PREFERRED APARTMENT COMMUNITIES INC
Form 10-Q
August 03, 2018

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-34995

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

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

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

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

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

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

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

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

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

The number of shares outstanding of the registrant’s Common Stock, as of July 26, 2018 was 40,038,578.

PART I - FINANCIAL INFORMATION

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

(In thousands, except per-share par values)	June 30, 2018	December 31, 2017
Assets		
Real estate		
Land	$470,014	$406,794
Building and improvements	2,345,033	2,043,853
Tenant improvements	84,988	63,425
Furniture, fixtures, and equipment	255,096	210,779
Construction in progress	18,546	10,491
Gross real estate	3,173,677	2,735,342
Less: accumulated depreciation	(222,785)	(172,756)
Net real estate	2,950,892	2,562,586
Real estate loans, net of deferred fee income	314,440	255,345
Real estate loans to related parties, net	59,768	131,451
Total real estate and real estate loan investments, net	3,325,100	2,949,382
Cash and cash equivalents	21,303	21,043
Restricted cash	53,982	51,969
Notes receivable	9,400	17,318
Note receivable and revolving line of credit due from related party	27,956	22,739
Accrued interest receivable on real estate loans	32,126	26,865
Acquired intangible assets, net of amortization of $96,660 and $73,521	99,878	102,743
Deferred loan costs on Revolving Line of Credit, net of amortization of $406 and $1,153	1,353	1,385
Deferred offering costs	7,876	6,544
Tenant lease inducements, net of amortization of $1,021 and $452	18,827	14,425
Tenant receivables (net of allowance of $742 and $715) and other assets	43,752	37,957
Variable Interest Entity ("VIE") assets from mortgage-backed pool, at fair value	266,673	—
Total assets	$3,908,226	$3,252,370
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs and mark-to-market adjustment of $37,378 and $35,397	$1,998,514	$1,776,652
Revolving line of credit	38,500	41,800
Term note payable, net of deferred loan costs of $0 and $6	—	10,994
Real estate loan participation obligation	10,920	13,986
Unearned purchase option termination fees	10,234	—
Deferred revenue	34,352	27,947
Accounts payable and accrued expenses	43,573	31,253
Accrued interest payable	5,998	5,028
Dividends and partnership distributions payable	17,338	15,680
Acquired below market lease intangibles, net of amortization of $11,014 and $8,095	40,350	38,857
Security deposits and other liabilities	13,091	9,407

VIE liabilities from mortgage-backed pool, at fair value	261,879	—
Total liabilities	2,474,749	1,971,604
Commitments and contingencies (Note 11)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, $0.01 par value per share; 3,050 shares authorized; 1,463 and 1,250 shares issued; 1,418 and 1,222 shares outstanding at June 30, 2018 and December 31, 2017, respectively	14	12
Series M Redeemable Preferred Stock, $0.01 par value per share; 500 shares authorized; 29 and 15 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	—	—
Common Stock, $0.01 par value per share; 400,067 shares authorized; 39,726 and 38,565 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	397	386
Additional paid-in capital	1,430,713	1,271,040
Accumulated earnings (deficit)	—	4,449
Total stockholders' equity	1,431,124	1,275,887
Non-controlling interest	2,353	4,879
Total equity	1,433,477	1,280,766
Total liabilities and equity	$3,908,226	$3,252,370

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

	Three months ended June 30,		Six months ended June 30,	
(In thousands, except per-share figures)	2018	2017	2018	2017
Revenues:				
Rental revenues	$66,199	$48,241	$130,276	$93,605
Other property revenues	12,158	8,821	23,886	17,257
Interest income on loans and notes receivable	13,658	8,490	23,958	16,438
Interest income from related parties	4,374	5,338	8,639	10,152
Total revenues	96,389	70,890	186,759	137,452
Operating expenses:				
Property operating and maintenance	10,107	7,198	18,912	13,737
Property salary and benefits (including reimbursements of $3,930, $3,018, $7,539 and $5,795 to related party)	4,228	3,219	8,127	6,247
Property management fees (including $2,156, $1,571 $4,260 and $3,006 to related parties)	2,776	2,061	5,532	3,963
Real estate taxes	10,063	7,680	20,038	15,584
General and administrative	1,957	1,654	3,798	3,159
Equity compensation to directors and executives	950	871	2,085	1,744
Depreciation and amortization	42,095	28,457	82,711	53,283
Acquisition and pursuit costs	—	5	—	14
Asset management fees to related party	6,621	4,864	12,862	9,377
Insurance, professional fees and other expenses	2,008	1,377	3,453	2,669
Total operating expenses	80,805	57,386	157,518	109,777
Waived asset management and general and administrative expense fees	(1,429)	(171)	(2,649)	(346)
Net operating expenses	79,376	57,215	154,869	109,431
Operating income	17,013	13,675	31,890	28,021
Interest expense	22,347	16,398	43,315	31,406
Change in fair value of net assets of consolidated VIE from mortgage-backed pool	54	—	54	—
Loss on extinguishment of debt	—	888	—	888
Net (loss) before gain on sale of real estate	(5,280)	(3,611)	(11,371)	(4,273)
Gain on sale of real estate, net of disposition expenses	2	6,915	20,356	37,639
Net (loss) income	(5,278)	3,304	8,985	33,366
Consolidated net income (loss) attributable to non-controlling interests	140	(97)	(240)	(1,096)
Net (loss) income attributable to the Company	(5,138)	3,207	8,745	32,270
Dividends declared to preferred stockholders	(20,924)	(15,235)	(40,441)	(29,621)
Earnings attributable to unvested restricted stock	(6)	(6)	(8)	(8)

