PREFERRED APARTMENT COMMUNITIES INC
Form 10-K
March 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	NYSE

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Exchange Act Rule 12b-2).
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of registrant's most recently completed second fiscal quarter, was $217,792,077 based on the closing price of the common stock on the NYSE MKT on such date.

The number of shares outstanding of the registrant’s Common Stock, as of March 10, 2016 was 23,028,606.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information to be included in the registrant's definitive Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for the registrant's 2016 Annual Meeting of Stockholders is incorporated by reference into PART III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

PART IV

PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled “Forward-Looking Statements” included elsewhere in this Annual Report on Form 10-K. You should also review the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K for a discussion of various risks that could adversely affect us. Unless the context otherwise requires or indicates, references to the "Company", "we", "our" or "us" refers to Preferred Apartment Communities, Inc., a Maryland corporation, together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or our Operating Partnership.

Item 1. Business

Development of the Company

Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009 and has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, effective with its tax year ended December 31, 2011. The Company was 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 construction of multifamily communities and other properties. As a secondary strategy, we may acquire or originate senior mortgage loans, subordinate loans or real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 20% of our total assets in other real estate related investments, such as grocery-anchored shopping centers, as determined by Preferred Apartment Advisors, LLC, a Delaware limited liability company, or our Manager, as appropriate for us. We have no employees of our own; our Manager provides all managerial and administrative personnel to us pursuant to the Fifth Amended and Restated Management Agreement, effective as of January 1, 2015, among the Company, Preferred Apartment Communities Operating Partnership, L.P., a Delaware limited partnership, or our Operating Partnership, and our Manager. As referred to herein, the Fifth Amended and Restated Management Agreement, as it may be amended, is referred to as the Management Agreement. Both our Manager and our Operating Partnership are related parties to us.

Pursuant to the Management Agreement, the disposition fee on the sale of an asset was set at 1% of the contract sales price of the asset. In addition, our Manager has no obligation to provide our board of directors with prior notice of a proposed investment transaction, but leaves intact our Manager’s obligation to notify the board of directors within 30 days following completion of an investment transaction. The Management Agreement also provides for a possible deferral of asset management fees, general and administrative expense fees, property management fees, and acquisition fees and modified the fee structure to include leasing fees for retail properties. Pursuant to the First Amendment to the Management Agreement, which was effective January 1, 2016, we modified the Management Agreement by replacing the acquisition fee owed to the Manager in connection with acquiring real property with a loan coordination fee that is payable in relation to the amount of new debt financed or outstanding debt assumed secured directly by any of our owned real estate asset or the additional amount of any supplemental financing secured directly any of our owned real estate assets. In addition, the First Amendment to the Management Agreement changes the name of the fee paid on loans originated by the Company from an "acquisition fee" to a "loan origination fee." We will amortize these fees over the life of each of the underlying loans.

At December 31, 2015, we owned 19 multifamily communities with a total of 6,136 units in eight states and 14 grocery-anchored shopping centers with a total of approximately 1,279,000 square feet of gross leasable area in five states. We also held 23 real estate loans and bridge loans, twelve of which are real estate loans which partially finance the construction of new multifamily communities and which contain exclusive options to purchase the to-be-developed properties, six of which are real estate loans which partially finance the construction of new student housing communities and which contain exclusive options to purchase the to-be-developed properties, one is supporting a planned grocery-anchored shopping center, and four of which are bridge loans or other similar loans, which are partially or wholly financing land acquisition and predevelopment costs of or otherwise supporting planned multifamily communities, student housing projects, and one of which is a first position loan secured by an existing grocery-anchored shopping center. If we were to ultimately exercise all of our purchase options in place at December 31, 2015, the transactions would add another 4,708 multifamily units and one grocery-anchored shopping center to our portfolio. There can be no assurance that these acquisitions in fact will occur.

We completed our initial public offering, or the IPO, on April 5, 2011. Our common stock, par value $.01 per share, or our Common Stock, is traded on the NYSE exchange under the symbol "APTS."

Our consolidated financial statements include the accounts of the Company and the Operating Partnership. The Company controls the Operating Partnership through its sole general partnership interest and has and plans to continue to conduct substantially all its business through the Operating Partnership.

On November 18, 2011, the Securities and Exchange Commission, or SEC, declared effective our registration statement on Form S-11 (File No. 333-176604), as the same was amended from time to time, or our Registration Statement, for our offering of a minimum of 2,000 and a maximum of 150,000 Units, with each Unit consisting of one share of our Series A Redeemable Preferred Stock, stated value $1,000 per share, or Preferred Stock, and one warrant, or Warrant, to purchase 20 shares of our Common Stock. The offering described above is described herein as the Primary Series A Offering and was offered by International Assets Advisory, LLC, or the Dealer Manager, on a “reasonable best efforts” basis. Our Primary Series A Offering expired on December 31, 2013 and 89,408 Units were issued and sold under the Registration Statement.

On October 11, 2013, the SEC declared effective our registration statement on Form S-3 (File No. 333-183355), as the same may be amended from time to time, or our Follow-On Series A Registration Statement, for an offering of up to an additional 900,000 Units to be offered from time to time on a “reasonable best efforts” basis. The offering under the Follow-On Series A Registration Statement is referred to herein as the Follow-On Series A Offering, and, except as described in its prospectus, the terms of the Follow-On Series A Offering are substantially similar to the terms of the Primary Series A Offering. We commenced sales for the Follow-On Series A Offering on January 1, 2014. A total of 396,774 Units were issued and sold from that date through December 31, 2015 under the Follow-On Series A Offering.

On May 17, 2013, we filed a registration statement on Form S-3 (File No. 333-188677), or our Shelf Registration Statement, which was declared effective by the SEC on July 19, 2013. The Shelf Registration Statement allows us to offer equity or debt securities in an amount of up to $200 million.
On February 28, 2014,we filed a prospectus supplement to our Shelf Registration Statement to issue and sell up to $100 million of Common Stock from time to time in an "at the market" offering, or the ATM Offering, through MLV & Co. LLC, or the Agent. Since the commencement of the ATM Offering with the first settlement in April 2014, through December 31, 2015, approximately 6.5 million shares of Common Stock were issued and sold at an average price of $8.62 per share.
This Annual Report on Form 10-K shall not constitute an offer to sell or the solicitation of an offer to buy the securities offered by the Company pursuant to the Follow-On Series A Registration Statement or the Shelf Registration Statement, nor shall there be any offer or sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Any offerings shall be made only by means of a prospectus, as the same may be supplemented from time to time, which will become, or that is, as applicable, a part of the Follow-On Series A Registration Statement, or the Shelf Registration Statement.

Financial Information About Segments

We evaluate the performance of our business operations and allocate financial and other resources by assessing the financial results and outlook for future performance across three distinct segments: multifamily communities, retail, and real estate related financing.

Our multifamily communities segment consists of our 19 owned residential multifamily communities, which contributed approximately $65.2 million, $31.2 million, and $22.4 million to our consolidated revenues for the twelve-month periods ended December 31, 2015, 2014 and 2013, respectively.

Our retail segment consists of our 14 owned grocery-anchored shopping centers, which contributed approximately $13.4 million and $3.5 million to our consolidated revenues for the twelve-month periods ended December 31, 2015 and 2014, respectively.

Our financing segment consists of our portfolio of real estate loans, bridge loans and other financial instruments which partially finance the development, construction and prestabilization carrying costs of new multifamily communities and other real estate and real estate related assets. The financing segment contributed approximately $30.7 million, $21.8 million, and $9.7 million to our consolidated revenues for the twelve-month periods ended December 31, 2015, 2014 and 2013, respectively.

The financial measures required by Item 101 of Regulation S-K to be presented in Item 1 are included in the Company's consolidated financial statements and notes thereto in Item 15 of this Annual Report on Form 10-K.

Investment Strategy

We seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy. As, and if, the real estate market and economy continue to stabilize and improve, we intend to employ efficient management techniques to grow income and create asset value. Our investment strategies may include, without limitation, the following:

- Acquiring Class “A” multifamily assets in performing and stable markets throughout the United States; these properties, we believe, will generate sustainable and growing cash flow from operations sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation. These multifamily assets will generally be located in metropolitan statistical areas, or MSAs, with at least one million people which we expect will generate job growth and where we believe new multifamily development of comparable properties is able to be absorbed at attractive rental rates.

- Acquiring Class “A” multifamily assets dedicated to student housing at major universities around the United States. These assets will be located proximate to campus with demonstrated track records of occupancy and rental rates. The universities served by these assets should generally be larger schools with stated policies of increased enrollment and market trends that indicate new development is being or should be absorbed at attractive rental rates.

- Acquiring Class “A” multifamily assets that are intended to be financed with longer-term, assumable, fixed-rate debt typically provided by FHA/HUD programs.

- Acquiring Class “A” multifamily assets that present an opportunity to implement a value-add program whereby the properties can be upgraded or improved physically to better take advantage of the market.

- Acquiring grocery-anchored shopping centers, subject to a limitation that such other real estate related investments may not exceed 20% of our assets. These assets are typically anchored by one of the market dominant grocers in the trade area, have a track record of strong, increasing sales/sft at the anchor store.

- Originating mezzanine loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties, other multifamily related assets and grocery-anchored shopping centers, not to exceed the stated cap of not more than 20% of our total assets in other real estate related investments, such as as determined by our Manager as appropriate for us.

- It is our policy to acquire any of our target assets primarily for income, and only secondarily for possible capital gain. 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 mezzanine loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties.

- We also may invest in real estate related debt, including, but not limited to, newly or previously originated first mortgage loans on multifamily properties that meet our investment criteria, which are performing or non-performing, newly or previously originated mezzanine loans on multifamily properties that meet our investment criteria (second or subsequent mortgages), which are performing or non-performing, and tranches of securitized loans (pools of collateralized mortgaged-backed securities) on multifamily properties that meet our investment criteria, which are performing or non-performing. In connection with our investments in mezzanine debt, we may negotiate the inclusion of exclusive purchase options on the to-be-developed properties. These purchase options may include a fixed purchase price set at the time we enter into the loan, or a purchase price which is calculated as a certain discount from market capitalization rates at the date of exercise of such purchase option.

Any asset acquisitions from affiliated third parties have been, and will continue to be, subject to approval by our conflicts committee comprised solely of independent directors. Our Manager's investment committee will periodically review our investment portfolio and its compliance with our investment guidelines and policies, and provide our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. Our investment guidelines, the assets in our portfolio, the decision to utilize leverage, and the appropriate levels of leverage are periodically reviewed by our board of directors as part of their oversight of our Manager. Our board of directors may amend or revise our investment guidelines without a vote of the stockholders.

Financing Strategy

We intend to finance the acquisition of investments using various sources of capital, as described in the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” included in this Annual Report on Form 10-K. Included in this discussion are details regarding our Primary Series A Offering, our Follow-On Series A Offering, and our Shelf Registration Statement under which we sold Common Stock in November 2013, and our ATM Program, which commenced with the first settlement in April 2014.

