any such debt.	1,056,885	3,493,227	4,066,393	8,178,836
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	3,191,817	2,196,363	9,313,759	5,708,868
Property management fees	Monthly fee equal to 4% of the monthly gross revenues of the properties managed	1,569,603	1,438,569	4,554,880	3,629,322
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	1,306,360	831,711	3,849,481	2,343,936
Construction management fees	Quarterly fee for property renovation and takeover projects	62,130	53,935	222,539	126,446
		$10,670,285	$8,264,407	$25,907,986	$21,362,236

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

As of July 1, 2017, the Manager reduced the loan coordination fee from 1.6% to 0.6% of the amount of assumed, new or incremental debt which leverages acquired real estate assets. In addition, the Manager reinstated a 1% acquisition fee charged on the cost of acquired real estate assets, which had historically been charged prior to its replacement effective January 1, 2016 by the 1.6% loan coordination fee. These changes were put in place to reflect a shift in the efforts of the Manager in property acquisitions.

On May 25, 2017,we closed on the sale of our Enclave at Vista Ridge multifamily community to an unrelated third party. At such date, the Manager collected a cumulative total of approximately $390,000 of contingent fees. The sales transaction, and the fact that the Company’s capital contributions for the Enclave at Vista Ridge property achieved a greater than 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it

determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle.

A cumulative total of approximately $5.1 million of combined asset management and general and administrative fees related to acquired properties as of September 30, 2017 have been forfeited by the Manager. A total of $4.3 million remains contingent and could possibly be earned by the Manager in the future.

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

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

Three months ended September 30,		Nine months ended September 30,	
2017	2016	2017	2016
$3,199,836	$2,790,335	$8,995,087	$7,670,403

The Manager utilizes its own and its affiliates' personnel to accomplish certain tasks related to raising capital that would typically be performed by third parties, including, but not limited to, legal and marketing functions. As permitted under the Management Agreement, the Manager was reimbursed $324,638 and $356,752 for the nine-month periods ended September 30, 2017 and 2016, respectively and PCS was reimbursed $790,804 and $768,869 for the nine-month periods ended September 30, 2017 and 2016, respectively. These costs are recorded as deferred offering costs until such time as additional closings occur on the $1.5 Billion Unit Offering, mShares Offering or the Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders' equity.

The Company's Haven 12, Stadium Village, 18 Nineteen, Haven South, Haven 46, Lubbock II, Haven Northgate and Haven Charlotte real estate loans and the Haven Campus Communities' line of credit are supported in part by guaranties of repayment and performance by John A. Williams, Jr., our Chief Executive Officer's son, a principal of the borrowers and a related party of the Company under GAAP.

In addition to the fees described above, the Management Agreement also entitles the Manager to other potential fees, including a disposition fee of 1% of the sale price of a real estate asset. The Manager earned disposition fees totaling $1,576,000 for the nine-month period ended September 30, 2017 on the sale of the Ashford Park, Sandstone Creek and Enclave at Vista Ridge properties, and $390,000 for the nine-month period ended September 30, 2016 on the sale of the Trail Creek property. These fees are included in the Gain on sale of real estate, net of disposition expenses line on the Consolidated Statements of Operations. The Manager also receives leasing commission fees. Retail leasing commission fees (a) for new retail leases are equal to the greater of (i) $4.00 per square foot, and (ii) 4.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the original lease term; and (b) for lease renewals are equal to the greater of (i) $2.00 per square foot, and (ii) 2.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the newly renewed lease term. There are no commissions payable on retail lease renewals thereafter. Office leasing commission fees (a) for new office leases are equal to 50.0% of the first month's gross rent plus 2.0% of the remaining fixed gross rent on the guaranteed lease term, (b) in the event of co-broker participation in a new lease, the leasing commission determined for a new lease are equal to 150.0% of the first month's gross rent plus 6% of the remaining fixed gross rent of the guaranteed lease term, and (c) for lease renewals, are equal to 2% of the fixed gross rent of the guaranteed lease term or, in the event of a co-broker, 6% of the fixed gross rent of the guaranteed lease term. Office leasing commission fees may not exceed market rates for office leasing services.

The Company holds a promissory note in the amount of $926,422 due from Preferred Capital Marketing Services, LLC, or PCMS, which is a wholly-owned subsidiary of NELL Partners.

The Company has extended a revolving line of credit with a maximum borrowing amount of $18.0 million to its Manager.

7. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions on its Series A Preferred Stock in the amount of $5.00 per share per month and beginning in March 2017, on its Series M Preferred Stock, on an escalating scale of $4.79 per month in year one, increasing to $6.25 per month in year eight and beyond. All preferred stock dividends are prorated for partial months at issuance as necessary.

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

The Company's cash distributions on its Preferred Stock were:

2017			2016		
Record date	Number of shares	Aggregate dividends declared	Record date	Number of shares	Aggregate dividends declared
January 31, 2017	932,413	$4,641,149	January 30, 2016	482,774	$2,481,086
February 28, 2017	977,267	4,849,032	February 27, 2016	516,017	2,630,601
March 31, 2017	979,309	4,938,098	March 31, 2016	544,129	2,770,048
April 28, 2017	992,774	5,000,060	April 29, 2016	582,720	2,979,196
May 31, 2017	1,019,046	5,085,694	May 31, 2016	617,994	3,143,567
June 30, 2017	1,041,187	5,237,872	June 30, 2016	651,439	3,321,519
July 31, 2017	1,061,179	5,299,654	July 29, 2016	682,392	3,458,513
August 31, 2017	1,086,714	5,412,511	August 31, 2016	721,143	3,671,020
September 29, 2017	1,113,896	5,545,017	September 30, 2016	765,185	3,886,173
	Total	$46,009,087		Total	$28,341,723

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

2017				2016			
Record date	Number of shares	Dividend per share	Aggregate dividends paid	Record date	Number of shares	Dividend per share	Aggregate dividends paid
March 15, 2017	27,139,354	$ 0.220	$5,970,658	March 15, 2016	23,041,502	$0.1925	$4,435,489
June 15, 2017	32,082,451	0.235	7,539,376	June 15, 2016	23,568,328	0.2025	4,772,587
September 15, 2017	34,715,982	0.235	8,158,256	September 15, 2016	24,652,041	0.2025	4,992,038
		$ 0.69	$21,668,290			$0.5975	$14,200,114

The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At September 30, 2017, the Company had 901,195 Class A OP Units outstanding, which are exchangeable on a one-for-one basis for shares of Common Stock or the equivalent amount of cash. Distribution activity by the Operating Partnership was:

2017			2016		
Record date	Payment date	Aggregate distributions	Record date	Payment date	Aggregate distributions
March 15, 2017	April 14, 2017	$ 198,742	March 15, 2016	April 15, 2016	$ 117,395
June 15, 2017	July 14, 2017	211,781	June 15, 2016	July 15, 2016	179,449
September 15, 2017	October 16, 2017	211,781	September 15, 2016	October 14, 2016	179,449
		$ 622,304			$ 476,293

8. Equity Compensation
Stock Incentive Plan

On February 25, 2011, the Company’s board of directors adopted, and the Company’s stockholders approved, the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan to incentivize, compensate and retain eligible officers, consultants, and non-employee directors. On May 7, 2015, the Company's stockholders approved the third amendment to the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan, or, as amended, the 2011 Plan, which amendment increased the aggregate number of shares of Common Stock authorized for issuance under the 2011 Plan from 1,317,500 to 2,617,500 and extended the expiration date of the 2011 Plan to December 31, 2019.