Net (loss) income attributable to common stockholders	$(26,068)	$(12,034)	$(31,704)	$2,641
Net (loss) income per share of Common Stock available to common stockholders, basic and diluted	$(0.66)	$(0.40)	$(0.81)	$0.09
Dividends per share declared on Common Stock	$0.255	$0.235	$0.505	$0.455
Weighted average number of shares of Common Stock outstanding, Basic and diluted	39,383	29,894	39,241	28,423

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

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Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity
For the six-month periods ended June 30, 2018 and 2017
(Unaudited)

(In thousands, except dividend per-share figures)	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2018	$ 12	$ 386	$1,271,040	$ 4,449	$1,275,887	$ 4,879	$1,280,766
Issuance of Units	2	—	210,842	—	210,844	—	210,844
Issuance of mShares	—	—	13,569	—	13,569	—	13,569
Redemptions of Series A Preferred Stock	—	4	(9,063)	—	(9,059)	—	(9,059)
Exercises of warrants	—	6	8,371	—	8,377	—	8,377
Syndication and offering costs	—	—	(21,201)	—	(21,201)	—	(21,201)
Equity compensation to executives and directors	—	—	278	—	278	—	278
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	1	850	—	851	(851)	—
Current period amortization of Class B Units	—	—	—	—	—	1,807	1,807
Net income	—	—	—	8,745	8,745	240	8,985
Reallocation adjustment to non-controlling interests	—	—	3,180	—	3,180	(3,180)	—
Distributions to non-controlling interests	—	—	—	—	—	(542)	(542)
Dividends to series A preferred stockholders ($5.00 per share per month)	—	—	(26,772)	(12,965)	(39,737)	—	(39,737)
Dividends to mShares preferred stockholders ($4.79 - $6.25 per share per month)	—	—	(475)	(229)	(704)	—	(704)
Dividends to common stockholders ($0.505 per share)	—	—	(19,906)	—	(19,906)	—	(19,906)
Balance at June 30, 2018	$ 14	$ 397	$1,430,713	$ —	$1,431,124	$ 2,353	$1,433,477

The accompanying notes are an integral part of these consolidated financial statements.
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Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity, continued
For the six-month periods ended June 30, 2018 and 2017
(Unaudited)

(In thousands, except dividend per-share figures)	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	$ 9	$ 265	$906,737	$ (23,232)	$883,779	$ 1,481	$885,260
Issuance of Units	2	—	146,846	—	146,848	—	146,848
Redemptions of Series A Preferred Stock	—	3	(3,913)	—	(3,910)	—	(3,910)
Issuance of common stock	—	39	58,345	—	58,384	—	58,384
Exercises of Warrants	—	15	17,677	—	17,692	—	17,692
Syndication and offering costs	—	—	(18,299)	—	(18,299)	—	(18,299)
Equity compensation to executives and directors	—	—	247	—	247	—	247
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	2	1,676	—	1,678	(1,678)	—
Current period amortization of Class B Units	—	—	—	—	—	1,497	1,497
Net income	—	—	—	32,270	32,270	1,096	33,366
Reallocation adjustment to non-controlling interests	—	—	(661)	—	(661)	661	—
Distributions to non-controlling interests	—	—	—	—	—	(411)	(411)
Dividends to Series A preferred stockholders ($5.00 per share per month)	—	—	(29,674)	—	(29,674)	—	(29,674)
Dividends to mShares preferred stockholders ($4.79 - $6.25 per share per month)	—	—	(89)	—	(89)	—	(89)
Dividends to common stockholders ($0.455 per share)	—	—	(13,510)	—	(13,510)	—	(13,510)
Balance at June 30, 2017	$ 11	$ 324	$1,065,382	$9,038	$1,074,755	$ 2,646	$1,077,401

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

	Six months ended June 30,	
(In thousands)	2018	2017
Operating activities:		
Net income	$8,985	$33,366
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization expense	82,711	53,283
Amortization of above and below market leases	(2,387)	(1,562)
Deferred revenues and fee income amortization	(2,154)	(804)
Purchase option termination income amortization	(2,236)	—
Amortization of market discount on assumed debt and lease incentives	699	92
Deferred loan cost amortization	3,279	2,650
(Increase) in accrued interest income on real estate loans	(5,261)	(2,976)
Change in fair value of net assets of consolidated VIE	(54)	—
Equity compensation to executives and directors	2,085	1,744
Gain on sale of real estate	(20,356)	(37,639)
Cash received for purchase option terminations	5,100	—
Loss on extinguishment of debt	—	888
Mortgage interest received from consolidated VIE	861	—
Mortgage interest paid to other participants of consolidated VIE	(861)	—
Other	—	189
Changes in operating assets and liabilities:		
Increase in tenant receivables and other assets	(1,718)	(3,619)
Inrease in tenant lease incentives	(4,972)	(7,239)
Increase in accounts payable and accrued expenses	7,474	4,137
Increase (decrease) in accrued interest, prepaid rents and other liabilities	1,968	(160)
Net cash provided by operating activities	73,163	42,350
Investing activities:		
Investments in real estate loans	(117,771)	(70,320)
Repayments of real estate loans	130,185	9,866
Notes receivable issued	(716)	(3,729)
Notes receivable repaid	8,640	1,967
Note receivable issued to and draws on line of credit by related parties	(24,093)	(14,979)
Repayments of line of credit by related parties	18,652	14,254
Loan origination fees received	2,422	835
Loan origination fees paid to Manager	(1,211)	(417)
Investment in mortgage-backed securities	(4,739)	—
Mortgage principal received from consolidated VIE from mortgage-backed pool	171	—
Mortgage principal paid to other participants of consolidated VIE from mortgage-backed pool	(171)	—
Acquisition of properties	(405,870)	(222,435)
Disposition of properties, net	42,269	148,105
Receipt of insurance proceeds for capital improvements	412	—
Additions to real estate assets - improvements	(18,268)	(7,563)