We intend to utilize leverage in making our investments. The number of different investments we will acquire will be affected by numerous factors, including the amount of funds available to us. By operating on a leveraged basis, we will have more funds available for our investments. This will allow us to make more investments than would otherwise be possible, resulting in a larger and more diversified portfolio. See the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K for more information about the risks related to operating on a leveraged basis.

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the fair market value of our tangible assets (including our real estate assets, real estate loans, notes receivable, accounts receivable and cash and cash equivalents) on a portfolio basis. As of December 31, 2015, our outstanding debt (both secured and unsecured) was approximately 50.8% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 2015. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. The amount of leverage we will place on particular investments will depend on our Manager's assessment of a variety of factors which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in the portfolio, the availability and cost of financing the asset, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and the health of the commercial real estate market in general. In addition, factors such as our outlook on interest rates, changes in the yield curve slope, the level and volatility of interest rates and their associated credit spreads, the underlying collateral of our assets and our outlook on credit spreads relative to our outlook on interest rate and economic performance could all impact our decision and strategy for financing the target assets. At the date of acquisition of each asset, we anticipate that the investment cost for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. Finally, we intend to acquire all our properties through separate single purpose entities and intend to finance each of these properties using debt financing techniques for that property alone, without any cross-collateralization to our other multifamily communities or any guarantees by us or our Operating Partnership. We have an Amended and Restated Credit Agreement, or Credit Facility, with Key Bank, N.A., or Key Bank. The Credit Facility provides for our $70.0 million revolving credit facility, or the Revolving Line of Credit, as well as a $45 million term loan which was repaid during 2014. On January 5, 2016, we closed on another term loan of $35 million, or Term Loan. Other than with regard to our Revolving Line of Credit, as of December 31, 2015, we held no debt at the Company or operating partnership levels, had no cross-collateralization of our real estate mortgages, and had no contingent liabilities at the Company or operating partnership levels with regard to our secured mortgage debt on our communities.

Leverage may be obtained from a variety of sources, including the Federal Home Loan Mortgage Corporation, or Freddie Mac; the Federal National Mortgage Association, or Fannie Mae; commercial banks; credit companies; the Federal Housing Administration, or FHA, a unit of the Department of Housing and Urban Development, or HUD; insurance companies; pension funds; endowments; financial services companies and other institutions who wish to provide debt financing for our assets.

Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our net assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our net assets, we expect that our board of directors will consider many factors, including the lending standards of government-sponsored enterprises, such as Fannie Mae, Freddie Mac and other companies for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, whether we have positive leverage (in that, the board of directors will compare the capitalization rates of our properties to the interest rates on the indebtedness of such properties) and general market and economic conditions. There is no limitation on the amount that we may borrow for any single investment or the number of mortgages that may be placed on any one property.

Marketing and Branding Strategy

Our Manager has branded, and intends to brand, all apartment communities owned by us as “A Preferred Apartment Community” which we believe signifies outstanding brand and management standards, and has obtained all rights to the trademarks, including federal registration of the trademarks with the United States Patent and Trademark Office, to secure such brand in connection with such branding. We believe these campaigns will enhance each individual property's presence in relation to other properties within that marketplace.

On September 17, 2010, we entered into a trademark license and assignment agreement pursuant to which we granted an exclusive, worldwide, fully-paid, royalty-free license of all our trademarks to our Manager and agreed to assign all of our trademarks to our Manager upon the applications related to our trademarks being successfully converted to use based applications with the United States Patent and Trademark Office. Pursuant to this agreement, in March 2012, we assigned these trademarks to our Manager and concurrently entered into a royalty-free license agreement for these trademarks with us as licensee. Similarly, in March 2012, our Manager entered into a royalty-free license agreement with us as licensee with respect to all other intellectual property of the Manager. The license agreements will terminate automatically upon termination of the Management Agreement, or upon a material breach of a license agreement that remains uncured for more than 30 days after receipt of notice of such breach. Following such termination, we will be required to enter into a new arrangement with our Manager in order to continue our rights to use our Manager's intellectual property. There can be no assurance that we will be able to enter into such arrangements on terms acceptable to us.

We have implemented what we believe to be an innovative and unique marketing and branding strategy at each multifamily community that we own by implementing the PAC Concierge, PAC Rewards and PAC Partners programs. We intend to implement this same marketing and branding strategy at each multifamily community we acquire.

Our PAC Concierge Program is a complimentary service for residents designed to offer them the type of personal concierge services that one might expect at a high end resort. The concierge services are provided by a professionally trained third party team and is available to our residents 24/7 by telephone, email or web access through our unique resident web portal. Our PAC Rewards program, once communities are enrolled in the program, allows residents to accumulate and redeem reward points for services and upgrades. Residents may accumulate Preferred Rewards, for example, when they sign their lease, pay their rent online, renew their leases, or when a resident's referral signs a new lease. Our PAC Partners program establishes reciprocal relationships between a Preferred Apartment Community and neighborhood businesses to provide our residents with benefits such as discounts, perks and other incentives as an enticement to frequent those businesses and to support the local community.

Environmental Regulation

We are subject to regulation at the federal, state and municipal levels and are exposed to potential liability should our properties or actions result in damage to the environment or to other persons or properties. These conditions include the presence or growth of black mold, potential leakage of underground storage tanks, breakage or leaks from sewer lines and risks pertaining to waste or chemical solvents. We could be liable for the potential costs of compliance, property damage restoration and other costs which could occur without regard to our fault or knowledge of such conditions.

In the course of acquiring and owning real estate assets, we engage an independent environmental consulting firm to perform a level 1 environmental assessment (and if appropriate, a level 2 assessment) to identify and mitigate these risks as part of our due diligence process. We believe these assessment reports provide a reasonable basis for discovery of potential hazardous conditions prior to acquisition. Should any potential environmental risks or conditions be discovered during our due diligence process, the potential costs of remediation will be assessed carefully and factored into the cost of acquisition, assuming the identified risks and factors are deemed to be manageable and within reason. Some risks or conditions may be identified that are significant enough to cause us to abandon the possibility of acquiring a given property. As of December 31, 2015, we have no knowledge of any material claims made or pending against us with regard to environmental damage for which we may be found liable, nor are we aware of any potential hazards to the environment related to any of our properties which could reasonably be expected to result in a material loss.

Competition

The multifamily housing industry is highly fragmented and we compete for residents with a large number of other quality apartment communities in our target markets which are owned by public and private companies, including other REITs, many of which are larger and have more resources than our Company. The number of competitive multifamily properties in a particular market could adversely affect our ability to lease our multifamily communities, as well as the rents we are able to charge. In addition, other forms of residential properties, including single family housing and town homes, provide housing alternatives to potential residents of quality apartment communities. The factors on which we focus to compete for residents in our multifamily communities include our high level of resident service, the quality of our apartment communities (including our landscaping and amenity offerings), and the desirability of our locations. Resident leases at our apartment communities are priced competitively based on levels of supply and demand within our target markets and we believe our communities offer a compelling value to prospective residents.

Similarly, competition for tenants and acquisition of existing centers in the grocery-anchored shopping center sector in our target markets is considerable, consisting of public and private companies, high net worth individuals and family offices. In addition, a significant competitor in this sector are some of the grocery anchors themselves as they acquire land and build their own stores or acquire the entire center where they are the anchor. We are faced with the challenge of maintaining high occupancy rates with a financially stable tenant base. In order to attract quality prospective tenants and retain current tenants upon expiration of their leases, we focus on improving the design and visibility of our centers, building strong relationships with our tenants, and reducing excess operating costs and increasing tenant satisfaction through proactive asset and property management. We target acquisitions in markets with solid surrounding demographics, quality underlying real estate locations, and centers where our asset management approach can provide an environment conducive to creating sales productivity for our tenants.

Available Information

The Company makes available all reports which are filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material has been filed with, or furnished to, the SEC for viewing or download free of charge at the Company's website: www.pacapts.com. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, or you may obtain information by calling the SEC at 1-800-SEC-0330. The SEC maintains a website at http://www.sec.gov that contains reports, proxy statements and information statements, and other information, which you may obtain free of charge.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating us and our business. Our business, operating results, prospects and financial condition could be materially adversely affected by any of these risks. The risks and uncertainties described below are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that, as of the date of this Annual Report on Form 10-K, we deem immaterial also may harm our business. This “Risk Factors” section contains references to our “capital stock” and to our “stockholders.” Unless expressly stated otherwise, the references to our “capital stock” represent our common stock and any class or series of our preferred stock, while the references to our “stockholders” represent holders of our common stock and any class or series of our preferred stock.

Risks Related to an Investment in Our Company

Our ability to grow the Company and execute our business strategy may be impaired if we are unable to secure adequate financing.

Our ability to grow the Company and execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Currently, we do not have any agreements or letters of intent in place for any debt financing sources other than our Revolving Credit Facility and our Term Loan. Recently, domestic and international financial markets have experienced unusual volatility and uncertainty. Debt or equity financing may not be available in sufficient amounts, on favorable terms or at all. Returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure financing on reasonable terms, if at all. Additionally, if we issue additional equity securities to finance our investments instead of incurring debt (through our Follow-On Series A Offering, offerings through our Shelf Registration Statement, or other offerings), the interests of our existing stockholders could be diluted.

Distributions paid from sources other than our net cash provided by operating activities, particularly from proceeds of any offerings of our securities, will result in us having fewer funds available for the acquisition of properties and other real estate-related investments, which may adversely affect our ability to fund future distributions with net cash provided by operating activities and may adversely affect our stockholders' overall return.

As we acquire multifamily properties and other real estate assets, we will incur substantial costs to perform due diligence tasks and other costs connected with acquiring these assets. Pursuant to accounting principles generally accepted in the United States of America, or GAAP, regardless of the source of funds to pay acquisition costs, these acquisition costs are accounted for as deductions from total cash provided by operating activities to determine net cash provided by operating activities. The net effect of this could cause our dividend distributions to exceed our net cash provided by operating activities and could have a detrimental effect on our stock price and the value of our stockholders' investments.

We have paid distributions from sources other than from net cash provided by operating activities. If we do not generate sufficient net cash provided by operating activities and other sources, such as from borrowings, the sale of additional securities, advances from our Manager, our Manager's deferral, suspension and/or waiver of its fees and expense reimbursements, to fund distributions, we may use the proceeds from any offering of our securities. Moreover, our board of directors may change our distribution policy, in its sole discretion, at any time, except for distributions on our Preferred Stock, which would require approval by a supermajority vote of our Common Stockholders. Distributions made from offering proceeds may be a return of capital to stockholders, from which we will have already paid offering expenses in connection with the related offering. We have not established any limit on the amount of proceeds from our securities offerings that may be used to fund distributions, except that, in accordance with our organizational documents and Maryland law, we may not make distributions that would: (1) cause us to be unable to pay our debts as they become due in the usual course of business; (2) cause our total assets to be less than the sum of our total liabilities plus senior liquidation preferences, if any; or (3) jeopardize our ability to qualify as a REIT.