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

Equity compensation expense by award type for the Company was:

	Three months ended September 30,		Nine months ended September 30,		Unamortized expense as of September 30,
	2017	2016	2017	2016	2017
Quarterly board member committee fee grants	$—	$18,030	$—	$48,021	$—
Class B Unit awards:					
Executive officers - 2015	—	—	—	5,236	—
Executive officers - 2016	74,470	517,884	237,714	1,536,946	374,753
Executive officers - 2017	678,176	—	2,012,653	—	1,401,140
Restricted stock grants:					
2015	—	—	—	106,670	—
2016	—	102,500	136,667	170,833	—
2017	90,005	—	150,008	—	210,011
Restricted stock units	20,761	—	70,625	—	211,878
Total	$863,412	$638,414	$2,607,667	$1,867,706	$2,197,782

Restricted Stock Grants

The following annual grants of restricted stock were made to members of the Company's independent directors, as payment of the annual retainer fees. The restricted stock grants for the 2015 and 2016 service years vested (or are

scheduled to vest) on a pro-rata basis over the four consecutive 90-day periods following the date of grant.

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

Class B OP Units

On January 2, 2015, the Company caused the Operating Partnership to grant 176,835 Class B Units of the Operating Partnership, or Class B OP Units, for service to be rendered during 2015. On January 4, 2016, the Company caused the Operating Partnership to grant 265,931 Class B OP Units for service to be rendered during 2016, 2017 and 2018. On January 3, 2017, the Company caused the Operating Partnership to grant 286,392 Class B OP Units for service to be rendered during 2017, 2018 and 2019.

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

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

Because of the market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, a Monte Carlo simulation was utilized to calculate the total fair values, which will be amortized as compensation expense over the one-year periods beginning on the grant dates through the Initial Valuation Dates. On January 2, 2016, the 176,835 outstanding Class B Units for 2015 became fully vested and earned and automatically converted to Class A Units of the Operating Partnership. On January 4, 2017, all of the 265,931 Class B Units granted on January 4, 2016 became earned and 206,534 automatically vested and converted to Class A Units. Of the remaining earned Class B Units, 29,699 will vest and automatically convert to Class A Units on January 4, 2018 and the final 29,698 earned Class B Units will vest and automatically convert to Class A Units on January 4, 2019, assuming each grantee fulfills the requisite service requirement.

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

Grant dates	1/3/2017	1/4/2016
Stock price	$14.79	$12.88
Dividend yield	5.95 %	5.98 %
Expected volatility	26.4 %	26.10 %
Risk-free interest rate	2.91 %	2.81 %
Number of Units granted:		
One year vesting period	198,184	176,835
Three year vesting period	88,208	89,096
	286,392	265,931
Calculated fair value per Unit	$11.92	$10.03
Total fair value of Units	$3,413,793	$2,667,288
Target market threshold increase	$4,598,624	$3,549,000

The expected dividend yield assumptions were derived from the Company’s closing prices of the Common Stock on the grant dates and the projected future quarterly dividend payments per share of $0.22 for the 2017 awards and $0.1925 for the 2016 awards.

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

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

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

Restricted Stock Units

On January 3, 2017, the Company caused the Operating Partnership to grant 26,900 restricted stock units, or RSUs, for service to be rendered during 2017, 2018 and 2019. The RSUs vest in three equal consecutive one-year tranches from the date of grant. For each grant, on the Initial Valuation Date, the market capitalization of the number of shares

of Common Stock at the date of grant is compared to the market capitalization of the same number of shares of Common Stock at the Initial Valuation Date. If the market capitalization measure results in an increase which exceeds the target market threshold, the Vested RSUs become earned RSUs and automatically convert into Common Stock on a one-to-one basis. Vested RSUs may become Earned RSUs on a pro-rata basis should the result of the market capitalization test be an increase of less than the target market threshold. Any Vested RSUs that do not become Earned RSUs on the Initial Valuation Date are subsequently remeasured on a quarterly basis until such time as all Vested RSUs become Earned RSUs or are forfeited due to termination of continuous service due to an event other than as a result of a qualified event, which is generally the death or disability of the holder. Continuous service through the final valuation date is required for the Vested RSUs to qualify to become fully Earned RSUs.

Because RSUs are valued using the identical market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, the same valuation assumptions and Monte Carlo result of $11.92 per RSU were utilized to calculate the total fair value of the RSUs of $320,648. Grants of RSUs, net of forfeitures, are amortized as compensation expense

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

over the three one-year periods ending on each of January 2, 2018, 2019 and 2020. As of September 30, 2017, a total of 3,200 RSUs had been forfeited.

9. Indebtedness

Mortgage Notes Payable

Mortgage Financing of Property Acquisitions

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

Property	Date	Initial principal amount	Fixed/Variable rate	Rate / spread over 1 month LIBOR		Maturity date	Interest only through date
SoL	2/28/2017	$37,485,000	Variable	200 BPS		3/1/2022	3/1/2022
Citrus Village	3/3/2017	30,250,000	Fixed	3.65	%	6/10/2023	6/9/2017
Retreat at Greystone	3/24/2017	35,210,000	Variable	185 BPS		3/1/2022	3/1/2022
Founders Village	3/31/2017	31,605,000	Fixed	4.31	%	4/1/2027	N/A
Claiborne Crossing	4/26/2017	28,179,500	Fixed	2.89	%	6/1/2054	N/A
Castleberry-Southard	4/21/2017	11,500,000	Fixed	3.99	%	5/1/2027	N/A
Rockbridge Village	6/6/2017	14,250,000	Fixed	3.73	%	7/5/2027	N/A
Luxe at Lakewood Ranch	7/26/2017	39,287,500	Fixed	3.93	%	8/1/2027	N/A
Irmo Station	7/26/2017	10,650,000	Fixed	3.94	%	8/1/2030	N/A
Maynard Crossing	8/25/2017	18,500,000	Fixed	3.74	%	9/1/2032	N/A
Woodmont Village	9/8/2017	8,775,000	Fixed	4.13	%	10/1/2027	N/A
West Town Market	9/22/2017	9,000,000	Fixed	3.65	%	10/1/2025	N/A
Adara Overland Park	9/27/2017	31,850,000	Fixed	3.90	%	4/1/2028	N/A
Aldridge at Town Village	9/29/2017	38,010,000	Variable	185 BPS		3/1/2022	(1)
The Reserve at Summit Crossing	9/29/2017	20,075,000	Fixed	3.87	%	10/1/2024	N/A
		$364,627,000					

(1) The property is temporarily financed through a credit facility sponsored by the Federal Home Loan Mortgage Corporation; the Company intends to obtain permanent mortgage financing in the near future.

Repayments and Refinancings

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

On June 22, 2017, the Company refinanced the existing $16.3 million mortgage on its Stone Creek multifamily community which bore interest at a fixed 3.75% rate per annum into a mortgage of $20.6 million, which bears interest

at a fixed rate of 3.22% per annum. In doing so, the Company recorded a prepayment penalty of approximately $817,000, which is included on the Loss on extinguishment of debt on the Consolidated Statements of operations.

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

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

debt modification were recorded as debt origination costs and will be amortized into interest expense over the life of the new mortgage.

See note 16 for additional refinancing activity which occurred subsequent to September 30, 2017.