(Deposits) on acquisitions	(1,538)	(920)
Net cash used in investing activities	(371,626)	(145,336)
Financing activities:		
Proceeds from mortgage notes payable	211,949	156,280
Payments for mortgage notes payable	(35,231)	(116,053)
Payments for deposits and other mortgage loan costs	(4,359)	(6,039)
Payments for mortgage prepayment costs	—	(817)
Proceeds from real estate loan participants	5	166
Payments to real estate loan participants	(3,664)	(2,467)
Proceeds from lines of credit	237,100	97,000
Payments on lines of credit	(240,400)	(186,000)
Repayment of the Term Loan	(11,000)	—
Proceeds from sales of Units, net of offering costs and redemptions	204,201	132,620
Proceeds from sales of Common Stock	—	56,116
Proceeds from exercises of Warrants	12,374	14,901
Payments for redemptions of preferred stock	(8,994)	(3,921)
Common Stock dividends paid	(19,378)	(11,711)
Preferred stock dividends paid	(39,310)	(28,990)

(Continued on next page)

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

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

	Six months ended June 30,	
(In thousands)	2018	2017
Distributions to non-controlling interests	(489)	(394)
Payments for deferred offering costs	(2,068)	(4,459)
Net cash provided by financing activities	300,736	96,232
Net increase (decrease) in cash, cash equivalents and restricted cash	2,273	(6,754)
Cash, cash equivalents and restricted cash, beginning of period	73,012	67,715
Cash, cash equivalents and restricted cash, end of period	$75,285	$60,961
Supplemental cash flow information:		
Cash paid for interest	$38,875	$28,812
Supplemental disclosure of non-cash activities:		
Accrued capital expenditures	$1,621	$2,132
Writeoff of fully depreciated or amortized assets and liabilities	$245	$387
Writeoff of fully amortized deferred loan costs	$1,331	$—
Lessee-funded tenant improvements, capitalized as landlord assets	$7,490	$16,200
Dividends payable - Common Stock	$10,104	$7,539
Dividends payable - Series A Preferred Stock	$6,952	$5,145
Dividends payable - mShares Preferred Stock	$129	$47
Dividends declared but not yet due and payable	$153	$12
Partnership distributions payable to non-controlling interests	$273	$212
Accrued and payable deferred offering costs	$415	$431
Offering cost reimbursement to related party	$966	$220
Reclass of offering costs from deferred asset to equity	$1,053	$1,752
Proceeds of like-kind exchange funds for dispositions	$—	$31,288
Use of like-kind exchange funds for acquisitions	$—	$31,288
Fair value issuances of equity compensation	$4,972	$4,088
Mortgage loans assumed on acquisitions	$47,125	$57,324
Noncash repayment of mortgages through refinance	$37,485	$65,000
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$21,303	$13,056
Restricted cash	53,982	47,905
Cash, cash equivalents and restricted cash, end of period	$75,285	$60,961

The accompanying notes are an integral part of these consolidated financial statements.
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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements
June 30, 2018
(unaudited)

1. Organization and Basis of Presentation

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

As of June 30, 2018, the Company had 39,725,664 shares of common stock, par value $0.01 per share, or Common Stock, issued and outstanding and was the approximate 97.4% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 1,070,103 at June 30, 2018 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. The Company is involved with other VIEs, such as its investment in the Freddie Mac Series 2018-ML04 mortgage loan pool, as discussed in Note 4. 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 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 1, 2018. Amounts are presented in thousands where indicated.

2. Summary of Significant Accounting Policies

Variable Interest Entities

A variable interest entity, or “VIE” is an entity that lacks sufficient equity to finance its activities without additional subordinated financial support from other parties, or whose equity holders lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary, which is defined as the party who has a controlling financial interest in the VIE through the (a) power to direct the activities of the VIE that most significantly affect the VIE's economic performance, and (b) obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. The Company assesses whether it meets the power and benefits criteria and in performing this analysis, the Company considers both qualitative and quantitative factors, including the Company's ability to control or significantly influence key decisions of the VIE and the obligation or likelihood for the Company to fund operating losses of the VIE. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, may involve significant judgment, including the determination of which activities most significantly affect the entities' performance, and estimates about the current and future fair values and performance of assets held by the VIE. If the Company determines that it meets both the power and benefits criteria of the VIE, the Company is deemed to be the primary beneficiary of the VIE and the Company consolidates the entire VIE entity in its consolidated financial statements. For those VIEs which arise from the Company's investment in mortgage-backed securities and which the Company consolidates, it elects the fair value option, under which the assets and liabilities of the consolidated VIE are carried at fair value. The periodic changes in fair value are included in the earnings of the Company and are reported on the line entitled Change in fair value of net assets of consolidated VIE from mortgage-backed pool on the Company's Consolidated Statements of Operations. See note 4 for discussion related to the Company's investment in a subordinate tranche of a collateralized mortgage-backed pool during the second quarter 2018 and Note 14 for fair value disclosures related to a consolidated VIE related to this investment.