If we fund distributions from the proceeds of an offering of our securities, we will have less funds available for acquiring properties or real estate-related investments. As a result, the return our stockholders realize on their investment may be reduced. Funding distributions from borrowings could restrict the amount we can borrow for investments, which may affect our profitability. Funding distributions with the sale of assets or the proceeds of an offering of our securities may affect our ability to generate net cash provided by operating activities. Funding distributions from the sale of our securities could dilute the interest of our common stockholders if we sell shares of our Common Stock or securities convertible or exercisable into shares of our Common Stock to third party investors. Payment of distributions from the mentioned sources could restrict our ability to generate sufficient net cash provided by operating activities, affect our profitability and/or affect the distributions payable to our stockholders upon a liquidity event, any or all of which may have an adverse effect on our stockholders.

We may suffer from delays in locating suitable investments, which could adversely affect the return on our stockholders' investment.

Our ability to achieve our investment objectives and to make distributions to our stockholders is dependent upon our Manager's performance in the acquisition of, and arranging of financing for, investments, as well as our property manager's performance in the selection of residents and the negotiation of leases and our Manager's performance in the selection of retail tenants and the negotiation of leases. The current market for properties that meet our investment objectives is highly competitive, as is the leasing market for such properties. The more proceeds we raise in current and future offerings of our securities, the greater our challenge will be to invest all the net offering proceeds on attractive terms. Our stockholders will not have the opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. Our stockholders must rely entirely on the oversight of our board of directors, the management ability of our Manager and the performance of our Manager and property manager. We cannot be sure that our Manager will be successful in obtaining suitable investments on financially attractive terms.

Additionally, as a public company, we are subject to ongoing reporting requirements under the Exchange Act. Pursuant to the Exchange Act, we may be required to file with the SEC financial statements of properties we acquire and investments we make in real estate-related assets. To the extent any required financial statements are not available or cannot be obtained, we may not be able to acquire the investment. As a result, we may be unable to acquire certain properties or real estate-related assets that otherwise would be a suitable investment. We could suffer delays in our investment acquisitions due to these reporting requirements.

Furthermore, if we acquire properties prior to, during, or upon completion of construction, it will typically take several months following completion of construction to rent available space. Therefore, our stockholders could experience delays in the receipt of distributions attributable to those particular properties.

Delays we encounter in the selection and acquisition of investments could adversely affect our stockholders' returns. In addition, if we are unable to invest the proceeds of any offering of our securities in real properties and real estate-related assets in a timely manner, we will hold the proceeds of those offerings in an interest-bearing account, invest the proceeds in short-term, investment-grade investments, which generate lower returns than we anticipate with our target assets, or, ultimately, liquidate. In such an event, our ability to make distributions to our stockholders and the returns to our stockholders would be adversely affected.

The cash distributions our stockholders receive may be less frequent or lower in amount than our stockholders expect.

Our board of directors will determine the amount and timing of distributions. In making this determination, our directors will consider all relevant factors, including the amount of cash available for distribution, capital expenditure and reserve requirements and general operational requirements. We cannot assure our stockholders that we will continue to generate sufficient available cash flow to fund distributions nor can we assure our stockholders that sufficient cash will be available to make distributions to our stockholders. As we are a growing company, it is more difficult for us to predict the amount of distributions our stockholders may receive and we may be unable to pay, maintain or increase distributions over time. Our inability to acquire properties or real estate-related investments may have a negative effect on our ability to generate sufficient cash flow from operations to pay distributions.

Further, if the aggregate amount of our distributions in any given year exceeds our earnings and profits (as determined for U.S. federal income tax purposes), the U.S. federal income tax treatment of the excess amount will be either (i) a return of capital or (ii) a gain from the sale or exchange of property to the extent that a stockholder's tax basis in our Common Stock equals or is reduced to zero as the result of our current or prior year distributions.

Upon the sale of any individual property, holders of our Preferred Stock do not have a priority over holders of our Common Stock regarding return of capital.

Holders of our Preferred Stock do not have a right to receive a return of capital prior to holders of our Common Stock upon the individual sale of a property. Depending on the price at which such property is sold, it is possible that holders of our Common Stock will receive a return of capital prior to the holders of our Preferred Stock, provided that any accrued but unpaid dividends have been paid in full to holders of Preferred Stock. It is also possible that holders of our Common Stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Preferred Stock receive a return of their capital.

There is no clawback for distributions with respect to the special limited partnership interest (except in limited circumstances) and such distributions are payable upon the sale of an asset even if stockholders have not received a return of their entire investment.

Our Manager has a special limited partnership interest in our Operating Partnership entitling it to distributions from our Operating Partnership equal to 15% of any net sale proceeds from an asset (which equals the proceeds actually received by us from the sale of such asset after paying off outstanding debt related to the sold asset and paying any seller related closing costs, including any fees paid to our Manager in connection with the sale of the asset remaining after the payment of (i) the capital allocable to the sold asset, (ii) a 7% priority annual return on such capital and expenses, and (iii) payment of all contingent fees; provided, however, that all accrued and unpaid dividends on our Preferred Stock have been paid in full. This distribution with respect to the special limited partnership interest is payable upon the sale of an asset even if our stockholders have not received a return of their capital, but only after the holders of our Preferred Stock have received payment in full of all accrued and unpaid dividends on our Preferred Stock. There is no clawback for distributions with respect to the special limited partnership interest except in limited circumstances. As a result, distributions with respect to the special limited partnership interest may be payable upon the sale of an asset even if our stockholders have not received a return of their entire investment in the Company, provided that any accrued but unpaid dividends have been paid to holders of Preferred Stock.

Our stockholders' percentage of ownership may become diluted if we issue new shares of stock or other securities, and issuances of additional preferred stock or other securities by us may further subordinate the rights of the holders of our Common Stock.

We may make redemption payments under the terms of the Series A Preferred Stock in shares of our Common Stock. Although the dollar amounts of such payments are unknown, the number of shares to be issued in connection with such payments may fluctuate based on the price of our Common Stock. Any sales or perceived sales in the public market of shares of our Common Stock issuable upon such redemption payments could adversely affect the prevailing market prices of shares of our Common Stock. The issuance of Common Stock upon such redemption payments or from the exercise of outstanding Warrants also may have the effect of reducing our net income per share or increasing our net loss per share. In addition, the existence of Preferred Stock may encourage short selling by market participants because the existence of redemption payments could depress the market price of shares of our Common Stock.

Our board of directors is authorized, without stockholder approval, to cause us to issue additional shares of our Common Stock or to raise capital through the issuance of additional preferred stock (including equity or debt securities convertible into preferred stock or our Common Stock), options, warrants and other rights, on such terms and for such consideration as our board of directors in its sole discretion may determine. Any such issuance could result in dilution of the equity of our stockholders. Our board of directors may, in its sole discretion, authorize us to issue Common Stock or other equity or debt securities (a) to persons from whom we purchase multifamily communities, as part or all of the purchase price of the community, or (b) to our Manager in lieu of cash payments required under the Management Agreement or other contract or obligation. Our board of directors, in its sole discretion, may determine the value of any Common Stock or other equity or debt securities issued in consideration of multifamily communities acquired or services provided, or to be provided, to us.

Our charter also authorizes our board of directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock in addition to the Preferred Stock (including equity or debt securities convertible into preferred stock) and to set or change the voting, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class or series of shares so issued. If any additional preferred stock is publicly offered, the terms and conditions of such preferred stock (including any equity or debt securities convertible into preferred stock) will be set forth in a registration statement registering the issuance of such preferred stock or equity or debt securities convertible into preferred stock. Because our board of directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers and rights senior to the rights of holders of common stock or the Preferred Stock. If we ever create and issue additional preferred stock or equity or debt securities convertible into preferred stock with a distribution preference over our Common Stock or the Preferred Stock, payment of any distribution preferences of such new outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our Common Stock and our Preferred Stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage a merger, tender offer, or proxy contest, the assumption of control by a holder of a large block of our securities, or the removal of incumbent management.

Stockholders have no rights to buy additional shares of stock or other securities if we issue new shares of stock or other securities. We may issue common stock, convertible debt, preferred stock or warrants pursuant to a subsequent public offering or a private placement, or to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration. Stockholders who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own. In addition, depending on the terms and pricing of any additional offerings and the value of our investments, our stockholders also may experience dilution in the book value and fair market value of, and the amount of distributions paid on, their shares of our Common Stock or Preferred Stock.

Our internal control over financial reporting may not be effective, which could adversely affect our reputation, results of operations and stock price.

The accuracy of our financial reporting depends on the effectiveness of our internal control over financial reporting. Internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements and may not prevent or detect misstatements because of its inherent limitations. These limitations include the possibility of human error, inadequacy or circumvention of internal controls and fraud. If we do not attain and maintain effective internal control over financial reporting or implement controls sufficient to provide reasonable assurance with respect to the preparation and fair presentation of our financial statements, we could be unable to file accurate financial reports on a timely basis, and our reputation, results of operations and stock price could be materially adversely affected.

Breaches of our data security could materially harm our business and reputation.

We collect and retain certain personal information provided by our residents. While we have implemented a variety of security measures to protect the confidentiality of this information and periodically review and improve our security measures, there can be no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and loss of this information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance.

The properties we operate may not produce the cash flow required to meet our REIT minimum distribution requirements, and we may decide to borrow funds to satisfy such requirements, which could adversely affect our overall financial performance.

We may decide to borrow funds in order to meet the REIT minimum distribution requirements even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of certain tax considerations. If we borrow money to meet the REIT minimum distribution requirement or for other working capital needs, our expenses will increase, our net income will be reduced by the amount of interest we pay on the money we borrow and we will be obligated to repay the money we borrow from future earnings or by selling assets, any or all of which may decrease future distributions to our stockholders.

To maintain our status as a REIT, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and may reduce our stockholders' overall return.

To maintain our qualification as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, the nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investment.

There is no public market for our Preferred Stock or Warrants and we do not expect one to develop.

There is no public market for our Preferred Stock or Warrants, and we currently have no plan to list these securities on a securities exchange or to include these shares for quotation on any national securities market. We cannot assure our stockholders as to the liquidity of any trading market that may develop for our Preferred Stock or Warrants. Additionally, our charter contains restrictions on the ownership and transfer of our securities, and these restrictions may inhibit the ability to sell the Preferred Stock or Warrants promptly or at all. Furthermore, the Warrants will expire four years from the date of issuance. If a holder is able to sell the Preferred Stock or Warrants, they may only be able to sell them at a substantial discount from the price paid. Accordingly, our stockholders may be required to bear the financial risk of their investment in the shares of Preferred Stock indefinitely.

We will be required to terminate the Follow-On Series A Offering if our Common Stock is no longer listed on the NYSE or another national securities exchange.

The Preferred Stock is a "covered security" under the Securities Act and therefore is not subject to registration in the various states in which it may be sold due to its seniority to our Common Stock, which is listed on the NYSE exchange. If our Common Stock is no longer listed on the NYSE or another appropriate exchange, we will be required to register the offering of our Units in any state in which we subsequently offer the Units. This would require the termination of the Unit offering and could result in our raising an amount of gross proceeds that is substantially less than the amount of the gross proceeds we expect to raise if the maximum offering is sold. This would reduce our ability to purchase additional properties and limit the diversification of our portfolio.