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

Fixed rate mortgage debt:	Principal balances due	Weighted-average interest rate		Weighted average remaining life
Multifamily communities	$744,771,383	3.69	%	7.6 years
New Market Properties	330,701,302	3.81	%	7.5 years
Preferred Office Properties	153,662,656	4.25	%	21.4 years
Student housing projects	32,953,789	4.02	%	4.9 years
Total fixed rate mortgage debt	$1,262,089,130	3.80	%	9.2 years
Variable rate mortgage debt:				
Multifamily communities	$234,369,810	3.24	%	4.0 years
New Market Properties	62,620,313	3.86	%	3.9 years
Preferred Office Properties	—	—		—
Student housing projects	37,485,000	3.23	%	4.4 years
Total variable rate mortgage debt	$334,475,123	3.35	%	4.0 years
Total mortgage debt:				
Multifamily communities	$979,141,193	3.58	%	6.8 years
New Market Properties	393,321,615	3.82	%	6.9 years
Preferred Office Properties	153,662,656	4.25	%	21.4 years
Student housing projects	70,438,789	3.60	%	4.7 years
Total principal amount	1,596,564,253	3.71	%	8.1 years
Deferred loan costs	(26,994,828)			
Mortgage notes payable, net	$1,569,569,425			

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

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

The mortgage note secured by our Royal Lakes Marketplace property has a maximum commitment of $11,050,000. As of September 30, 2017, the Company has an outstanding principal balance of $9.7 million on this loan. Additional advances of the mortgage commitment will be drawn as the Company achieves incremental leasing benchmarks specified under the loan agreement. This mortgage has a variable interest of 1 Month LIBOR plus 250 basis points, which was 3.74% as of September 30, 2017.

The mortgage note secured by our Champions Village property has a maximum commitment of $34.16 million. As of September 30, 2017, the Company has an outstanding principal balance of $27.4 million. Additional advances of the mortgage commitment will

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

be drawn as the Company achieves leasing activity. Additional advances are available through October 2019. This mortgage note has a variable interest of the greater of (i) 3.25% or (ii) the sum of the 3.00% plus the LIBOR Rate, which was 4.24% as of September 30, 2017.

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

Credit Facility

The Company has a credit facility, or Credit Facility, with KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), working capital and other general corporate purposes on an as needed basis. The maximum borrowing capacity on the Revolving Line of Credit was increased to $150,000,000 pursuant to the Fourth Amended and Restated Credit Agreement, as amended effective December 27, 2016, or the Amended and Restated Credit Agreement. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus 3.25% per annum and matures on August 5, 2019, with an option to extend the maturity date to August 5, 2020, subject to certain conditions described therein. The weighted average interest rate for the Revolving Line of Credit was 4.51% for the nine-month period ended September 30, 2017. The Revolving Line of Credit also bears a commitment fee on the average daily unused portion of the Revolving Line of Credit of 0.35% per annum.

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

On May 26, 2016, the Company entered into a $11.0 million interim term loan with KeyBank, or the Interim Term Loan, to partially finance the acquisition of Anderson Central, a grocery-anchored shopping center located in Anderson, South Carolina. The Interim Term Loan accrues interest at a rate of LIBOR plus 2.5% per annum and the maturity date was extended to November 21, 2017 during the third quarter 2017. The weighted average interest rate for the Interim Term Loan was 3.66% for the nine-month period ended September 30, 2017.
The Fourth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including negative covenants that limit or restrict secured and unsecured indebtedness, mergers and fundamental changes, investments and acquisitions, liens and encumbrances, dividends, transactions with affiliates, burdensome agreements, changes in fiscal year and other matters customarily restricted in such agreements. The amount of dividends that may be paid out by the Company is restricted to a maximum of 95% of AFFO for the trailing rolling four quarters without the lender's consent; solely for purposes of this covenant, AFFO is calculated as earnings before interest, taxes, depreciation and amortization expense, plus reserves for capital expenditures, less normally recurring capital expenditures, less consolidated interest expense.
As of September 30, 2017, the Company was in compliance with all covenants related to the Revolving Line of Credit, as shown in the following table:

Covenant [1]	Requirement		Result
Net worth	Minimum $1,083,509,483	(2)	$1,170,151,180
Debt yield	Minimum 8.0%		9.18%
Payout ratio	Maximum 95.0%	(3)	92.8%
Total leverage ratio	Maximum 65.0%		60%
Debt service coverage ratio	Minimum 1.50x		2.04x

(1) All covenants are as defined in the credit agreement for the Revolving Line of Credit.
(2) Minimum $687 million plus 75% of the net proceeds of any equity offering, which totaled approximately $1.1 billion as of September 30, 2017.
(3)Calculated on a trailing four-quarter basis. For the twelve-month period ended September 30, 2017, the maximum dividends and distributions allowed under this covenant was approximately $89.0 million.

Loan fees and closing costs for the establishment and subsequent amendments of the Credit Facility are amortized utilizing the straight line method over the life of the Credit Facility. At September 30, 2017, unamortized loan fees and closing costs for the Credit Facility were approximately $1.2 million, which will be amortized over a remaining loan life of approximately 1.9 years.

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

Loan fees and closing costs for the mortgage debt on the Company's properties are amortized utilizing the effective interest rate method over the lives of the loans.

Acquisition Facility

On February 28, 2017, the Company entered into a credit agreement, or Acquisition Credit Agreement, with Freddie Mac through KeyBank to obtain an acquisition revolving credit facility, or Acquisition Facility, with a maximum borrowing capacity of $200 million. The purpose of the Acquisition Facility is to finance acquisitions of multifamily communities and student housing communities. The maximum borrowing capacity on the Acquisition Facility may be increased at the Company's request up to $300 million at any time prior to March 1, 2021. The Acquisition Facility accrues interest at a variable rate of one month LIBOR plus a margin of between 1.75% per annum and 2.20% per annum, depending on the type of assets acquired and the resulting property debt service coverage ratio. The Acquisition Facility has a maturity date of March 1, 2022 and has two one-year extension options, subject to certain conditions described therein. At September 30, 2017, unamortized loan fees and closing costs for the establishment of the Acquisition Facility were approximately $0.3 million, which will be amortized over a remaining loan life of approximately 4.5 years. As of September 30, 2017, the Acquisition Facility financed the SoL student housing property and the Retreat at Greystone and Aldridge at Town Village multifamily communities, totaling approximately $110.7 million.

Interest Expense

Interest expense, including amortization of deferred loan costs was:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Multifamily communities	$9,515,838	$7,852,145	$26,620,941	$21,006,486
New Market Properties	3,858,588	2,615,924	10,699,043	5,588,947
Preferred Office Properties	1,676,933	133,681	5,030,560	133,681
Interest paid to real estate loan participants	569,141	482,246	1,825,470	1,341,104
Total	15,620,500	11,083,996	44,176,014	28,070,218
Credit Facility and Acquisition Facility	1,057,918	1,150,178	3,909,002	2,618,287
Interest Expense	$16,678,418	$12,234,174	$48,085,016	$30,688,505

Future Principal Payments

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

Period	Future principal payments	
2017	$59,940,046	(1)
2018	45,147,144	
2019	242,834,004	
2020	64,621,789	
2021	121,250,100	
thereafter	1,116,771,170	

Total	$1,650,564,253

[1] Includes the principal amount due on the Company's Revolving Line of Credit of $43.0 million and Term Note of $11.0 million.

10. Income Taxes

The Company elected to be taxed as a REIT effective with its tax year ended December 31, 2011, and therefore, the Company will not be subject to federal and state income taxes after this effective date, so long as it distributes 100% of the Company's annual REIT taxable income (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) to its shareholders. For the period preceding this election date, the Company's operations resulted in a tax loss. As of December 31, 2010, the Company had deferred federal and state tax assets totaling approximately $298,100, none of which were based upon tax positions deemed to be uncertain. These deferred tax assets will most likely not be used since the Company elected REIT status; therefore, management has determined that a 100% valuation allowance is appropriate as of September 30, 2017 and December 31, 2016.

11. Commitments and Contingencies

On March 28, 2014, the Company entered into a payment guaranty in support of its Manager's new eleven-year office lease, which began on October 9, 2014. As of September 30, 2017, the amount guarantied by the Company was $6.7 million and is reduced by $619,304 per lease year over the term of the lease.
Certain officers and employees of the Manager have been assigned company credit cards. As of September 30, 2017, the Company guarantied up to $640,000 on these credit cards.
The Company is otherwise currently subject to neither any known material commitments or contingencies from its business operations, nor any material known or threatened litigation.