Purchase Option Terminations

The Company will occasionally receive a purchase option on the underlying property in conjunction with extending a real estate loan investment to the developer of the property. The purchase option is often at a discount to the to-be-agreed-upon market value of the property, once stabilized. If the Company elects not to exercise the purchase option and acquire the property, it may negotiate to sell the purchase option back to the developer and receive a termination fee in consideration. The amount of the termination fee is accounted for as additional interest on the real estate loan investment and is recognized as interest revenue utilizing the effective interest method over the period beginning from the date of election until the earlier of (i) the maturity of the real estate loan investment and (ii) the sale of the property.

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 adopted the new standard on January 1, 2018 utilizing the modified retrospective transition method with a cumulative effect recognized as of the date of adoption. 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 January 1, 2019 for the Company. The Company has determined that approximately 90% of its consolidated revenues are derived from either long-term leases with its tenants and reimbursement of related property tax and insurance expenses (considered executory costs of leases) or its mezzanine loan interest income, which are excluded from the scope of the ASU 2014-09. Of the remaining approximately 10% of the Company's revenues, the majority is comprised of common area maintenance ("CAM") reimbursements and utility reimbursements, which are non-lease components. The Company has concluded that the adoption of ASU 2014-09 will have no material effect upon the timing of the recognition of reimbursement revenue and other miscellaneous income. The Company also evaluated its amenity and ancillary services to its multifamily and student housing residents and does not expect the timing and recognition of revenue to change as a result of implementing ASU 2014-09. Additional required disclosures regarding the nature and timing of the Company's revenue transactions will be provided upon adoption of ASU 2016-02. In July 2018, the FASB issued Accounting Standards Update 2018-11 ("ASU 2018-11"), which provides lessors with a practical expedient in combining lease and non-lease components, if certain criteria are met. The Company believes that adoption of the practical expedient will result in changes in presentation and disclosure of revenue being combined into one revenue component, but will have no material effect on the timing of revenue recognition.

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 Company adopted ASU 2016-01 on January 1, 2018. The adoption of ASU 2016-01 did not impact the Company's results of operations or financial condition but did reduce the required disclosures concerning financial instruments.

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 new lease guidance requires an entity to separate lease components from non-lease components, such as maintenance services or other activities that transfer a good or service to our residents and tenants in a contract; it also considers the reimbursement of real estate taxes and insurance as executory costs of the lease and requires that such amounts be consolidated with the base rent revenue. For lessors, the consideration in the contract is allocated to the lease and non-lease components on a relative standalone price basis in accordance with the allocation guidance in the new revenue standard. The Company concluded that adoption of ASU 2016-02 does not change the timing of revenue recognition over the lease component, which remains over a straight line method, though the reimbursement of property tax and insurance, considered executory costs of leasing, will be combined with the base rent revenue and presented within rental income instead of other income within the Company's income statement. Non-lease components are evaluated under ASU 2014-09, Revenue from Contracts with Customers (Topic 606), discussed above. In its March 2018 meeting, the FASB approved a practical expedient for lessors to elect, by class of underlying assets, to not separate lease and non-lease components if both (1) the timing and pattern of revenue recognition are the same for the non-lease component(s) and related lease component and (2) the combined single lease component would be classified as an operating lease. The Company anticipates adopting ASC 842 utilizing this practical expedient as it relates to its common area maintenance services.

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 will become 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 investment portfolio and is also revising its policies for credit losses on resident and tenant receivables to comply with the expected credit loss model under this guidance. The Company is continuing to evaluate the pending guidance to gauge the materiality of the impact, if any, on its results of operations or financial condition.

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 Company adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did 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. The Company adopted ASU 2016-18 on January 1, 2018 and its adoption of ASU 2016-18 did not impact its results of operations or financial condition, but did change the line upon which changes in restricted cash are presented.

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 Company adopted this guidance on January 1, 2018. The new standard clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments also clarify that an entity should allocate consideration to each distinct asset by applying the guidance in Topic 606 on allocating the transaction price to performance obligations for sales to customers. The Company’s sales of nonfinancial real estate assets are generally made to non-customers, which is a scope exception under Topic 606. The Company elected to adopt this practical expedient and the proceeds from real estate sales continue to be recognized as gain or loss on sale of real estate in the Consolidated Statement of Operations.

3. Real Estate Assets

The Company's real estate assets consisted of:

	As of: June 30, 2018	December 31, 2017
Multifamily communities:		
Properties [1]	31	30
Units	9,768	9,521
New Market Properties: [2]		
Properties	43	39
Gross leasable area (square feet) [3]	4,449,860	4,055,461
Student housing properties:		
Properties	7	4
Units	1,679	891
Beds	5,208	2,950
Preferred Office Properties:		
Properties	5	4
Rentable square feet	1,539,000	1,352,000

(1) The acquired second and third 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 for New Market Properties.

Multifamily communities sold

On March 20, 2018, the Company closed on the sale of its 328-unit multifamily community in Raleigh, North Carolina, or Lake Cameron, to an unrelated third party for a purchase price of approximately $43.5 million, exclusive of closing costs and resulting in a gain of $20.4 million. Lake Cameron contributed approximately $0.2 million and $0.2 million of net income to the consolidated operating results of the Company for the six-month periods ended June 30, 2018 and 2017, respectively.

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. Sandstone Creek contributed approximately $0.1 million of net loss to the consolidated operating results of the Company for the six-month period ended June 30, 2017.

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. Ashford Park contributed approximately $0.4 million of net income to the consolidated operating results of the Company for the six-month period ended June 30, 2017.

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. Enclave at Vista Ridge contributed approximately $(0.1) million of net loss to the consolidated operating results of the Company for the six-month period ended June 30, 2017.

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Each of the gains recorded for these sales transactions were net of disposition expenses and debt defeasance-related costs and prepayment premiums, as described in Note 9.