The Warrants are not "covered securities" under the Securities Act. The Warrants are subject to state registration in those states that do not have any exemption for securities convertible into a listed security and the offering must be declared effective in order to sell the Warrants in these states.

Our ability to redeem shares of Preferred Stock for cash may be limited by Maryland law.

Under Maryland law, a corporation may redeem stock as long as, after giving effect to the redemption, the corporation is able to pay its debts as they become due in the usual course (the equity solvency test) and its total assets exceed its total liabilities (the balance sheet solvency test). The Company may redeem its shares of Preferred Stock in its choice of either cash or Common Stock. If the Company is insolvent at any time when a redemption of shares of Preferred Stock is required to be made, the Company may not be able to effect such redemption for cash.

The Preferred Stock is a senior security, and ranks prior to our Common Stock with respect to dividends and payments upon liquidation.

The rights of the holders of shares of our Preferred Stock rank senior to the rights of the holders of shares of our Common Stock as to dividends and payments upon liquidation. Unless full cumulative dividends on our shares of Preferred Stock for all past dividend periods have been declared and paid (or set apart for payment), we will not declare or pay dividends with respect to any shares of our Common Stock for any period. Upon liquidation, dissolution or winding up of our Company, the holders of shares of our Preferred Stock are entitled to receive a liquidation preference of $1,000 per share, or the Stated Value, plus all accrued but unpaid dividends, prior and in preference to any distribution to the holders of shares of our Common Stock or any other class of our equity securities.

The Preferred Stock will be subordinate in right of payment to any corporate level debt that we incur in the future, therefore our stockholders' interests could be diluted by the issuance of additional preferred stock, and by other transactions.

The Preferred Stock will be subordinate in right of payment to any corporate level debt that we incur in the future. Future debt we incur may include restrictions on our ability to pay dividends on our Preferred Stock. The issuance of additional preferred stock on a parity with or senior to the Preferred Stock would dilute the interests of the holders of the Preferred Stock, and any issuance of preferred stock senior to the Preferred Stock or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on the Preferred Stock. While the terms of the Preferred Stock limit our ability to issue shares of a class or series of preferred stock senior in ranking to the Preferred Stock, such terms do not restrict our ability to authorize or issue shares of a class or series of preferred stock with rights to distributions or upon liquidation that are on parity with the Preferred Stock or to incur additional indebtedness. The Preferred Stock does not contain any provision affording the holders of the Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all of our assets or business, that might adversely affect the holders of the Preferred Stock.

We will be able to call our shares of Preferred Stock for redemption under certain circumstances without our stockholders' consent.

We will have the ability to call the outstanding shares of Preferred Stock after ten years following the date of original issuance of such shares of Preferred Stock. At that time, we will have the right to redeem, at our option, the outstanding shares of Preferred Stock, in whole or in part, at 100% of the Stated Value, plus any accrued and unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our Common Stock, based upon the volume weighted average price of our Common Stock for the 20 trading days prior to the redemption.

Risks Related to Our Organization, Structure and Management

We are dependent upon our Manager and its affiliates to conduct our operations, and therefore, any adverse changes in the financial health of our Manager or its affiliates, or our relationship with any of them, could hinder our operating performance and the return on our stockholders' investment.

We are an externally advised REIT, which means that our Manager provides our management team and support personnel and administers our day-to-day business operations. We are dependent on our Manager and its affiliates to manage our operations and acquire and manage our portfolio of real estate assets. Our Manager will make all decisions with respect to the management of our Company, subject to the oversight of our board of directors. Our Manager will depend upon the fees and other compensation that it will receive from us in connection with the purchase, management and sale of our investments to conduct its operations, as well as a line of credit we extended to our manager that is secured by fees we owe them. Any adverse changes in the financial condition of, or our relationship with our Manager or its affiliates could hinder their ability to successfully manage our operations and our portfolio of investments.

Our success is dependent on the performance of our Manager.

We rely on the management ability of our Manager, subject to the oversight and approval of our board of directors. Accordingly, if our Manager suffers or is distracted by adverse financial or operational problems in connection with its operations or operations unrelated to us, our Manager may be unable to allocate time and/or resources to our operations. If our Manager is unable to allocate sufficient resources to oversee and perform our operations for any reason, we may be unable to achieve our investment objectives or to pay distributions to our stockholders.

If our Manager loses or is unable to retain or replace key personnel, our ability to implement our investment strategies could be hindered, which could adversely affect our ability to make distributions and the value of our stockholders' investment.

Our success depends to a significant degree upon the contributions of certain of our executive officers and other key personnel of our Manager. In particular, we depend on the skills and expertise of John A. Williams and Dan Dupree, the director of our investment strategies. Neither we nor our Manager have an employment agreement with any of our or its key personnel, including Mr. Williams, Mr. Silverstein and Mr. Dupree, and we cannot guarantee that all, or any, of such personnel, will remain affiliated with us or our Manager. If any of our key personnel were to cease their affiliation with our Manager, our operating results could suffer. Our Manager maintains key person life insurance that would provide us with proceeds in the event of the death or disability of Mr. Silverstein.

We believe our future success depends upon our Manager's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure our stockholders that our Manager will be successful in attracting and retaining such skilled personnel. If our Manager loses or is unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of our stockholders' investment in our Company may decline.

Furthermore, our Manager may retain independent contractors to provide various services for us, including administrative services, transfer agent services and professional services. Such contractors have no fiduciary duty to our Manager or us and may not perform as expected or desired. Any such services provided by independent contractors will be paid for by us as an operating expense.

Payment of fees and cost reimbursements to our Manager and its affiliates and third parties will reduce cash available for investment and payment of distributions.

Our Manager and its affiliates and third parties will perform services for us in connection with, among other things, the offer and sale of our securities, including the performance of legal, accounting and financial reporting in connection therewith, the selection and acquisition of our investments; the management and leasing of our properties; the servicing of our mortgage, bridge, real estate or other loans; the administration of our other investments and the disposition of our assets. They will be paid substantial fees and cost reimbursements for these services. These fees and reimbursements will reduce the amount of cash available for investment or distributions to our stockholders.

If our Manager or its affiliates waive certain fees due to them, our results of operations and distributions may be artificially high.

From time to time, our Manager and/or its affiliates has agreed, and may agree in the future to waive or defer all or a portion of the acquisition, asset management or other fees, compensation or incentives due to them, pay general administrative expenses or otherwise supplement stockholder returns in order to increase the amount of cash available to make distributions to stockholders. If our Manager and/or its affiliates choose to no longer waive or defer such fees, compensation and incentives or to cease paying general administrative expenses or supplementing stockholder returns, our results of operations will be lower than in previous periods and our stockholders' return on their investment in our Company could be negatively affected.

The Maryland General Corporation Law prohibits certain business combinations, which may make it more difficult for us to be acquired.

Under the Maryland General Corporation Law, “business combinations” between a Maryland corporation and an “interested stockholder” or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as: (i) any person who beneficially owns 10% or more of the voting power of the then outstanding voting stock of the corporation; or (ii) an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the expiration of the five-year period described above, any business combination between the Maryland corporation and an interested stockholder must generally be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected, or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under the Maryland General Corporation Law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. The Maryland General Corporation Law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has adopted a resolution exempting any business combination with our Manager or any of its affiliates. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and our Manager or any of its affiliates. As a result, our Manager or any of its affiliates may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Stockholders have limited control over changes in our policies and operations.

Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Holders of our Preferred Stock have limited to no voting rights. Under our charter and the Maryland General Corporation Law, holders of our Common Stock generally have a right to vote only on the following matters:

- the election or removal of directors;
- the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
  - change our name;
  - change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock;
  - increase or decrease the aggregate number of shares of stock that we have the authority to issue;
  - increase or decrease the number of shares of any class or series of stock that we have the authority to issue; and
  - effect certain reverse stock splits;
- our liquidation and dissolution; and
- our being a party to a merger, consolidation, sale or other disposition of all or substantially all our assets or statutory share exchange.

All other matters are subject to the discretion of our board of directors.

Our authorized but unissued shares of Common Stock and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of Common Stock or preferred stock, without stockholder approval, up to 415,066,666 shares. In addition, our board of directors may, without stockholder approval, amend our charter from time to time to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of Common Stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of Common Stock or preferred stock that could delay or prevent a merger, third party tender offer or similar transaction or a change in incumbent management that might involve a premium price for our securities or otherwise be in the best interest of our stockholders.

Because of our holding company structure, we depend on our operating subsidiary and its subsidiaries for cash flow and we will be structurally subordinated in right of payment to the obligations of such operating subsidiary and its subsidiaries.

We are a holding company with no business operations of our own. Our only significant asset is and will be the general and limited partnership interests in our Operating Partnership. We conduct, and intend to conduct, all our business operations through our Operating Partnership. Accordingly, our only source of cash to pay our obligations is distributions from our Operating Partnership and its subsidiaries of their net earnings and cash flows. We cannot assure our stockholders that our Operating Partnership or its subsidiaries will be able to, or be permitted to, make distributions to us that will enable us to make distributions to our stockholders from cash flows from operations. Each of our Operating Partnership's subsidiaries is or will be a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from such entities. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations of our Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our Operating Partnership and its subsidiaries will be able to satisfy your claims as stockholders only after all our and our Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full.

Our rights and the rights of our stockholders to recover on claims against our directors and officers are limited, which could reduce our stockholders, and our recovery against them if they negligently cause us to incur losses.

The Maryland General Corporation Law provides that a director has no liability in such capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. A director who performs his or her duties in accordance with the foregoing standards should not be liable to us or any other person for failure to discharge his or her obligations as a director.

In addition, our charter provides that our directors and officers will not be liable to us or our stockholders for monetary damages unless the director or officer actually received an improper benefit or profit in money, property or services, or is adjudged to be liable to us or our stockholders based on a finding that his or her action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Our charter also requires us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, real estate investment trust, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. With the approval of our board of directors, we may provide such indemnification and advance for expenses to any individual who served a predecessor of the Company in any of the capacities described above and any employee or agent of the Company or a predecessor of the Company, including our Manager and its affiliates.

We also are permitted to purchase and we currently maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our Manager and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. This may result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders.

If we internalize our management functions, the holders of our previously outstanding Common Stock could be diluted, and we could incur other significant costs associated with internalizing and being self-managed.

In the future, our board of directors may consider internalizing the functions performed for us by our Manager by acquiring our Manager's assets. The method by which we could internalize these functions could take many forms. There is no assurance that internalizing our management functions will be beneficial to us and our stockholders. Such an acquisition could also result in dilution of our stockholders if common stock or securities convertible into common stock are issued in the internalization and could reduce earnings per share and funds from operations attributable to common stockholders and unitholders, or FFO, as defined by the National Association of Real Estate Investment Trusts, or NAREIT. For example, we may not realize the perceived benefits or we may not be able to properly integrate a new staff of managers and employees or we may not be able to effectively replicate the services provided previously by our Manager or its affiliates. Internalization transactions involving the acquisition of managers affiliated with entity sponsors have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced to spend significant amounts of time and money defending claims which would reduce the amount of time and funds available for us to invest in properties or other investments and to pay distributions. All these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

Our stockholders' investment return may be reduced if we are required to register as an investment company under the Investment Company Act.