A total of approximately $5.1 million of asset management and general and administrative fees related to acquired properties as of September 30, 2017 have been forfeited by the Manager. The forfeited fees are converted at the time of forfeiture into contingent fees, which are earned by the Manger only in the event of a sales transaction, and whereby the Company’s capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle. As of September 30, 2017, a total of $4.3 million remains contingent and could possibly be earned by the Manager in the future.

At September 30, 2017, the Company had unfunded balances on its real estate loan portfolio of approximately $92.7 million.

12. Segment Information

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

Multifamily Communities - consists of the Company's portfolio of owned residential multifamily communities and student housing properties.

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

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

Preferred Office Properties - consists of the Company's portfolio of office buildings.

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

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

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

	September 30, 2017	December 31, 2016
Assets:		
Multifamily communities	$1,452,181,360	$1,166,766,664
Financing	465,505,478	379,070,918
New Market Properties	683,712,963	579,738,707
Preferred Office Properties	309,351,565	285,229,700
Other	16,967,902	10,026,613
Consolidated assets	$2,927,719,268	$2,420,832,602

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Capitalized expenditures:				
Multifamily communities	$2,897,758	$2,674,743	$9,006,194	$6,762,650
New Market Properties	1,225,189	565,010	2,763,764	1,679,766
Total	$4,122,947	$3,239,753	$11,769,958	$8,442,416

The Company also recognized second-generation capital expenditures within its office building portfolio of $25,883 for Brookwood Center and $78,593 for Galleria 75 during the third quarter 2017. Second-generation capital expenditures exclude those expenditures made in our office building portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our Class A ownership standards (and which amounts were underwritten into the total investment at the time of acquisition), (iii) for property re-developments and repositionings and (iv) for building improvements that are recoverable from future operating cost savings.

35

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues				
Rental revenues:				
Multifamily communities	$32,366,025	$29,059,716	$92,947,516	$79,330,404
New Market Properties	11,051,695	7,767,052	30,967,411	16,718,701
Preferred Office Properties [1]	6,654,415	492,439	19,762,035	492,439
Total rental revenues	$50,072,135	$37,319,207	$143,676,962	$96,541,544
Other revenues:				
Multifamily communities	$3,624,000	$3,195,237	$10,173,457	$8,611,136
New Market Properties	3,918,486	2,426,791	11,203,483	5,996,759
Preferred Office Properties	2,236,918	20,507	6,529,078	20,506
Total other revenues	9,779,404	5,642,535	27,906,018	14,628,401
Financing	15,048,660	10,575,595	40,769,467	29,957,117
Consolidated revenues	$74,900,199	$53,537,337	$212,352,447	$141,127,062

[1] Included in rental revenues for our Preferred Office Properties segment is the amortization of deferred revenue for tenant-funded leasehold improvements from a major tenant in our Three Ravinia office building. As of September 30, 2017, the Company has deferred a total of $23.8 million of such improvements. The remaining balance to be recognized is approximately $23.4 million which is included in the deferred revenues line on the consolidated balance sheets at September 30, 2017. These total costs will be amortized over the lesser of the useful lives of the improvements or the individual lease terms. The Company recorded noncash revenue of approximately $287,000 and $457,000 for the three-month and nine-month periods ended September 30, 2017.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Property operating and maintenance expense				
Multifamily communities	$5,566,320	$4,552,744	$14,602,003	$11,757,778
New Market Properties	1,260,108	904,877	4,037,922	2,078,128
Preferred Office Properties	1,074,325	47,227	2,997,626	47,227
Total	$7,900,753	$5,504,848	$21,637,551	$13,883,133

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Salary and benefits reimbursement				

Multifamily communities	$3,199,836	$2,790,335	$8,995,087	$7,670,403
New Market Properties	—	—	—	—
Preferred Office Properties	202,787	18,067	654,756	18,067
Total	$3,402,623	$2,808,402	$9,649,843	$7,688,470

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Property management fees				
Multifamily communities	$1,412,908	$1,366,159	$4,154,123	$3,542,237
New Market Properties	459,884	332,869	1,381,404	741,221
Preferred Office Properties	180,654	25,383	480,476	25,383
Total	$2,053,446	$1,724,411	$6,016,003	$4,308,841

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Real estate taxes				
Multifamily communities	$4,808,502	$3,792,370	$14,872,841	$13,034,764
New Market Properties	2,034,030	950,444	5,889,820	2,376,099
Preferred Office Properties	863,174	46,271	2,527,123	46,271
Total	$7,705,706	$4,789,085	$23,289,784	$15,457,134

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Segment net operating income (Segment NOI)				
Multifamily communities	$19,410,732	$18,413,797	$55,995,891	$48,169,241
Financing	15,048,659	10,575,595	40,769,467	29,957,116
New Market Properties	10,928,364	7,795,476	29,990,860	17,048,716
Preferred Office Properties	6,211,853	373,454	18,715,713	373,454
Consolidated segment net operating income	51,599,608	37,158,322	145,471,931	95,548,527
Interest and loss on early debt extinguishment:				
Multifamily communities	9,515,838	7,852,145	26,620,941	21,006,486
New Market Properties	3,858,588	2,615,924	10,699,043	5,588,947
Preferred Office Properties	1,676,934	133,681	5,030,560	133,681
Financing	1,627,058	1,632,424	5,734,472	3,959,391
Depreciation and amortization:				
Multifamily communities	18,018,869	16,028,880	50,850,768	42,800,401
New Market Properties	7,611,979	5,452,490	21,714,453	11,997,670
Preferred Office Properties	3,272,922	182,993	9,621,739	182,993
Professional fees	525,539	593,623	1,551,192	2,176,510
Management fees, net of forfeitures	4,491,662	3,022,124	13,522,653	8,025,916
Acquisition costs:				
Multifamily communities	—	601,033	(20,559)	4,645,530
New Market Properties	—	396,679	25,402	1,856,933
Preferred Office Properties	—	359,825	9,159	383,401
Equity compensation to directors and executives	863,412	638,414	2,607,667	1,867,706
Gain on sale of real estate	—	—	37,635,014	4,271,506
Loss on extinguishment of debt	—	—	(888,428)	—
Other	94,028	336,707	842,566	1,055,099
Net income (loss)	$42,779	$(2,688,620)	$33,408,461	$(5,860,631)

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

13. Income (Loss) Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income (loss) before gain on sale of real estate	$42,779	$(2,688,620)	$(4,226,553)	$(10,132,137)
Gain on sale of real estate, net of disposition expenses	—	—	37,635,014	4,271,506
Net income (loss)	42,779	(2,688,620)	33,408,461	(5,860,631)
Consolidated net (income) loss attributable to non-controlling interests [(A)]	(1,119)	86,484	(1,097,008)	175,045
Net income (loss) attributable to the Company	41,660	(2,602,136)	32,311,453	(5,685,586)
Dividends declared to preferred stockholders [(B)]	(16,420,996)	(11,015,706)	(46,042,181)	(28,341,723)
Earnings attributable to unvested restricted stock [(C)]	(4,302)	(6,159)	(11,743)	(12,434)
Net income (loss) attributable to common stockholders	$(16,383,638)	$(13,624,001)	$(13,742,471)	$(34,039,743)
Denominator:				
Weighted average number of shares of Common Stock - basic	33,539,920	24,340,791	30,147,497	23,552,951
Effect of dilutive securities: [(D)]	—	—	—	—
Weighted average number of shares of Common Stock, basic and diluted	33,539,920	24,340,791	30,147,497	23,552,951
Net loss per share of Common Stock attributable to common stockholders, basic and diluted	$(0.49)	$(0.56)	$(0.46)	$(1.45)

[(A)] The Company's outstanding Class A Units of the Operating Partnership (901,195 and 886,168 Units at September 30, 2017 and 2016, respectively) contain rights to distributions in the same amount per unit as for dividends declared on the Company's Common Stock. The impact of the Class A Unit distributions on earnings per share has been calculated using the two-class method whereby earnings are allocated to the Class A Units based on dividends declared and the Class A Units' participation rights in undistributed earnings.