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

(in thousands)	Lake Cameron March 20, 2018	Sandstone Creek January 20, 2017	Ashford Park March 7, 2017	Enclave at Vista Ridge May 25, 2017
Real estate assets:				
Land	$4,000	$2,846	$10,600	$4,705
Building and improvements	21,519	41,860	24,075	29,916
Furniture, fixtures and equipment	3,687	5,278	4,223	2,874
Accumulated depreciation	(7,220)	(4,809)	(6,816)	(3,556)
Total assets	$21,986	$45,175	$32,082	$33,939
Liabilities:				
Mortgage note payable	$19,736	$30,840	$25,626	$24,862
Supplemental mortgage note	—	—	6,374	—
Total liabilities	$19,736	$30,840	$32,000	$24,862

Multifamily communities acquired

During the six-month periods ended June 30, 2018 and 2017, the Company completed the acquisition of the following multifamily communities:

Acquisition date	Property	Location	Units
1/9/2018	The Lux at Sorrel	Jacksonville, Florida	265
2/28/2018	Green Park	Atlanta, Georgia	310
			575
3/3/2017	Broadstone at Citrus Village	Tampa, Florida	224
3/24/2017	Retreat at Greystone	Birmingham, Alabama	312
3/31/2017	Founders Village	Williamsburg, Virginia	247
4/26/2017	Claiborne Crossing	Louisville, Kentucky	242
			1,025

The aggregate purchase price of the multifamily acquisitions for the six months ended June 30, 2018 was approximately $106.5 million. The aggregate purchase price of the multifamily acquisitions for the six months ended June 30, 2017 was approximately $187.0 million. Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

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The Company allocated the purchase prices and 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.

(in thousands, except amortization period data)	Multifamily Communities acquired during the six months ended: June 30, 2018	June 30, 2017
Land	$12,810	$16,348
Buildings and improvements	73,773	132,861
Furniture, fixtures and equipment	17,969	28,421
Lease intangibles	4,306	6,159
Prepaids & other assets	193	357
Accrued taxes	(166)	(363)
Security deposits, prepaid rents, and other liabilities	(183)	(367)
Net assets acquired	$108,702	$183,416
Cash paid	$37,427	$64,618
Mortgage debt, net	71,275	118,798
Total consideration	$108,702	$183,416
Three months ended June 30, 2018:		
Revenue	$2,514	$4,563
Net income (loss)	$(2,028)	$(1,223)
Six months ended June 30, 2018:		
Revenue	$3,980	$8,956
Net income (loss)	$(3,543)	$(3,715)
Capitalized acquisition costs incurred by the Company	$2,347	$2,237
Acquisition costs paid to related party (included above)	$1,094	$110
Remaining amortization period of intangible assets and liabilities (months)	9.9	0.0

Student housing properties

During the six-month periods ended June 30, 2018 and 2017, the Company completed the acquisition of the following student housing properties:

Acquisition date	Property	Location	Units	Beds
5/10/2018	The Tradition	College Station, Texas	427	808
5/31/2018	The Retreat at Orlando	Orlando, Florida	221	894
6/27/2018	The Bloc	Lubbock, Texas	140	556
			788	2,258
2/28/2017	Sol	Tempe, Arizona	224	639

The aggregate purchase price of the student housing acquisitions for the six months ended June 30, 2018 was approximately $197.0 million. The aggregate purchase price of the student housing acquisitions for the six months ended June 30, 2017 was approximately $53.3 million. Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

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The Company allocated the purchase prices and 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.

	Student housing properties acquired during the six months ended:	
(in thousands, except amortization period data)	June 30, 2018	June 30, 2017
Land	$23,149	$7,441
Buildings and improvements	146,856	40,059
Furniture, fixtures and equipment	27,211	3,771
Lease intangibles	2,493	2,344
Below market leases	(54)	—
Prepaids & other assets	309	51
Accrued taxes	(942)	(72)
Security deposits, prepaid rents, and other liabilities	(719)	(377)
Net assets acquired	$198,303	$53,217
Cash paid	$92,212	$15,732
Mortgage debt, net	106,091	37,485
Total consideration	$198,303	$53,217
Three months ended June 30, 2018:		
Revenue	$1,486	$1,363
Net income (loss)	$(2,019)	$(398)
Six months ended June 30, 2018:		
Revenue	$1,486	$2,707
Net income (loss)	$(2,019)	$(693)
Capitalized acquisition costs incurred by the Company	$2,555	$290
Acquisition costs paid to related party (included above)	$1,970	$60
Remaining amortization period of intangible assets and liabilities (months)	5.2	0.0

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New Market Properties

During the six month periods ended June 30, 2018 and 2017, the Company completed the acquisition of the following grocery-anchored shopping centers:

Acquisition date	Property	Location	Gross leasable area (square feet)
4/27/2018	Greensboro Village	Nashville, Tennessee	70,203
4/27/2018	Governors Towne Square	Atlanta, Georgia	68,658
6/26/2018	Neapolitan Way	Naples, Florida	137,580
6/29/2018	Conway Plaza	Orlando, Florida	117,705
			394,146
4/21/2017	Castleberry-Southard	Atlanta, Georgia	80,018
6/6/2017	Rockbridge Village	Atlanta, Georgia	102,432
			182,450

The aggregate purchase price of the New Market Properties acquisitions for the six months ended June 30, 2018 was approximately $84.6 million. The aggregate purchase price of the New Market Properties acquisitions for the six months ended June 30, 2017 was approximately $37.9 million. Purchase prices shown are exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

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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.