We are not registered, and do not intend to register ourselves or any of our subsidiaries, as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. If we become obligated to register the company or any of our subsidiaries as an investment company, the registered entity would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things, limitations on capital structure, restrictions on specified investments, prohibitions on transactions with affiliates and compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

We intend to conduct our operations, directly and through wholly owned and majority owned subsidiaries, so that we and each of our subsidiaries are exempt from registration as an investment company under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is not deemed to be an “investment company” if it neither is, nor holds itself out as being, engaged primarily, nor proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is not deemed to be an “investment company” if it neither is engaged, nor proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and does not own or propose to acquire “investment securities” having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) on an unconsolidated basis.

We believe that we and most, if not all, of our wholly owned and majority owned subsidiaries will not be considered investment companies under either Section 3(a)(1)(A) or Section 3(a)(1)(C) of the Investment Company Act. If we or any of our wholly owned or majority owned subsidiaries would ever inadvertently fall within one of the definitions of “investment company,” we intend to rely on the exception provided by Section 3(c)(5)(C) of the Investment Company Act. Under Section 3(c)(5)(C), the SEC staff generally requires a company to maintain at least 55% of its assets directly in qualifying assets and at least 80% of qualifying assets in a broader category of real estate related assets to qualify for this exception. Mortgage-related securities may or may not constitute qualifying assets, depending on the characteristics of the mortgage-related securities, including the rights that we have with respect to the underlying loans. The Company's ownership of mortgage-related securities, therefore, is limited by provisions of the Investment Company Act and SEC staff interpretations.

The method we use to classify our assets for purposes of the Investment Company Act will be based in large measure upon no-action positions taken by the SEC staff in the past. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than 20 years ago. No assurance can be given that the SEC staff will concur with our classification of our assets. In addition, the SEC staff may, in the future, issue further guidance that may require us to re-classify our assets for purposes of qualifying for an exclusion from regulation under the Investment Company Act. If we are required to re-classify our assets, we may no longer be in compliance with the exclusion from the definition of an “investment company” provided by Section 3(c)(5)(C) of the Investment Company Act.

A change in the value of any of our assets could cause us or one or more of our wholly owned or majority owned subsidiaries to fall within the definition of “investment company” and negatively affect our ability to maintain our exemption from regulation under the Investment Company Act. To avoid being required to register us or any of our subsidiaries as an investment company under the Investment Company Act, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income- or loss-generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our investment strategy.

As part of our Manager's obligations under the Management Agreement, our Manager will agree to refrain from taking any action which, in its sole judgment made in good faith, would subject us to regulation under the Investment Company Act. Failure to maintain an exclusion from registration under the Investment Company Act would require us to significantly restructure our business plan. For example, because affiliate transactions are generally prohibited under the Investment Company Act, we would not be able to enter into transactions with any of our affiliates if we are required to register as an investment company, and we may be required to terminate our Management Agreement and any other agreements with affiliates, which could have a material adverse effect on our ability to operate our business and pay distributions. If we were required to register us as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Risks Related to Conflicts of Interest

Our Manager, our executive officers and their affiliates may face competing demands relating to their time, and if inadequate time is devoted to our business, our stockholders' investment may be negatively impacted.

We rely on our executive officers and the executive officers and employees of our Manager and its affiliates for the day-to-day operation of our business. These persons also conduct or may conduct in the future day-to-day operations of other programs and entities sponsored by or affiliated with our Manager. Because these persons have or may have such interests in other real estate programs and engage in other business activities, they may experience conflicts of interest in allocating their time and resources among our business and these other activities. The amount of time that our Manager and its affiliates spend on our business will vary from time to time and is expected to be greater while we are raising money and acquiring investments. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. We expect that as our real estate activities expand, our Manager will attempt to hire additional employees who would devote substantially all their time to our business. There is no assurance that our Manager will devote adequate time to our business. If our Manager or any of its respective affiliates suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, it may allocate less time and resources to our operations. If any of the foregoing events occur, the returns on our investments, our ability to make distributions to stockholders and the value of our stockholders' investment may suffer.

Our Manager, our executive officers and their affiliates may face conflicts of interest, and these conflicts may not be resolved in our favor, which could negatively impact our stockholders' investment.

Our executive officers and the employees of our Manager and its respective affiliates on whom we rely could make substantial profits as a result of investment opportunities allocated to entities other than us. As a result, these individuals could pursue transactions that may not be in our best interest, which could have a material adverse effect on our operations and our stockholders' investment. Our Manager and its affiliates may be engaged in other activities that could result in potential conflicts of interest with the services that they provide to us.

Our Manager and its affiliates will receive substantial fees from us, which could result in our Manager and its affiliates taking actions that are not necessarily in the best interest of our stockholders.

Our Manager and its affiliates will receive substantial fees from us, including distributions with respect to our Manager's special limited partnership interest in the Operating Partnership, which entitles our Manager to receive a participation in net sales proceeds. Further, our Manager will receive an asset management fee based on the total value of our assets, and its affiliates will receive fees based on our revenues, which, in each case, could incent our Manager to use higher levels of leverage to finance investments or accumulate assets to increase fees than would otherwise be in our best interests. These fees could influence our Manager's advice to us, as well as the judgment of the affiliates of our Manager who serve as our officers and directors. Therefore, considerations relating to their compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our income and, as a result, our ability to make distributions to stockholders and/or lead to a decline in the value of our stockholders' investment.

Properties acquired from affiliates of our Manager may be at a price higher than we would pay if the transaction were the result of arm's-length negotiations.

The prices we pay to affiliates of our Manager for our properties may be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties, or if the price to us is in excess of such cost, substantial justification for such excess may exist and such excess may be reasonable and consistent with current market conditions as determined by a majority of our independent directors. Substantial justification for a higher price could result from improvements to a property by the affiliate of our Manager or increases in market value of the property during the period of time the property is owned by the affiliate as evidenced by an appraisal of the property. In the event we were to acquire properties from one of our affiliates, our proposed purchase prices will be based upon fair market values determined in good faith by our Manager, utilizing, for example, independent appraisals and competitive bidding if the assets are marketed to the public, with any actual or perceived conflicts of interest approved by independent members of the conflicts committee of our board of directors. These prices may not be the subject of arm's-length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm's-length transaction. When acquiring properties from our Manager and its affiliates, we may pay more for particular properties than we would have in an arm's-length transaction, which would reduce our cash available for other investments or distribution to our stockholders.

We may purchase real properties from persons with whom affiliates of our Manager have prior business relationships, which may impact the purchase terms, and as a result, affect our stockholders' investment.

If we purchase properties from third parties who have sold, or may sell, properties to our Manager or its affiliates, our Manager may experience a conflict between our current interests and its interest in preserving any ongoing business relationship with these sellers. As a result of this conflict, the terms of any transaction between us and such third parties may not reflect the terms that we could receive in the market on an arm's-length basis. If the terms we receive in a transaction are less favorable to us, our results from operations may be adversely affected.

The absence of arm's-length bargaining may mean that our agreements may not be as favorable to our stockholders as they otherwise could have been.

Any existing or future agreements between us and our Manager or any of its respective affiliates were not and will not be reached through arm's-length negotiations. Thus, such agreements may require us to pay more than we would if we were using unaffiliated third parties. The Management Agreement, the operating partnership agreement of our Operating Partnership and the terms of the compensation to our Manager and its affiliates or distributions to our Manager were not arrived at through arm's-length negotiations. The terms of the Management Agreement, the operating partnership agreement of our Operating Partnership and similar agreements may not solely reflect our stockholders' best interest and may be overly favorable to the other party to such agreements including in terms of the substantial compensation to be paid to or the potential substantial distributions to these parties under these agreements.

Our Manager and its affiliates receive fees and other compensation based upon our investments, which may impact operating decisions, and as a result, affect our stockholders' investment.

John A. Williams is our Chief Executive Officer and Chairman of the board of directors and the Chief Executive Officer of our Manager. As a result, Mr. Williams has a direct interest in all fees paid to our Manager and is in a position to make decisions about our investments in ways that could maximize fees payable to our Manager and its affiliates. Some compensation is payable to our Manager whether or not there is cash available to make distributions to our stockholders. To the extent this occurs, our Manager and its affiliates benefit from us retaining ownership and leveraging our assets, while our stockholders may be better served by the sale or disposition of, or lack of leverage on, the assets. For example, because asset management fees payable to our Manager are based on total assets under management, including assets purchased using debt, our Manager may have an incentive to incur a high level of leverage in order to increase the total amount of assets under management. In addition, our Manager's ability to receive fees and reimbursements depends on our revenues from continued investment in real properties and real estate-related investments. Therefore, the interest of our Manager and its affiliates in receiving fees may conflict with the interest of our stockholders in earning a return on an investment in our Common Stock or Preferred Stock.

If we invest in joint ventures, the objectives of our partners may conflict with our objectives.

In accordance with our acquisition strategies, we may make investments in joint ventures or other partnership arrangements between us and affiliates of our Manager or with unaffiliated third parties. We also may purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

- joint venturers may share certain approval rights over major decisions;
- a co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- a co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;

- a co-venturer, co-owner or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
- under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

These events could result in, among other things, exposing us to liabilities of the joint venture in excess of our proportionate share of these liabilities. The partition rights of each owner in a jointly owned property could reduce the value of each portion of the divided property. Moreover, there is an additional risk neither co-venturer will have the power to control the venture, and under certain circumstances, an impasse could be reached regarding matters pertaining to the co-ownership arrangement, which might have a negative influence on the joint venture and decrease potential returns to our stockholders. In addition, the fiduciary obligation that our Manager or our board of directors may owe to our partner in an affiliated transaction may make it more difficult for us to enforce our rights.

If we have a right of first refusal or buy/sell right to buy out a co-venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

Risks Related to Investments in Real Estate

Our real estate-related investments will be subject to the risks typically associated with real estate, which may have a material effect on our stockholders' investment.

Our loans held for investment generally will be directly or indirectly secured by a lien on real property, or the equity interests in an entity that owns real property, that, upon the occurrence of a default on the loan, could result in our acquiring ownership of the property. We will not know whether the values of the properties ultimately securing our loans will remain at or above the levels existing on the dates of origination of those loans. If the values of the underlying properties decline, our risk will increase because of the lower value of the security associated with such loans. In this manner, real estate values could impact the values of our loan investments. Any investments in mortgage-related securities, collateralized debt obligations and other real estate-related investments (including potential investments in real property) may be similarly affected by real estate property values. Therefore, our investments will be subject to the risks typically associated with real estate.

The value of real estate may be adversely affected by a number of risks, including:

- natural disasters, such as hurricanes, earthquakes and floods;
- acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and real estate conditions;
- an oversupply of (or a reduction in demand for) space in the areas where particular properties are located and the attractiveness of particular properties to prospective residents;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance therewith and the potential for liability under applicable laws;
- costs of remediation and liabilities associated with environmental conditions affecting properties; and
- the potential for uninsured or underinsured property losses.