[(B)] The Company’s shares of Series A Preferred Stock outstanding accrue dividends at an annual rate of 6% of the stated value of $1,000 per share, payable monthly. The Company had 1,115,616 and 802,032 outstanding shares of Series A Preferred Stock at September 30, 2017 and 2016, respectively. The Company's shares of Series M preferred stock, or mshares, accrue dividends at an escalating rate of 5.75% in year one to 7.5% in year eight and thereafter. The Company had 12,396 mshares outstanding at September 30, 2017.

[(C)] The Company's outstanding unvested restricted share awards (18,306 and 23,247 shares of Common Stock at September 30, 2017 and 2016, respectively) contain non-forfeitable rights to distributions or distribution equivalents. The impact of the unvested restricted share awards on earnings per share has been calculated using the two-class

method whereby earnings are allocated to the unvested restricted share awards based on dividends declared and the unvested restricted shares' participation rights in undistributed earnings. Given the Company incurred a net loss from continuing operations for the three-month and nine-month periods ended September 30, 2017 and 2016, the dividends declared for that period are adjusted in determining the calculation of loss per share of Common Stock since the unvested restricted share awards are defined as participating securities.

[D] Potential dilution from (i) warrants outstanding from issuances of Units from our Series A Preferred Stock offerings that are potentially exercisable into 16,931,180 shares of Common Stock; (ii) 345,789 Class B Units; (iii) 18,306 shares of unvested restricted common stock; and (iv) 23,700 outstanding Restricted Stock Units are excluded from the diluted shares calculations because the effect was antidilutive. Class A Units were excluded from the denominator because earnings were allocated to non-controlling interests in the calculation of the numerator.

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

14. Pro Forma Financial Information (unaudited)

The Company's condensed pro forma financial results assume the following acquisitions were hypothetically completed on January 1, 2015:

Baldwin Park	City Vista
Crosstown Walk	Sorrel
Overton Rise	Lakeland Plaza
525 Avalon Park	Sunbelt Seven Portfolio
North by Northwest	Champions Village
Wade Green Village	Brookwood Office
Southeastern Six Portfolio	Galleria 75
The Market at Victory Village	Three Ravinia

The Company's condensed pro forma financial results were:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Pro forma:				
Revenues	$74,970,784	$63,754,083	$212,542,233	$189,494,650
Net income (loss)	$996,408	$(255,917)	$38,270,000	$(5,957,523)
Net income (loss) attributable to the Company	$958,120	$(240,446)	$37,029,878	$(5,799,045)
Net income (loss) attributable to common stockholders	$(15,467,178)	$(11,262,311)	$(9,024,046)	$(34,205,524)
Net income (loss) per share of Common Stock attributable to common stockholders, Basic and diluted	$(0.46)	$(0.46)	$(0.30)	$(1.45)

Weighted average number of shares of Common Stock outstanding, basic and diluted	33,539,920	24,340,791	30,147,497	23,522,951

Material nonrecurring pro forma adjustments which were directly attributable to these business combinations included the pro forma removal of all acquisition costs incurred from the actual historical periods of recognition of approximately $1.3 million and $6.8 million for the three-month and nine-month periods ended September 30, 2016. Effective January 1, 2017, we adopted Accounting Standard Update 2017-01, which requires acquisition costs for asset acquisitions to be capitalized and and amortized rather than expensed as incurred. These pro forma results are not necessarily indicative of what historical performance would have been had these business combinations been effective as of the hypothetical acquisition dates listed above, nor should they be interpreted as expectations of future results.

15. Fair Values of Financial Instruments

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

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

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

	As of September 30, 2017				
	Carrying value	Fair Value	Fair value measurements using fair value hierarchy		
			Level 1	Level 2	Level 3
Financial Assets:					
Real estate loans [1]	$409,204,915	$455,909,983	$—	$—	$455,909,983
Notes receivable and line of credit receivable	42,351,496	42,351,496	—	—	42,351,496
	$451,556,411	$498,261,479	$—	$—	$498,261,479
Financial Liabilities:					
Mortgage notes payable	$1,596,564,253	$1,595,108,853	$—	$—	$1,595,108,853
Revolving credit facility	43,000,000	43,000,000	—	—	43,000,000
Term loan	11,000,000	11,000,000	—	—	11,000,000
Loan participation obligations	17,877,914	18,218,715	—	—	18,218,715
	$1,668,442,167	$1,667,327,568	$—	$—	$1,667,327,568

	As of December 31, 2016				
	Carrying value	Fair Value	Fair value measurements using fair value hierarchy		
			Level 1	Level 2	Level 3
Financial Assets:					
Real estate loans [1]	$332,761,068	$374,856,749	$—	$—	$374,856,749
Notes receivable and line of credit receivable	37,615,675	37,615,675	—	—	37,615,675
	$370,376,743	$412,472,424	$—	$—	$412,472,424
Financial Liabilities:					
Mortgage notes payable [2]	$1,327,878,112	1,314,966,652	$—	$—	$1,314,966,652
Revolving credit facility	127,500,000	127,500,000	—	—	127,500,000
Term loan	11,000,000	11,000,000	—	—	11,000,000
Loan participation obligations	20,761,819	21,500,448	—	—	21,500,448
	$1,487,139,931	$1,474,967,100	$—	$—	$1,474,967,100

[1] The carrying value of real estate assets includes the Company's balance of the Palisades, Green Park, Encore and Stadium Village real estate loans, which includes the amounts funded by unrelated participants. The loan participation obligations are the amounts due to the participants under these arrangements. Accrued interest included in the carrying values of the Company's real estate loans was approximately $27.7 million and $21.9 million at September 30, 2017 and December 31, 2016, respectively.

The fair value of the real estate loans within the level 3 hierarchy are comprised of estimates of the fair value of the notes, which were developed utilizing a discounted cash flow model over the remaining terms of the notes until their maturity dates and utilizing discount rates believed to approximate the market risk factor for notes of similar type and duration. The fair values also contain a separately-calculated estimate of any applicable additional interest payment due the Company at the maturity date of the loan, based on the outstanding loan balances at September 30, 2017, discounted to the reporting date utilizing a discount rate believed to be appropriate for multifamily development

projects.

The fair values of the fixed rate mortgages on the Company's properties were developed using market quotes of the fixed rate yield index and spread for four, five, seven, ten and 35 year notes as of the reporting date. The present values of the cash flows were calculated using the original interest rate in place on the fixed rate mortgages and again at the current market rate. The difference between the two results was applied as a fair market adjustment to the carrying value of the mortgages.

16. Subsequent Events

Between October 1, 2017 and October 31, 2017, the Company issued 31,122 Units and collected net proceeds of approximately $28.0 million after commissions and fees under its $1.5 Billion Unit Offering. Between October 1, 2017 and October 31, 2017, the Company issued 841 shares of Series M Preferred Stock and collected net proceeds of approximately $816,000 after commissions and fees under the mShares offering.

On October 23, 2017 the Company declared a quarterly dividend on its Common Stock of $0.25 per share, payable on January 16, 2018 to stockholders of record on December 15, 2017.

On October 27, 2017, the Company acquired a 98% interest in a joint venture which owns the Stadium Village student housing property in Atlanta, Georgia. The Company's real estate loan with an outstanding principal amount of approximately $13.3 million was repaid in conjunction with this transaction.