	New Market Properties acquired during the six months ended:	
(in thousands, except amortization period data)	June 30, 2018	June 30, 2017
Land	$24,504	$6,165
Buildings and improvements	50,086	29,137
Tenant improvements	4,018	949
In-place leases	6,177	2,240
Above market leases	1,383	182
Leasing costs	2,011	767
Below market leases	(2,765)	(1,414)
Other assets	—	76
Other liabilities	(812)	(252)
Net assets acquired	$84,622	$37,850
Cash paid	$54,914	$8,339
Use of 1031 proceeds	—	3,761
Mortgage debt	29,708	25,750
Total consideration	$84,622	$37,850
Three months ended June 30, 2018:		
Revenue	$513	$875
Net income (loss)	$(248)	$(54)
Six months ended June 30, 2018:		
Revenue	$513	$1,763
Net income (loss)	$(248)	$(45)
Capitalized acquisition costs incurred by the Company	$1,229	$201
Capitalized acquisition costs paid to related party (included above)	$869	$42
Remaining amortization period of intangible assets and liabilities (years)	6.0	8.5

Preferred Office Properties

On January 29, 2018, the Company acquired Armour Yards, a collection of four adaptive re-use office buildings comprised of approximately 187,000 square feet of office space in Atlanta, Georgia. The gross purchase price was $66.5 million, exclusive of credited unfunded leasing costs, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

The Company allocated the purchase prices and 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.

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(in thousands, except amortization period data)	Preferred Office Properties acquired during the six months ended: June 30, 2018
Land	$ 6,756
Buildings and improvements	48,332
Tenant improvements	6,201
In-place leases	3,762
Above-market leases	61
Leasing costs	2,181
Below-market leases	(1,594)
Security deposits, prepaid rents, and other liabilities	(4,335)
Net assets acquired	$ 61,364
Cash paid	$ 21,364
Mortgage debt, net	40,000
Total consideration	$ 61,364
Three months ended June 30, 2018:	
Revenue	$ 1,418
Net income (loss)	$ (84)
Six months ended June 30, 2018:	
Revenue	$ 2,373
Net income (loss)	$ (254)
Capitalized acquisition costs incurred by the Company	$ 817
Acquisition costs paid to related party (included above)	$ 665
Remaining amortization period of intangible assets and liabilities (years)	7.4

For the six months ended June 30, 2017, the Company did not acquire any office buildings under Preferred Office Properties.

The Company recorded aggregate amortization and depreciation expense of:

	Three months ended June 30,	Six months ended June 30,

(in thousands)	2018	2017	2018	2017
Depreciation:				
Buildings and improvements	$18,356	$13,424	$35,834	$25,845
Furniture, fixtures, and equipment	11,398	7,352	21,910	13,219
	29,754	20,776	57,744	39,064
Amortization:				
Acquired intangible assets	12,209	7,521	24,709	14,020
Deferred leasing costs	105	149	196	182
Website development costs	27	11	62	17
Total depreciation and amortization	$42,095	$28,457	$82,711	$53,283

At June 30, 2018, the Company had recorded acquired gross intangible assets of $196.5 million, and accumulated amortization of $96.7 million; gross intangible liabilities of $51.4 million and accumulated amortization of $11.0 million. Net intangible assets and liabilities as of June 30, 2018 will be amortized over weighted average remaining amortization periods of approximately 7.1 years and 9.2 years, respectively.

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Purchase Options

In the course of extending real estate loan investments for property development, the Company will often receive an exclusive option to purchase the property once development and stabilization are complete. If the Company determines that it does not wish to acquire the property, it has the right to sell its purchase option back to the borrower for a termination fee in the amount of the purchase option discount.

On May 7, 2018, the Company terminated its existing purchase options on the Encore, Bishop Street and Hidden River multifamily communities and the Haven 46 and Haven Charlotte student housing properties, all of which are partially supported by real estate loan investments held by the Company. In exchange, the Company received termination fees aggregating approximately $12.5 million from the developers. These fees are treated as additional interest revenue and are amortized over the period ending with the earlier of (i) the sale of the underlying property and (ii) the maturity of the real estate loans. For the second quarter 2018, the Company recorded approximately $2.2 million of interest revenue related to these transactions.

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

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

(Dollars in thousands)	June 30, 2018	December 31, 2017
Number of loans	21	23
Drawn amount	$376,091	$388,506
Deferred loan origination fees	(1,883)	(1,710)
Carrying value	$374,208	$386,796
Unfunded loan commitments	$136,720	$67,063
Weighted average current interest, per annum (paid monthly)	8.48 %	8.53 %
Weighted average accrued interest, per annum	5.82 %	4.99 %

(In thousands)	Principal balance	Deferred loan origination fees	Carrying value
Balances as of December 31, 2017	$388,506	$ (1,710)	$386,796
Loan fundings	117,771	—	117,771
Loan repayments	(53,165)	—	(53,165)
Loans settled with property acquisitions	(77,021)	—	(77,021)
Origination fees collected	—	(1,210)	(1,210)
Amortization of commitment fees	—	1,037	1,037
Balances as of June 30, 2018	$376,091	$ (1,883)	$374,208

Property type	Number of loans	Carrying value	Commitment amount	Percentage of portfolio
(Dollars in thousands)				
Multifamily communities	15	$297,475	$ 432,016	79 %

Student housing properties	4	60,764	64,438	16	%
Grocery-anchored shopping centers	1	12,855	12,857	3	%
Other	1	3,114	3,500	2	%
Balances as of June 30, 2018	21	$374,208	$ 512,811		

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Notes to Consolidated Financial Statements – (continued)
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Certain of the Company's real estate loan investments are subject to loan participation agreements with unaffiliated third parties. The Company's Palisades loan is subject to such an agreement, 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 unearned purchase option terminations is presented in the liabilities section of the Consolidated Balance Sheets. At June 30, 2018, the balance was approximately $10.9 million.