The value of each property is affected significantly by its ability to generate cash flow and net income, which in turn depends on the amount of rental or other income that can be generated net of expenses required to be incurred with respect to the property. Many expenditures associated with properties (such as operating expenses and capital expenditures) cannot be reduced when there is a reduction in income from the properties. These factors may have a material adverse effect on the ability of the borrowers to pay their loans, as well as on the value that we can realize from assets we own or acquire.

Natural disasters could significantly reduce the value of our properties and our stockholders' investment.

Natural disasters, including hurricanes, tornadoes, earthquakes, wildfires and floods could significantly reduce the value of our properties. While we will attempt to obtain adequate insurance coverage for natural disasters, insurance may be too expensive, may have significant deductibles, or may not properly compensate us for the long-term loss in value that a property may suffer if the area around it suffers a significant natural disaster. As a result, we may not be compensated for the loss in value. Any diminution in the value of our properties or properties underlying an investment that is not fully reimbursed will reduce our profitability and adversely affect the value of our stockholders' investment.

We may suffer losses that are not covered by insurance.

If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits. We intend to obtain comprehensive insurance for our properties, including casualty, liability, fire, extended coverage and rental loss customarily, that is of the type obtained for similar properties and in amounts which our Manager determines are sufficient to cover reasonably foreseeable losses, and with policy specifications and insured limits that we believe are adequate and appropriate under the circumstances. Material losses may occur in excess of insurance proceeds with respect to any property as insurance proceeds may not provide sufficient resources to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to acts of war, earthquakes, floods, wind, pollution, environmental matters, mold or terrorism which are either uninsurable, not economically insurable, or may be insured subject to material limitations, such as large deductibles or co-payments.

In addition, many insurance carriers exclude mold-related claims from standard policies, price mold endorsements at prohibitively high rates or add significant restrictions to such coverage. Because of our inability to obtain specialized coverage at rates that correspond to our perceived level of risk, we may not obtain insurance for acts of terrorism or mold-related claims. We will continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase insurance for terrorism or mold, the cost could have a negative impact on our results of operations. If an uninsured loss or a loss in excess of insured limits occurs on a property, we could lose our capital invested in the property, as well as the anticipated future revenues from the property and, in the case of debt that is recourse to us, would remain obligated for any mortgage debt or other financial obligations related to the property. Any loss of this nature would adversely affect us. Although we intend to adequately insure our properties, we cannot assure that we will successfully do so.

Compliance with the governmental laws, regulations and covenants that are applicable to our properties, including permit, license and zoning requirements, may adversely affect our ability to make future acquisitions or renovations, result in significant costs or delays and adversely affect our growth strategy.

Our properties are subject to various covenants and local laws and regulatory requirements, including permitting and licensing requirements. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers, may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. We cannot assure our stockholders that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs. Our growth strategy may be materially and adversely affected by our ability to obtain permits, licenses and zoning approvals. Our failure to obtain such permits, licenses and zoning approvals could have a material adverse effect on our business, financial condition and results of operations.

Compliance or failure to comply with the Americans with Disabilities Act or other safety regulations and requirements could result in substantial costs.

The Americans with Disabilities Act generally requires that public buildings, including “public accommodations," be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If, under the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties or in properties we acquire, including the removal of access barriers, it could adversely affect our financial condition and results of operations, as well as the amount of cash available for distribution to our stockholders. Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow and results of operations.

Rising expenses could reduce cash flow and funds available for future acquisitions, which may materially affect cash available for distributions.

Our real estate assets may be subject to increases in tax rates, assessed property values, utility costs, operating expenses, insurance costs, repairs and maintenance, administrative and other expenses. Some of the leases on our properties may require the resident or tenant to pay all or a portion of utility costs; however, significant utility costs are borne by us. Such increased expenses could adversely affect funds available for future acquisitions or cash available for distributions.

Failure to generate sufficient cash flows from operations may reduce distributions to stockholders.

We intend to rely primarily on our cash flow from operations to make distributions to our stockholders. The cash flow from equity investments in our real estate assets depends on the amount of revenue generated and expenses incurred in operating our assets. The revenue generated and expenses incurred in operating our assets depends on many factors, some of which are beyond our control. For instance, rents from our properties may not increase as expected or the real estate-related investments we purchase may not generate the anticipated returns. If our investments do not generate revenue sufficient to meet our operating expenses, debt service and capital expenditures, our cash flows and ability to make distributions to our stockholders will be adversely affected.

If we purchase assets at a time when the real estate market is experiencing substantial influxes of capital investment and competition for properties, the real estate we purchase may not appreciate or may decrease in value.

The real estate market may experience substantial influxes of capital from investors. This substantial flow of capital, combined with significant competition for the acquisition of real estate, may result in inflated purchase prices for such assets and compression of capitalization rates. To the extent we purchase real estate in such an environment, we are subject to the risk that, if the real estate market subsequently ceases to attract the same level of capital investment, or if the number of companies seeking to acquire such assets decreases, our returns will be lower and the value of our assets may not appreciate or may decrease significantly below the amount we paid for such assets.

We may be unable to sell a property if or when we decide to do so, which could adversely impact our ability to make distributions to our stockholders.

In connection with the acquisition of a property, we may agree on restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. Even absent such restrictions, the real estate market is affected by many factors that are beyond our control, including general economic conditions, availability of financing, interest rates and supply and demand. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or real estate-related asset. If we are unable to sell a property or real estate-related asset when we determine to do so, it could have a significant adverse effect on our cash flow and results of operations. As a result, we may not have funds to make distributions to our stockholders.

We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sale to our stockholders may be limited.

Real estate investments are relatively illiquid, and as a result, we will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We also will have a limited ability to sell assets in order to fund working capital and similar capital needs. When we sell any of our properties, we may not realize a gain on such sale. We may elect not to distribute any proceeds from the sale of properties to our stockholders and we may use such proceeds to:

- purchase additional properties;
- repay debt, if any;
- buy out the interests of any co-venturers or other partners in any joint venture in which we are a party;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our remaining properties.

We may not make a profit if we sell a property, which could adversely impact our ability to make cash distributions to our stockholders.

The prices that we can obtain when we determine to sell a property will depend on many factors that are presently unknown, including the property's operating performance, tax treatment of real estate investments, demographic trends in the area and available financing. There is a risk that we will not recover all or a portion of our investment in a property. Accordingly, our stockholders' ability to recover all or any portion of their investment under such circumstances will depend on the amount of funds so realized and claims to be satisfied therefrom.

Our ability to sell our properties also may be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to ensure that we avoid such characterization we may be required to hold our properties for a minimum period of time and comply with certain other requirements in the Code, or possibly hold some properties through taxable REIT subsidiaries, or TRSs, that must pay full corporate-level income taxes.

We may incur foreseen or unforeseen liabilities in connection with properties we acquire.

Our anticipated acquisition activities are subject to many risks. We may acquire properties that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes or other legal requirements. In each case, our acquisition may be without any, or with only limited, recourse with respect to unknown liabilities or conditions. As a result, if any liability were asserted against us relating to those properties or entities, or if any adverse condition existed with respect to the properties or entities, we might have to pay substantial sums to settle or cure it, which could adversely affect our cash flow and operating results. However, some of these liabilities may be covered by insurance. In addition, we intend to perform customary due diligence regarding each property or entity we acquire. We also will attempt to obtain appropriate representations and undertakings from the sellers of the properties or entities we acquire, although it is possible that the sellers may not have the resources to satisfy their indemnification obligations if a claim is made. Unknown liabilities to third parties with respect to properties or entities acquired might include, without limitation:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by residents or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Such liabilities could cause losses that adversely affect our ability to make distributions to our stockholders.

The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Examples of Federal laws include: the National Environmental Policy Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Solid Waste Disposal Act as amended by the Resource Conservation and Recovery Act; the Federal Water Pollution Control Act; the Federal Clean Air Act; the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act; and the Hazard Communication Act. These laws and regulations generally govern wastewater discharges; air emissions; the operation and removal of underground and above-ground storage tanks; the use, storage, treatment, transportation and disposal of solid and hazardous materials; and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on residents, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent the property or to use the property as collateral for future borrowing.

Recently, indoor air quality issues, including mold, have been highlighted in the media and the industry is seeing mold claims from lessees rising. Due to such recent increase in mold claims and given that the law relating to mold is unsettled and subject to change, we could incur losses from claims relating to the presence of, or exposure to, mold or other microbial organisms, particularly if we are unable to maintain adequate insurance to cover such losses. We also may incur unexpected expenses relating to the abatement of mold on properties that we acquire.

Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure our stockholders that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of residents, existing conditions of the land, operations in the vicinity of the properties, or the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that we may be required to comply with. Failure to comply with applicable laws and regulations could result in fines and/or damages, suspension of personnel of our Manager and/or other sanctions.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. The costs of removal or remediation could be substantial. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles govern the presence, maintenance, removal and disposal of certain building materials, including asbestos and lead-based paint (which are both discussed above).

The cost of defending against such claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

We cannot assure our stockholders that properties which we acquire will not have any material environmental conditions, liabilities or compliance concerns. Accordingly, we have no way of determining at this time the magnitude of any potential liability to which we may be subject arising out of environmental conditions or violations with respect to the properties we may purchase.

We may be unable to secure funds for future capital improvements, which could adversely impact our ability to make distributions to our stockholders.

When residents or tenants do not renew their leases or otherwise vacate their space, in order to attract replacement residents or tenants, we may be required to expend funds for capital improvements to the vacated apartment units or leased spaces and common areas. In addition, we may require substantial funds to renovate a property in order to sell it, upgrade it or reposition it in the market. If we have insufficient capital reserves, we will have to obtain financing from other sources. We typically establish capital reserves in an amount we, in our discretion, believe is necessary. A lender also may require escrow of capital reserves separately maintained from any reserves we establish. If these reserves or any reserves otherwise established are designated for other uses or are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure our stockholders that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, certain reserves required by lenders may be designated for specific uses and may not be available for capital purposes such as future capital improvements. Additional borrowing will increase our interest expense; therefore, our financial condition and our ability to make distributions to our stockholders may be adversely affected.

We may not have control over costs arising from rehabilitation of properties.

We may elect to acquire properties which require rehabilitation. In particular, we have acquired, and may continue to acquire, “affordable” properties that we will rehabilitate and convert to market rate properties. Consequently, we may retain independent general contractors to perform the actual physical rehabilitation work and will be subject to risks in connection with a contractor's ability to control the rehabilitation costs, the timing of completion of rehabilitation, and a contractor's ability to build and rehabilitate in conformity with plans and specifications.

The profitability of our acquisitions is uncertain.

We intend to acquire properties selectively. Acquisition of properties entails risks that investments will fail to perform in accordance with expectations. In undertaking these acquisitions, we will incur certain risks, including the expenditure of funds on, and the devotion of management's time to, transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired property up to our standards may prove inaccurate.

Competition with third parties in acquiring properties and other assets may reduce our profitability and the return to our stockholders.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships and other entities engaged in real estate investment activities. Many of these entities have significant financial and other resources, including operating experience, allowing them to compete effectively with us. Competitors with substantially greater financial resources than us may be able to accept more risk than we can effectively manage. In addition, those competitors that are not REITs may be at an advantage to the extent they can utilize working capital to finance projects, while we (and our competitors that are REITs) will be required by the annual distribution provisions under the Code to distribute significant amounts of cash from operations to our stockholders.