On October 27, 2017, the Company's real estate loan supporting the 18 Nineteen property in Lubbock, Texas with an outstanding principal amount of approximately $15.6 million was repaid in full. The 18 Nineteen property was sold to a third party on October 19, 2017.

On October 31, 2017, the Company refinanced the mortgage on the Aldridge at Town Village multifamily community from its Acquisition Facility into a permanent mortgage with a principal amount of $37.9 million and which bears interest at a fixed rate of 4.19% per annum.

On October 31, 2017, the Company refinanced the mortgage on the Summit Crossing multifamily community with a remaining principal amount of $24.7 million into a new mortgage of $39.1 million which bears interest at a fixed rate of 3.99% per annum.

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

Significant Developments

During the nine-month period ended September 30, 2017, we acquired eight multifamily communities, six grocery-anchored shopping centers and one student housing property. The aggregate purchase price of these properties was approximately $538.5 million.

During the nine-month period ended September 30, 2017, we sold our Sandstone Creek, Ashford Park and Enclave at Vista Ridge multifamily communities located in Kansas City, Kansas, Atlanta, Georgia and Dallas, Texas respectively, and collected aggregate gross proceeds of $157.6 million. We realized an aggregate gain on the sale of these properties of approximately $37.6 million and an average total return on these properties of approximately 26.5%.

The proceeds from the sale of Ashford Park were deposited into a 1031 exchange account and were used to partially finance the acquisitions of Founders Village, Retreat at Greystone and Castleberry-Southard. The 1031 mechanism allowed us to defer the tax liability on the sale of this asset and more efficiently redeploy our capital.

As of September 30, 2017, we had cumulatively issued 989,408 units and collected net proceeds of approximately $891.2 million from our offering of our Series A Redeemable Preferred Stock from our Primary Series A Offering and Follow-on Series A Offering. As of September 30, 2017, we had cumulatively issued 151,923 units and collected net proceeds of approximately $136.5 million from our offerings of Series A Redeemable Preferred Stock from our $1.5 Billion Unit Offering. As of September 30, 2017, we had cumulatively issued 12,396 shares of Series M Preferred Stock and and collected net proceeds of approximately $11.8 million from our mShares Offering. Our Follow-On Series A Offering sold its entire allotment of $900 million Units and was closed on February 14, 2017. Our Series A Redeemable Preferred Stock and our new equity offerings are discussed in detail in the Liquidity and Capital Resources section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

On May 12, 2017, we issued 2,750,000 shares of our common stock, par value $0.01 per share, or Common Stock, at a public offering price of $15.25 per share pursuant to an underwritten public offering. On May 30, 2017, we sold an additional 412,500 shares of Common Stock at $15.25 per share pursuant to the underwriters' exercise in full of an option received in connection with the public offering. The combined gross proceeds of the two sales was approximately $48.2 million before deducting underwriting discounts and commissions and other estimated offering expenses.

During the nine-month period ended September 30, 2017, we sold 1.7 million shares of Common Stock pursuant to our "at the market" offering (the "2016 ATM Offering"), resulting in aggregate gross proceeds of approximately $28.6 million.
In addition, during the nine-month period ended September 30, 2017, we issued approximately 3.4 million shares of Common Stock upon the exercise of Warrants issued in our offerings of our Series A Redeemable Preferred Stock and collected net proceeds of approximately $43.4 million from those exercises.

Forward-looking Statements

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

or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

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

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

Forward-looking statements are found throughout this "Management’s Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission, or SEC, we do not have any intention or obligation to publicly release any revisions to forward-looking statements to reflect unforeseen or other events after the date of this report. The forward-looking statements should be read in light of the risk factors indicated in the section entitled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 and as may be supplemented by any amendments to our risk factors in our subsequent quarterly reports on Form 10-Q and other reports filed with the SEC, which are accessible on the SEC’s website at www.sec.gov.

General

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial position. This discussion and analysis should be read in

conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are an externally managed Maryland corporation formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, we also may acquire or originate senior mortgage loans, subordinate loans or real estate loan investments secured by interests in multifamily properties, membership or partnership interests

---

in multifamily properties and other multifamily related assets and invest a lesser portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by Preferred Apartment Advisors, LLC, or our Manager, as appropriate for us. Our investment guidelines limit our investment in these non-multifamily assets to 20% of our assets, subject to increases unanimously approved by our board of directors. On December 12, 2016, our board of directors temporarily suspended this 20% limit. Our board of directors will review and discuss the reinstatement of the 20% limit following a spin-off, sale or distribution of our grocery-anchored shopping centers, if any such transaction occurs.

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

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

We elected to be taxed as a REIT under the Code effective with our tax year ended December 31, 2011. We also intend to operate our business in a manner that will permit us to maintain our status as a REIT and our exemption from registration under the Investment Company Act. We have and will continue to conduct substantially all of our operations through our Operating Partnership in which we owned an approximate 97.3% interest as of September 30, 2017. New Market Properties, LLC owns and conducts the business of our portfolio of grocery-anchored shopping centers. Preferred Office Properties, LLC owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities, LLC owns and conducts the business of our portfolio of off-campus student housing communities. Each of these entities are wholly-owned subsidiaries of the Operating Partnership,

Industry Outlook

We believe continued, albeit potentially sporadic, improvement in the United States' economy will continue for 2017, with continued job growth and improvements in consumer confidence. The new presidential administration certainly creates more uncertainty in the direction and trajectory of economic growth. We believe a growing economy, improved job market and increased consumer confidence should help create favorable conditions for the multifamily sector. If the economy continues to improve, we expect current occupancy rates generally to remain stable, on an annual basis, as the current level of occupancy nationwide will be difficult to measurably improve upon.

The pipeline of new multifamily construction, although increasing nationwide in recent years, may be showing signs of declining going forward. The new supply coming on line to date has been generally in line with demand in most of our markets. Nationally, new multifamily construction is currently at or above average historical levels in most markets. Even with the increase in new supply of multifamily properties, recent job growth and demographic trends have led to reasonable levels of absorption in most of our markets, which in many of our markets has offset or exceeded the new supply coming online. The absorption rate has led to generally stable occupancy rates with increases in rental rates in most of our markets. We believe the supply of new multifamily construction will not

increase dramatically as the constraints in the market (including availability of quality sites and the difficult permitting and entitlement process) will constrain further increases in multifamily supply. It may even be the case that new supply peaks in 2017 and these constraints cause a decline in new multifamily "starts" in 2018 and 2019. As an offset, the new presidential administration may loosen banking regulation standards, which could cause an increase in available capital for new construction. Any relaxing of these regulations could lead to more capital for new multifamily development and an increase in supply.

We believe that a potential reversal in the recent trend of declining cap rates in the multifamily sector may be in the offing. The rising cost of private capital, less debt capital available from traditional commercial banks for real estate loans and a softening of the market in some "Gateway" cities have all put pressure on the pricing dynamic in multifamily transactions. This could lead to an increase in capitalization rates and a softening price environment, and if this were to occur, then our pipeline of candidate multifamily property acquisitions with returns meeting our investment objectives may expand.

We believe that the grocery-anchored shopping center sector benefits from many of the same improving metrics as the
multifamily sector, namely improved economy and job and wage growth. More specifically, the types of centers we own and plan to acquire are primarily occupied by grocery stores, service uses, medical providers and restaurants. We believe that these businesses are significantly less impacted by e-commerce than some other retail businesses, and that grocery anchors typically generate repeat trips to the center. We expect that improving macroeconomic conditions, coupled with continued population growth in the suburban markets where our retail properties are located, will create favorable conditions for grocery shopping and other uses provided by grocery-anchored shopping centers. With moderate supply growth following a period of historically low retail construction starts, we believe our centers, which are all generally located in Sun Belt markets, are well positioned to have solid operating fundamentals.