The Company's real estate loan investments 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. 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 June 30, 2018, none of the Company's real estate loans were delinquent.

At June 30, 2018, our portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of: June 30, 2018	Outstanding balance as of: December 31, 2017	Interest rate
(Dollars in thousands)						
360 Residential, LLC (1)	3/20/2013		$ —	$—	$ 2,000	12 %
Preferred Capital Marketing Services, LLC (3)	1/24/2013	12/31/2018	1,500	803	926	10 %
Preferred Apartment Advisors, LLC (2,3,4)	8/21/2012	12/31/2018	18,000	15,533	14,488	6 %
Haven Campus Communities, LLC (2,3)	6/11/2014	12/31/2018	11,660	11,620	7,325	8 % (5)
Oxford Capital Partners, LLC (2,6)	10/5/2015	6/30/2019	8,000	5,988	6,628	12 %
Newport Development Partners, LLC (7)	6/17/2014	6/30/2019	2,000	—	—	12 %
360 Residential, LLC II (1)	12/30/2015		—	—	3,255	15 %
Mulberry Development Group, LLC (2)	3/31/2016	6/30/2019	500	495	479	12 %
Mulberry Alexandria Group, LLC (8)	7/31/2017		—	—	1,921	12 %
360 Capital Company, LLC (2)	5/24/2016	12/31/2019	3,400	2,917	3,041	12 %
Unamortized loan fees				—	(6)	

$ 45,060	$37,356	$40,057

(1) The amount payable under the note was repaid during the first quarter 2018.
(2) 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.
(3) See related party disclosure in Note 6.
(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, or the Management Agreement.
(5) Effective January 1, 2018, the interest rate was lowered from 12.0% per annum to 8.0% per annum.
(6) The amounts payable under the terms of this revolving credit line, up to the lesser of 25% of the loan balance or $2.0 million, are collateralized by a personal guaranty of repayment by the principals of the borrower.
(7) A revolving line of credit, the maturity of which was extended as shown during the second quarter 2018.
(8) The amount payable under the note was repaid during the second quarter 2018.

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

Interest income	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Real estate loans:				
Current interest payments	$8,686	$7,979	$17,191	$15,041
Additional accrued interest	5,469	4,475	10,195	8,888
Deferred origination fee amortization	607	328	1,038	587
Deferred purchase option termination fee revenue	2,470	—	2,470	—
Total real estate loan revenue	17,232	12,782	30,894	24,516
Interest income on notes and lines of credit	800	1,046	1,703	2,074
Interest income on loans and notes receivable	$18,032	$13,828	$32,597	$26,590

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 VIE, which would necessitate consolidation of the project.

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

The Company has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. The Company has concluded that it is not the primary beneficiary of the borrowing entities and therefore it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of June 30, 2018 of approximately $376.1 million. The maximum aggregate amount of loans to be funded as of June 30, 2018 was approximately $512.8 million, which includes approximately $136.7 million of loan committed amounts not yet funded.

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, Bishop Street, Dawsonville Marketplace, 360 Forsyth, Morosgo, Morosgo Capital, TP Kennesaw and TP Kennesaw Capital loans, all of which are partially supporting proposed various real estate projects in or near Atlanta, Georgia. The drawn amount of these loans as of June 30, 2018 totaled approximately $96.9 million (with a total commitment amount of approximately $107.3 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 the drawn amount.

Subordinate mortgage pool investment

On May 23, 2018, the Company purchased a subordinate tranche of Series 2018-ML04, a pool of 20 multifamily mortgages with a total pool size of approximately $276.3 million, from the Federal Home Loan Mortgage Corporation, or "Freddie Mac". The purchase price of the subordinate tranche was approximately $4.7 million and has a weighted average maturity of approximately 16 years, at which time the Company will collect the face value of its tranche of $27.6 million. The yield to maturity of the subordinate tranche is approximately 11.5% per annum.

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The Company has evaluated the structure of the investment under the VIE rules and has determined that, due to the Company's position as directing certificate holder of 2018-ML04, it is in the position most able to influence the financial performance of the trust. As the subordinate tranche holder, the Company also holds the first loss position of 2018-ML04. As such, the Company is deemed to be the primary beneficiary of the VIE and has consolidated the assets, liabilities, revenues, expenses and cash flows of the entire trust in its consolidated financial statements as of and for the periods ended June 30, 2018. The Company's maximum exposure to loss is approximately $4.6 million. The Company has no recourse liability to either the creditors or other beneficial interest holders of 2018-ML04.

5. Redeemable Preferred Stock and Equity Offerings
At June 30, 2018, the Company's active equity offerings consisted of:

- an offering of 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");
- an offering of up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock (“mShares”), par value $0.01 per share (the “mShares Offering”); and
- an offering of up to $300 million of equity or debt securities (the "Shelf Offering"), including an offering of up to $150 million of Common Stock from time to time in an "at the market" offering (the "2016 ATM Offering").

Certain offering costs are specifically identifiable to offering closing transactions, such as commissions, dealer manager fees, and other registration fees. These costs are reflected as a reduction of stockholders' equity at the time of closing. Other offering costs are not related to specific closing transactions and are recognized as a reduction of stockholders' equity in the proportion of the number of instruments issued to the maximum number of Units anticipated to be issued. Any offering costs not yet reclassified as reductions of stockholders' equity are are reflected in the asset section of the consolidated balance sheets as deferred offering costs.