Some or all of our properties have incurred, and will incur, vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return to our stockholders.

Our properties have incurred, and will incur, vacancies. If vacancies of a significant level continue for a long period of time, we may suffer reduced revenues resulting in lower cash distributions to our stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We are dependent on a concentration of our investments in a single asset class, making our profitability more vulnerable to a downturn or slowdown in the sector or other economic factors.

We expect to concentrate at least 80% of our investments in the multifamily sector. As a result, we will be subject to risks inherent in investments in a single type of property. A downturn or slowdown in the demand for multifamily housing may have more pronounced effects on our cash available for distribution or on the value of our assets than if we had more fully diversified our investments.

We may rely significantly on repayment guarantors of our real estate loan investments and, therefore, could be subject to credit concentration that makes us more susceptible to adverse events with respect to such guarantors.

The repayment of amounts owed to us under certain of our real estate loan investments may be partially guaranteed by the principals of the borrowers. If it were necessary to enforce a guaranty of completion or a guaranty of repayment, our rights under such enforcement are limited by rights held by the senior lender pursuant to intercreditor agreements we have in place. Therefore, the failure to perform by the borrowers and such guarantors is likely to have a material adverse effect on our results of operations and financial condition.

We are subject to geographic concentrations that make us more susceptible to adverse events with respect to certain geographic areas.

We are subject to geographic concentrations, the most significant carrying values of which are as follows as of December 31, 2015:

	Carrying value of real estate assets and real estate related loans, in millions:	Percentage	
Georgia	$235.4	19.8	%
Texas	316.2	26.5	%
Tennessee	181.1	15.2	%
Virginia	59.7	5.0	%
Kansas	46.4	3.9	%
Florida	199.0	16.7	%
Pennsylvania	40.3	3.4	%
North Carolina	55.2	4.6	%
California	37.1	3.1	%
South Carolina	15.1	1.3	%
Mississippi	5.8	0.5	%

Total	$1,191.3	100.0	%

Any economic downturn or other adverse condition in one or more of these states, or in any other state in which we may have a significant concentration in the future, could result in a material reduction of our cash flows or material losses to us.

Failure to succeed in new markets or sectors may have adverse consequences on our performance.

We may make acquisitions outside of our existing market areas if appropriate opportunities arise. Our Manager's or any

23

of its affiliates' historical experience in their existing markets does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local market conditions, to identify appropriate acquisition opportunities, to hire and retain key personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred.

Acquiring or attempting to acquire multiple properties in a single transaction may adversely affect our operations.

We are likely to acquire multiple properties in a single transaction. Such portfolio acquisitions are more complex and expensive than single-property acquisitions, and the risk that a multiple-property acquisition does not close may be greater than in a single-property acquisition. Portfolio acquisitions also may result in us owning investments in geographically dispersed markets, placing additional demands on our ability to manage the properties in the portfolio. In addition, a seller may require that
a group of properties be purchased as a package even though we may not want to purchase one or more properties in the portfolio. In these situations, if we are unable to identify another person or entity to acquire the unwanted properties, we may be required to operate, or attempt to dispose of, these properties. We may be required to accumulate a large amount of cash in order to acquire multiple properties in a single transaction. We would expect that the returns that we can earn on such cash will be less than the ultimate returns on real property, and therefore, accumulating such cash could reduce our funds available for distributions. Any of the foregoing events may have an adverse effect on our operations.

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser.

If we decide to sell any of our properties, we intend to use our commercially reasonable efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law, which could negatively impact distributions to our stockholders. There are no limitations or restrictions on our ability to take such purchase money obligations. We may, therefore, take a purchase money obligation secured by a mortgage as full or partial payment for the purchase price of a property. The terms of payment to us generally will be affected by custom in the area where the property being sold is located and the then prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property are actually paid, sold or refinanced, or we have otherwise disposed of such promissory notes or other property. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. If any purchaser defaults under a financing arrangement with us, it could negatively impact our ability to make distributions to our stockholders.

Our revenue and net income may vary significantly from one period to another due to investments in opportunity-oriented properties and portfolio acquisitions, which could increase the variability of our cash available for distributions.

We may make investments in opportunity-oriented properties in various phases of development, redevelopment or repositioning and portfolio acquisitions, which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when our projects in development or redevelopment or those with significant capital requirements increase without a corresponding increase in stable revenue-producing properties, our revenues and net income likely will decrease. Many factors may have a negative impact on the level of revenues or net income produced by our portfolio of investments, including higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project. Further, our net income and stockholders' equity could be negatively affected during periods with large portfolio acquisitions, which generally require large cash outlays and may require the incurrence of additional financing. Any such reduction in our revenues and net income during such periods could cause a resulting decrease in our cash available for distributions during the same periods.

We may obtain properties with lock-out provisions, or agree to such provisions in connection with obtaining financing, which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.

We may agree to obtain certain properties from contributors who contribute their direct or indirect interest in such properties to our Operating Partnership in exchange for operating partnership units and agree to restrictions on sales or refinancing, called “lock-out” provisions, that are intended to preserve favorable tax treatment for the contributors of such properties and otherwise agree to provide the indemnities to contributions. Additionally, we may agree to lock-out provisions in connection with obtaining financing for the acquisition of properties. Furthermore, we may agree to make a certain amount of debt available for these contributors to guarantee in order to preserve their favorable tax treatment. Lock-out provisions and the consequences of related tax indemnities could materially restrict us from selling, conveying, transferring otherwise disposing of all or any portion of the interest in these properties in a taxable transaction or from refinancing properties. This would affect our ability to turn our investments into cash and thus affect cash available to make distributions to our stockholders. Lock-out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of our stockholders, and therefore, might have an adverse impact on the value of our capital stock. In particular, lock-out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

Risks Associated with Debt Financing

We have significant debt, which could have important adverse consequences.

As of December 31, 2015, we had outstanding debt of approximately $745.0 million. This indebtedness could have important consequences, including:

- if a property is mortgaged to secure payment of indebtedness, and if we are unable to meet our mortgage obligations, we could sustain a loss as a result of foreclosure on the mortgaged property;
- our vulnerability to general adverse economic and industry conditions is increased; and
- our flexibility in planning for, or reacting to, changes in business and industry conditions is limited.

The mortgages on our properties subject to secured debt, our Revolving Credit Facility and our Term Loan contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants, including maintenance of certain financial ratios. Maintaining compliance with these provisions could limit our financial flexibility. A default in these provisions, if uncured, could require us to repay the indebtedness before the scheduled maturity date, which could adversely affect our liquidity and increase our financing costs.

We may be unable to renew, repay, or refinance our outstanding debt.

We are subject to the risk that indebtedness on our properties or our unsecured indebtedness will not be renewed, repaid, or refinanced when due or the terms of any renewal or refinancing will not be as favorable as the existing terms of such indebtedness. If we are unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of the properties on disadvantageous terms, which might result in losses to us. Such losses could have a material adverse effect on us and our ability to make distributions to our stockholders and pay amounts due on our debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the mortgagee could foreclose on the property, appoint a receiver and exercise rights under an assignment of rents and leases, or pursue other remedies, all with a consequent loss of our revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements of the Code.

We plan to incur additional mortgage indebtedness and other borrowings, which may increase our business risks. We intend to acquire properties subject to existing financing or by borrowing new funds. In addition, we may incur or increase our mortgage debt by obtaining loans secured by selected, or by all of our, real properties to obtain funds to acquire additional real properties and/or make capital improvements to properties. We also may borrow funds, if necessary, to satisfy the requirement that we generally distribute to stockholders as dividends at least 90% of our annual REIT taxable income (excluding net capital gain), or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT.

We intend to incur mortgage debt on a particular property only if we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow requiring us to use cash from other sources to make the mortgage payments on the property, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and our loss of the property securing the loan which is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may, in some circumstances, give a guaranty on behalf of an entity that owns one or more of our properties. In these cases, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one property may be affected by a default.

Any mortgage debt which we place on properties may contain clauses providing for prepayment penalties. If a lender invokes these penalties upon the sale of a property or the prepayment of a mortgage on a property, the cost to us to sell the property could increase substantially, and may even be prohibitive. This could lead to a reduction in our income, which would reduce cash available for distribution to stockholders and may prevent us from borrowing more money.

We may incur additional indebtedness, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on the Preferred Stock and our Common Stock.

Our governing documents do not have limitations on the amount of leverage we may use. As of December 31, 2015, we and our subsidiaries had outstanding approximately $745.0 million of indebtedness. We may incur additional indebtedness and become more highly leveraged, which could harm our financial position and potentially limit our cash available to pay dividends due to debt covenant restrictions and/or resulting lower amounts of cash from operating activities. As a result, we may not have sufficient funds remaining to satisfy our dividend obligations relating to the Preferred Stock and our Common Stock if we incur additional indebtedness.

Interest-only indebtedness may increase our risk of default and ultimately may reduce our funds available for distributions to our stockholders.

We also may finance our property acquisitions using interest-only mortgage indebtedness for all or a portion of the term. During the interest-only period, the amount of each scheduled payment will be less than that of a traditional amortizing mortgage loan. The principal balance of the mortgage loan will not be reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the interest-only period, we will be required either to make scheduled payments of amortized principal and interest or to make a lump-sum or “balloon” payment at maturity. These required principal or balloon payments will increase the amount of our scheduled payments and may increase our risk of default under the related mortgage loan. If the mortgage loan has an adjustable interest rate, the amount of our scheduled payments also may increase at a time of rising interest rates. Increased payments and substantial principal or balloon maturity payments or prepayment penalties will reduce the funds available for distribution to our stockholders because cash otherwise available for distribution will be required to pay principal and interest associated with these mortgage loans. While our intention and practice has been to place interest rate caps on our floating rate mortgages, these caps will be at rates above current rates.

We may change our operational policies (including our investment guidelines, strategies and policies and the targeted assets in which we invest) with the approval of our board of directors but without stockholder consent or notice at any time, which may adversely affect the market value of our capital stock, our results of operations and cash flows and our ability to pay dividends to our stockholders.

Our board of directors determines our operational policies and may amend or revise our policies (including our policies with respect to the targeted assets in which we invest, dispositions, growth, operations, indebtedness, capitalization and dividends) or approve transactions that deviate from these policies at any time, without a vote of, or notice to, our stockholders. We may change our investment guidelines and our strategy at any time with the approval of our board of directors, but without the consent of, or notice to, our stockholders, which could result in us making investments that are different in type from, and possibly riskier than, the investments we currently invest in.

If mortgage debt is unavailable at reasonable rates, it may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flows from operations and the amount of cash distributions we can make.

If we are unable to borrow monies on terms and conditions that we find acceptable, we likely will have to reduce the number of properties we can purchase, and the return on the properties we do purchase may be lower. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. As such, we may find it difficult, costly or impossible to refinance indebtedness which is maturing. If any of these events occur, our interest cost would increase as a result, which would reduce our cash flow. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise capital by issuing more stock or borrowing more money. If we are unable to refinance maturing indebtedness with respect to a particular property and are unable to pay the same, then the lender may foreclose on such property.