The debt market for our grocery-anchored shopping center assets remains strong. Life insurance companies have continued to demonstrate a specific interest in our strategy and we continue to see new participants in the market. Spreads and rates are generally comparable or even more favorable to those for multifamily properties, however, the leverage levels on the retail assets may be lower than the levels on our multifamily assets. During the third quarter we have seen cap rate compression on acquisitions we have been pursuing inside our grocery anchored strategy. We believe, notwithstanding the increase in longer-term U.S. Treasury yields since the 2016 election, that the overall capital markets are pricing in stronger rent growth and higher long term occupancy levels, especially so in the grocery-anchored sector. In addition, due to some investor concern over retail in general, that allocation of capital into retail has been largely focused away from other retail product types and into the grocery-anchored sector. The result of this is that increased capital flows moving into the grocery-anchored sector has investors willing to accept lower yields to do so, thus putting upward pressure on prices for attractive acquisition opportunities inside our grocery-anchored strategy.

On August 28, 2017, Amazon acquired Whole Foods for $13.7 billion. We believe this to be a net positive to our grocery- anchored strategy in that it demonstrates the importance of the “brick and mortar” delivery model for the grocery sector. Amazon is widely regarded as one of the most technically advanced and savvy retailers and its $13.7 billion cash investment in a brick and mortar distribution network we believe validates the unique challenges of trying to execute a pure on-line strategy for grocery delivery. Most of the growth in e-commerce around grocers is focused on “the last mile” or getting the goods in the stores to the homes of the customer. Some of our grocers have partnered with third parties (Publix/Instacart) or formulated internal solutions (Walmart/in-store pickup and Kroger/ClickList) to help advance this segment of their business. We believe that the traditional grocers must be proactive in pursuing on-line solutions in combination with their bricks and mortar physical stores. We do believe that this transaction, and the impacts from it, could result in increased margin pressure on grocers and will likely accelerate the difficulties of the weaker grocery chains. Furthermore this could lead to increased mergers and acquisitions activity in the grocery sector which could also result in store closings or store downsizings due to store trade area overlap.

Favorable U.S. Treasury yields and competitive lender spreads have created a generally favorable borrowing environment for multifamily owners and developers. Given the uncertainty around the world's financial markets, fueled in part by the new US President and how his policies may affect domestic and international markets, investors have been wary in their approach to debt markets. Recent US bond market movements have moderated and spreads from the government-sponsored entity, or GSE, lenders have been relatively stable to slightly lower. Other lenders in the market have had generally stable rates as well. As the year comes to a close, we may well see a decline in spreads as the investment community becomes more comfortable with the direction of the market and the US economy. Even with the recent volatility in U.S. Treasury rates, we expect the market to continue to remain favorable for financing multifamily communities, as the equity and debt markets have generally continued to view the U.S. multifamily sector as a desirable investment. Lending by GSEs could be limited by caps imposed by the Federal Housing and Finance Association, which could lead to higher lending costs, although we expect such higher costs to be offset by increased lending activity by other market participants; however, such other market participants may have increased costs and stricter underwriting criteria.

We believe the combination of a difficult regulatory environment and high underwriting standards for commercial banks will continue to create a choppy market for new construction financing. In addition, we believe the continued hesitance among many prospective homebuyers to believe the net benefits of home ownership are greater than the benefit of the flexibility offered through renting will continue to work in the existing multifamily sector's favor. We also believe there will be a continued boost to demand for multifamily rental housing due to the ongoing entry of the "millennial" generation, the sons and daughters of the baby-boom generation, into the workforce. This generation has a higher statistical propensity to rent their home and stay a renter deeper into their life-cycle, resulting in an increase in demand for rental housing. This combination of factors should generally result in gradual increases in market rents, lower concessions and opportunities for increases in ancillary fee income.

Critical Accounting Policies

In addition to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2016, below is a discussion of the accounting policies that management believes are critical. We consider these policies critical because they involve significant management judgments, assumptions and estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Real Estate

Cost Capitalization. Investments in real estate properties are carried at cost and depreciated using the straight-line method over the estimated useful lives of 30 to 50 years for buildings, 5 to 20 years for building and land improvements and 5 to 10 years for computers, furniture, fixtures and equipment. Acquisition costs are generally expensed as incurred for transactions that are deemed to be business combinations. ASU 2017-01, which was released in January 2017, changes the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We adopted ASU 2017-01 as of January 1, 2017 and believe our future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing communities will generally qualify as asset acquisitions. Pursuant to ASU 2017-01, certain qualifying acquisition costs will be capitalized and amortized rather than expensed as incurred.

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

Real Estate Acquisition Valuation. We generally recorded the acquisition of income-producing real estate as a business combination through December 31, 2016. In conjunction with our adoption of ASU 2017-01, future acquisitions will require judgment to properly classify these acquisitions as asset acquisitions or business acquisitions. All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. We assess the acquisition-date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis) and that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

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

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

The fair values of in-place leases for grocery-anchored shopping centers and office buildings represent the value of direct costs associated with leasing, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases. Direct costs associated with obtaining a new tenant include commissions, legal and marketing costs, incentives such as tenant improvement allowances and other direct costs. Such direct costs are

estimated based on our consideration of current market costs to execute a similar lease. The value of opportunity costs is estimated using the estimated market lease rates and the estimated absorption period of the space. These direct costs and opportunity costs are included in the accompanying consolidated balance sheets as acquired intangible assets and are amortized to expense over the remaining term of the respective leases. The fair values of above-market and below-market in-place leases for grocery-anchored shopping centers and office buildings are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the

corresponding in-place leases, measured over a period equal to the remaining term of the leases, taking into consideration the probability of renewals for any below-market leases. The capitalized above-market leases and in place leases are included in the acquired intangible assets line of the consolidated balance sheets. Both above-market and below-market lease values are amortized as adjustments to rental revenue over the remaining term of the respective leases for office buildings. The amortization period for grocery-anchored shopping center leases is the remaining lease term plus any below market probable renewal options.

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

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. ASU 2014-09 requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company anticipates selecting the modified retrospective transition method with a cumulative effect recognized as of the date of adoption and will
adopt the new standard effective January 1, 2018, when effective. In addition, the evaluation of non-lease components under ASU 2014-09 will not be effective until Accounting Standards Update No. 2016-02, Leases (Topic 842), ("ASU 2016-02") becomes effective (see further discussion below), which will be first quarter of 2019 for the Company. The Company has determined that approximately 90% of its revenues from its New Market Properties and office building segments are derived from either long-term leases with its tenants or reimbursement of property tax and insurance expenses, which are excluded from the scope of the ASU 2014-09. Of the remaining 10% of New Market Properties and office building segment revenues, the majority is comprised of common area maintenance (“CAM”) reimbursements, which is a non-lease component under ASU 2014-09 and therefore within its scope of adoption. Based on management's assessment to date, the Company does not expect the timing of the recognition of reimbursement revenue and other miscellaneous income to change as a result of the new guidance, though certain classifications will change between rental revenue and tenant reimbursements. Similarly, the Company's multifamily communities segment derives the majority of its revenues from rental operations, to which this standard is not applicable. However, the Company does provide non-rental services to its residents related to ancillary services and is currently evaluating the various revenue streams to identify any potential sources which may require bifurcation and reclassification. The Company is continuing to evaluate the impact the adoption of ASU 2014-09 will have on its results of operations and financial condition.

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

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is

substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases and supersedes the previous standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company anticipates adopting ASC 842 utilizing the modified retrospective method and is continuing to evaluate the impacts this standard will have on its results of operations and financial condition.