As of June 30, 2018, cumulative gross proceeds and offering costs for our active equity offerings consisted of:

(In thousands)				Deferred Offering Costs				
Offering	Total offering	Gross proceeds as of June 30, 2018	% collected of total offering	Reclassified as reductions of stockholders' equity	Recorded as deferred assets	Total	Specifically identifiable offering costs [2]	Total offering costs
$1.5 Billion Unit Offering	$1,500,000	$473,590	32 %	$1,490	$ 3,230	$4,720	$ 44,821	$49,541
mShares Offering	500,000	28,844	6 %	205	3,344	3,549	1,363	4,912
Shelf Offering	300,000 [1]	98,080	33 %	664	1,302	1,966	3,001	4,967
Total	$2,300,000	$600,514		$2,359	$ 7,876	$10,235	$ 49,185	$59,420

[1] A total of $150 million of the $300 million Shelf Offering is allocated exclusively to the 2016 ATM Offering.

(2) These offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, are reflected as a reduction of stockholders' equity at the time of closing.

Aggregate offering expenses of the $1.5 Billion Unit Offering, including selling commissions and dealer manager fees, and of the mShares Offering, including dealer manager fees, are each individually capped at 11.5% of the aggregate gross proceeds of the two offerings, of which the Company will reimburse its Manager up to 1.5% of the gross proceeds of such offerings for all organization and offering expenses incurred, excluding selling commissions and dealer manager fees for the $1.5 Billion Unit Offering and excluding dealer manager fees for the mShares Offering; 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, or FINRA.

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6. Related Party Transactions

On April 16, 2018, John A. Williams, the Company's Chief Executive Officer and Chairman of the Board, passed away. The Company's Haven 12, Haven 46, 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., John A. Williams' son. Because the terms of these loans were negotiated and agreed upon while John A. Williams was the Chief Executive Officer of the Company, these instruments will continue to be reported as related party transactions until the loans are repaid. The Company named Daniel M. DuPree as Chairman of the Board of Directors and Chief Executive Officer of the Company. Leonard A. Silverstein was named Vice Chairman of the Board of Directors and continues as the Company's President and Chief Operating Officer.

As of June 30, 2018, Daniel M. DuPree and Leonard A. Silverstein are also executive officers and directors of NELL Partners, Inc., which controls the Manager. As of June 30, 2018, Mr. DuPree and Mr. Silverstein comprised the board of directors of Nell Partners, Inc. Mr. DuPree is the Chief Executive Officer and Mr. Silverstein is the President and Chief Operating Officer of the Manager.

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:

(In thousands)		Three months ended June 30,		Six months ended June 30,	
Type of Compensation	Basis of Compensation	2018	2017	2018	2017
Acquisition fees	As of July 1, 2017, 1.0% of the gross purchase price of real estate assets	$2,861	$—	$4,620	$—
Loan origination fees	1.0% of the maximum commitment of any real estate loan, note or line of credit receivable	411	417	1,211	417
Loan coordination fees	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	814	956	1,554	3,010
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	3,600	3,059	7,265	6,122
Property management fees	Monthly fee up to 4% of the monthly gross revenues of the properties managed	2,148	1,560	4,241	2,985
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	1,535	1,260	2,968	2,544
Construction management fees	Quarterly fee for property renovation and takeover projects	142	89	273	160
		$11,511	$7,341	$22,132	$15,238

The Manager may, in its discretion, waive some or all of the asset management, property management, or general and administrative fees for properties owned by the Company. The waived fees are converted at the time of waiver into contingent fees, which are earned by the Manager 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. A cumulative total of approximately $8.5 million of combined asset management and general and administrative fees related to acquired properties as of June 30, 2018 have been waived by the Manager. A total of $7.7 million remains contingent and could possibly be earned by the Manager in the future.

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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.

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:

(in thousands)

Three months ended June 30,		Six months ended June 30,	
2018	2017	2018	2017
$3,930	$3,018	$7,539	$5,795

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 $238,538 and $220,182 for the six-month periods ended June 30, 2018 and 2017, respectively and Preferred Capital Securities, LLC, or PCS, was reimbursed $727,601 and $511,390 for the six-month periods ended June 30, 2018 and 2017, 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.

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 $434,500 for the six-month period ended June 30, 2018 on the sale of the Lake Cameron property, and $1,576,000 for the six-month period ended June 30, 2017 on the sale of the Ashford Park, Sandstone Creek and Enclave at Vista Ridge properties. 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 approximately $803,000 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. The Company declared quarterly cash dividends on its Common Stock of $0.505 and $0.455 per share for the six-month periods ended June 30, 2018 and 2017, respectively. The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At June 30, 2018, the Company had 1,070,103 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.

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The Company's dividend and distribution activity consisted of:

	Dividends and distributions declared For the six months ended June 30,	
(in thousands)	2018	2017
Series A Preferred Stock	$39,737	$29,609
mShares	704	—
Common Stock	19,906	13,510
Class A OP Units	542	411
Total	$60,889	$43,530

8. Equity Compensation

Stock Incentive Plan

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

Equity compensation expense by award type for the Company was:

	Three months ended June 30,		Six months ended June 30,		Unamortized expense as of June 30,
(in thousands)	2018	2017	2018	2017	2018
Class B Unit awards:					
Executive officers - 2016	$74	$74	$148	$163	$ 151
Executive officers - 2017	88	679	195	1,334	529

Executive officers - 2018	648	—	1,464	—	2,166
Restricted stock grants:					
2016	—	34	—	137	—
2017	30	60	120	60	—
2018	60	—	60	—	300
Restricted stock units:					
2017					