In June 2016, the FASB issued Accounting Standards Update 2016-13 ("ASU 2016-13"), Financial Instruments—Credit Losses
(Topic 326): Measurement of Credit Losses on Financial Instruments. The new standard requires financial instruments carried at amortized cost to be presented at the net amount expected to be collected, utilizing a valuation account which reflects the cumulative net adjustments from the gross amortized cost value. Under existing GAAP, entities would not record a valuation allowance until a loss was probable of occurring. The standard is effective for the Company on January 1, 2020. The Company is currently evaluating methods of deriving initial valuation accounts to be applied to its real estate loan portfolio. The Company is continuing to evaluate

the pending guidance but does not believe the adoption of ASU 2016-13 will have a material impact on its results of operations or financial condition, since the Company has not yet experienced a credit loss related to any of its financial instruments.

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

In November 2016, the FASB issued Accounting Standards Update 2016-18 ("ASU 2016-18"), Statement of Cash Flows—(Topic 230): Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents when reconciling the beginning and ending amounts in the statements of cash flows. ASU 2016-18 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company plans to adopt ASU 2016-18 on January 1, 2018. The Company currently reports changes in restricted cash within the investing activities section of its consolidated statements of cash flows and does not expect the adoption of ASU 2016-18 to impact its results of operations and financial condition.

In January 2017, the FASB issued Accounting Standards Update 2017-01 ("ASU 2017-01"), Business Combinations - (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company adopted ASU 2017-01 as of January 1, 2017. The Company believes its future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing properties will generally qualify as asset acquisitions. To the extent acquisitions are deemed to be asset acquisitions, acquisition costs have been and will be capitalized and amortized rather than expensed as incurred. The impact of the adoption of ASU 2017-01 was an decrease of approximately $3.4 million of the Company's reported net income available to common stockholders for the three-month period ended September 30, 2017 and a decrease of approximately $6.1 million of the Company's reported net loss available to common stockholders for the nine-month period ended September 30, 2017 than it would have under previous guidance.

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

Results of Operations

Certain financial highlights of our results of operations for the three-month and nine-month periods ended September 30, 2017 were:

	Three months ended September 30,			Nine months ended September 30,		
	2017	2016	% change	2017	2016	% change
Revenues	$74,900,199	$53,537,337	39.9 %	$212,352,447	$141,127,062	50.5 %
Per share data:						
Net income (loss) [1]	$(0.49)	$(0.56)	(12.5)%	$(0.46)	$(1.45)	(68.3)%
FFO [2]	$0.36	$0.31	16.1 %	$1.01	$0.66	53.0 %
Core FFO [2]	$0.38	$0.38	— %	$1.11	$0.99	12.1 %
Dividends [3]	$0.235	$0.2025	16.0 %	$0.69	$0.5975	15.5 %

[1] Per weighted average share of Common Stock outstanding for the periods indicated.

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

Funds from operations ("FFO") for the three months ended September 30, 2016 reflect acquisition-related costs of approximately $1.4 million, or $0.05 per share. In 2017, the majority of these type of costs are deferred and amortized over the life of the acquired assets (see "2017 Guidance" section). Core Funds From Operations Attributable to Common Stockholders and Unitholders ("Core FFO") excludes acquisition costs and certain other costs not representative of our ongoing operations. Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders ("AFFO") removes significant non-cash revenues and expenses from our Core FFO results.

- For the third quarter 2017, our Core FFO payout ratio to our Common Stockholders and Unitholders was approximately 64.5% and our AFFO payout ratio to Common Stockholders and Unitholders was approximately 88.2%. [1]

- For the third quarter 2017, our Core FFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 55.9% and our AFFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 63.4%. [1]

- As of September 30, 2017, our total assets were approximately $2.9 billion compared to approximately $2.1 billion as of September 30, 2016, an increase of approximately $0.8 billion, or approximately 37.9%. This growth was driven primarily by the net addition of 15 real estate properties and an increase of approximately $104.3 million of the funded amount of our real estate loan investment portfolio since September 30, 2016.

- As of September 30, 2017, the average age of our multifamily communities was approximately 5.9 years, which we believe is among the youngest in the multifamily REIT industry.

- At September 30, 2017, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 54.3%.

- Cash flow from operations for the quarter ended September 30, 2017 was approximately $28.1 million, an increase of approximately $7.0 million, or 33.8%, compared to approximately $21 million for the quarter ended September 30, 2016.

- We sustained damages at our Stone Creek multifamily community from Hurricane Harvey in the third quarter. The resulting impact required us to write off approximately $6.9 million in depreciated real estate assets. We expect our property insurance to cover all losses. Our income for the three-month period ended September 30, 2017 was impacted by approximately $217,000 for our insurance deductible, lost rent, and other related costs. Hurricane Irma also impacted our portfolio of multifamily and grocery-anchored shopping center properties in Florida. We anticipate costs associated with this storm to total approximately $300,000 to $500,000, which will be recognized during the fourth quarter 2017 and beyond.

[1] We calculate the Core FFO and AFFO payout ratios to Common Stockholders and Unitholders as the ratio of Common Stock dividends and distributions to Unitholders to Core FFO or AFFO, respectively. We calculate the Core FFO and AFFO payout ratios to Series A Preferred Stockholders as the ratio of Preferred Stock dividends to the sum of Preferred Stock dividends and Core FFO or AFFO, respectively. Since our operations resulted in a net loss from continuing operations for the periods presented, a payout ratio based on net loss is not calculable. See Definitions of Non-GAAP Measures later within this Results of Operations discussion.

The operational highlights of our third quarter and nine-month period ended September 30, 2017 included:

- During the first three quarters 2017, we acquired the following properties:

Property	Location	Units	Beds	Leasable square feet
Multifamily communities:				
Broadstone at Citrus Village	Tampa, FL	296	n/a	n/a
Retreat at Greystone	Birmingham, AL	312	n/a	n/a
Founders Village	Williamsburg, VA	247	n/a	n/a
Claiborne Crossing	Louisville, KY	242	n/a	n/a
Luxe at Lakewood Ranch	Sarasota, FL	280	n/a	n/a
Adara Overland Park	Kansas City, KS	260	n/a	n/a
Aldridge at Town Village	Atlanta, GA	300	n/a	n/a
The Reserve at Summit Crossing	Atlanta, GA	172	n/a	n/a
Grocery-anchored shopping centers:				
Castleberry-Southard	Atlanta, GA	n/a	n/a	80,018
Rockbridge Village	Atlanta, GA	n/a	n/a	102,432
Irmo Station	Columbia, SC	n/a	n/a	99,384
Maynard Crossing	Raleigh, NC	n/a	n/a	122,781
Woodmont Village	Atlanta, GA	n/a	n/a	85,639
West Town Market	Charlotte, NC	n/a	n/a	67,883
Student housing property:				
SoL	Tempe, AZ	225	640	n/a
		2,334		558,137

During the nine-month period ended September 30, 2017, we sold our Sandstone Creek, Ashford Park and Enclave at Vista Ridge multifamily communities located in Kansas City, Kansas, Atlanta, Georgia and Dallas, Texas respectively, which included an aggregate number of 1,072 units.

During the nine-month period ended September 30, 2017, we closed on the following real estate loan investments in support of the development and construction of multifamily communities and one student housing property. For each loan in the following table, we hold an option to purchase the property at a discount to market value, once stabilized. In addition, in the event the loan is refinanced or if the property is sold to a third party, we are entitled to receive the amount of the discount in cash.

Date	Location (MSA)	Underlying Units	Maximum principal amount (millions)
7/11/2017	Atlanta, GA	356	$ 22.4
7/31/2017	Atlanta, GA	258	17.9

8/3/2017	Fort Myers, FL	224	15.6
8/18/2017	Charlotte, NC	338	17.7