Financial and real estate market disruptions could adversely affect the multifamily property sector's ability to obtain financing from Freddie Mac and Fannie Mae, which could adversely impact us.

Fannie Mae, Freddie Mac and HUD/FHA are major sources of financing for the multifamily sector and both have historically experienced losses due to credit-related expenses, securities impairments and fair value losses. If new U.S. government regulations (i) heighten these agencies' underwriting standards, (ii) adversely affect interest rates, or (iii) reduce the amount of capital they can make available to the multifamily sector, it could reduce or remove entirely a vital resource for multifamily financing. Any potential reduction in loans, guarantees and credit-enhancement arrangements from these agencies could jeopardize the effectiveness of the multifamily sector's available financing and decrease the amount of available liquidity and credit that could be used to acquire and diversify our portfolio of multifamily assets.

Volatility in and regulation of the commercial mortgage-backed securities market has limited and may continue to impact the pricing of secured debt.

As a result of the past crisis in the residential mortgage-backed securities markets, the most recent global recession and some concerns over the ability to refinance or repay existing commercial mortgage-backed securities as they come due, liquidity previously provided by the commercial mortgage-backed securities and collateralized debt obligations markets has significantly decreased. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act imposes significant new regulations related to the mortgage backed securities industry and market participants, which has contributed to uncertainty in the market. The volatility in the commercial mortgage-backed securities market could result in the following adverse effects on our incurrence of secured debt, which could have a materially negative impact on our financial condition, results of operations, cash flow and cash available for distribution:

- higher loan spreads;
- tighter loan covenants;
- reduced loan to value ratios and resulting borrower proceeds; and
- higher amortization and reserve requirements.

The Company could be negatively impacted by the condition of Fannie Mae or Freddie Mac and by changes in government support for multi-family housing.
Fannie Mae and Freddie Mac are a major source of financing for multi-family real estate in the United States. The Company utilizes loan programs sponsored by these entities as a key source of capital to finance its growth and its operations. In September 2008, the U.S. government assumed control of Fannie Mae and Freddie Mac and placed both companies into a government conservatorship under the Federal Housing Finance Agency. In December 2009, the U.S. Treasury increased its financial support for these conservatorships. In February 2011, the Obama administration released its blueprint for winding down Fannie Mae and Freddie Mac and for reforming the system of housing finance. In June 2013, a bipartisan group of senators proposed an overhaul of the housing finance system which would wind down Fannie Mae and Freddie Mac within five years; in August 2013, President Obama announced his support for this legislation. This legislation was ultimately abandoned. Any decision or action by the U.S. government to eliminate or downscale Fannie Mae or Freddie Mac or to reduce government support for multi-family housing more generally may adversely affect interest rates, capital availability, development of multi-family communities and the value of multi-family residential real estate and, as a result, may adversely affect the Company and its growth and operations.
High levels of debt or increases in interest rates could increase the amount of our loan payments, which could reduce the cash available for distribution to stockholders.

As mentioned above, we incur and expect to continue to incur debt. Higher debt levels would cause us to incur higher interest charges, would result in higher debt service payments and could be accompanied by restrictive covenants.

Interest we pay could reduce cash available for distribution to stockholders. Additionally, if we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flow and our ability to make distributions to our stockholders. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

In providing financing to us, a lender may impose restrictions on us that affect our ability to incur additional debt, make certain investments, reduce liquidity below certain levels, make distributions to our stockholders and otherwise affect our distribution and operating policies. In general, we expect our loan agreements to restrict our ability to encumber or otherwise transfer our interest in the respective property without the prior consent of the lender. Such loan documents may contain other negative covenants that may limit our ability to discontinue insurance coverage, replace our Manager or impose other limitations. Any such restriction or limitation may have an adverse effect on our operations and our ability to make distributions to our stockholders. Further, such restrictions could make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT.

Risks Related to Our Real Estate-Related Investments

Our investments in, or originations of, senior debt or subordinate debt and our investments in membership or partnership interests in entities that own real estate assets will be subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

We may invest in, or originate, senior debt or subordinate debt and invest in membership or partnership interests in entities that own real estate assets. These investments will involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities may not be collateralized and also may be subordinated to the entity's other obligations. We are likely to invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments also will subject us to the risks inherent with real estate investments referred to previously, including the risks described with respect to multifamily and retail properties and other real estate-related investments and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments in entities that own real estate assets and the ability of our borrowers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

Our real estate loan assets will involve greater risks of loss than senior loans secured by income-producing properties.

We may originate (in connection with a forward purchase or option to purchase contract or otherwise) or acquire real estate loans in entities that own or are developing multifamily properties or other real estate-related investments which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the loan may become unsecured as a result of foreclosure by the senior lender and because it is in second position and there may not be adequate equity in the property. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our real estate loan. If a borrower defaults on our real estate loan or debt senior to our loan, or in the event of a borrower bankruptcy, our real estate loan will be satisfied only after the senior debt. We may be unable to enforce guaranties of payment and/or performance given as security for some real estate loans. As a result, we may not recover some or all of our initial expenditure. Our real estate loans partially finance the construction of real estate projects and so involve additional risks inherent in the construction process, such as adherence to budgets and construction schedules. In addition, subordinate loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our real estate loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Risks Related to our Investments in Multifamily Communities

We face competition from other acquirers of apartment communities for investment opportunities, both of which may limit our profitability and returns to our stockholders.

The competition for apartment communities may significantly increase the price we must pay for assets we seek to acquire, and our competitors may succeed in acquiring those assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger apartment REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increase the prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for our properties, our business, financial condition and results of operations and our ability to pay distributions to our stockholders may be materially and adversely affected.

Economic conditions may adversely affect the multifamily real estate market and our income.

A multifamily property's income and value may be adversely affected by international, national and regional economic conditions. Currently, the U.S. real estate market is enjoying a relatively strong market with generally positive conditions in most sectors. International markets are experiencing increased levels of volatility due to a combination of many factors, including decreased economic growth, especially in China, limited access to credit markets, tremendous volatility in the equity markets both domestically and internationally. If such conditions persist, the real estate industry may experience a significant decline in business caused by a reduction in overall renters. The current economy and improved unemployment rates also may also deterioriate due to these and other economic factors. If the economy domestically or abroad does experience a meaningful downturn it could have an adverse effect on our operations if they cause the residents occupying the multifamily properties we acquire to cease making rent payments to us.

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, availability of "for sale" properties, competition from other similar properties, our ability to provide adequate maintenance, insurance and management services, increased operating costs (including real estate taxes), the attractiveness and location of the property and changes in market rental rates may adversely affect a property's income and value. The continued rise in energy costs could result in higher operating costs, which may adversely affect our results from operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. The risks that may adversely affect conditions in those markets include: layoffs, business closings, relocations of significant local employers and other events negatively impacting local employment rates and the local economy; an oversupply of, or a lack of demand for, apartments; a decline in household formation; the inability or unwillingness of residents to pay rent increases; and rent control, rent stabilization and other housing laws, which could prevent us from raising rents.

We cannot predict if the current strength in the multifamily real estate market will continue. Therefore, to the extent that there are adverse economic conditions in the multifamily market, such conditions could result in a reduction of our income and cash available for distributions and thus affect the amount of distributions we can make to our stockholders.

We must comply with the Fair Housing Amendments Act of 1988, or the FHAA, and failure to comply may affect cash available for distributions.

We must comply with the FHAA, which requires that apartment communities first occupied after March 13, 1991 be accessible to handicapped residents and visitors. Compliance with the FHAA could require removal of structural barriers to handicapped access in a community, including the interiors of apartment units covered under the FHAA. Recently there has been heightened scrutiny of multifamily housing communities for compliance with the requirements of the FHAA and the ADA and an increasing number of substantial enforcement actions and private lawsuits have been brought against apartment communities to ensure compliance with these requirements. Noncompliance with the FHAA could result in the imposition of fines, awards of damages to private litigants, payment of attorneys' fees and other costs to plaintiffs, substantial litigation costs and substantial costs of remediation.

Short-term apartment leases expose us to the effects of declining market rent, which could adversely impact our ability to make distributions to our stockholders.

We expect that most of our apartment leases will be for terms of thirteen months or less. Because these leases generally permit the residents to leave at the end of the lease term without any penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms.

We will face competition from other apartment communities and the affordability of single-family homes, which may limit our profitability and the returns to our stockholders.

The multifamily apartment industry is highly competitive. This competition could reduce occupancy levels and revenues at our multifamily communities, which would adversely affect our operations. Our competitors include those in other apartment communities both in the immediate vicinity where our multifamily communities will be located and the broader geographic market. Such competition also may result in overbuilding of apartment communities, causing an increase in the number of apartment units available and potentially decreasing our occupancy and apartment rental rates. We also may be required to expend substantial sums to attract new residents. The resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property. In addition, increases in operating costs due to inflation may not be offset by increased apartment rental rates. Further, costs associated with real estate investment, such as utilities and maintenance costs, generally are not reduced when circumstances cause a reduction in income from the investment. These events would cause a significant decrease in cash flow and could cause us to reduce the amount of distributions to our stockholders.

Furthermore, apartment communities we acquire most likely compete, or will compete, with numerous housing alternatives in attracting residents, including single- and multi-family homes available to rent or purchase. Competitive housing in a particular area and the increasing affordability of single- and multi-family homes available to rent or buy caused by declining mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain our residents, lease apartment units and increase or maintain rental rates. The foregoing factors may encourage potential renters to purchase residences rather than renting an apartment, thereby causing a decline in the pool of available renters for our properties.

Risks Related to our Retail Investments

Downturns in the retail industry likely will have a direct adverse impact on our grocery-anchored revenues and cash flow.

Our retail properties currently owned and planned for acquisition consist primarily of grocery-anchored shopping centers. Our retail performance therefore is generally linked to economic conditions in the market for retail space. The market for retail space could be adversely affected by any of the following:

- weakness in the national, regional and local economies, and declines in consumer confidence 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 retail and grocery 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 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.

To the extent that any of these conditions occur, they are likely to impact market rents for retail space, occupancy in our retail properties, our ability to sell, acquire or develop retail properties, and our cash available for distributions to stockholders.

Competition may impede our ability to renew retail leases or re-let retail spaces as leases expire, which could harm our business and operating results.

We face competition from similar retail centers and other types of shopping venues within our market areas that may affect our ability to renew leases or re-let space as leases expire at our grocery-anchored shopping centers. Certain national retail chain bankruptcies and resulting store closings/lease disaffirmations have generally resulted in increased available retail space which, in turn, has resulted in increased competitive pressure to renew retail tenant leases upon expiration and to find new retail tenants for vacant space at such properties. In addition, any new competitive retail properties that are developed within the market areas of our existing grocery-anchored shopping centers may result in increased competition for customer traffic and creditworthy retail tenants. Increased competition for retail tenants may require us to make tenant and/or capital improvements to retail properties beyond those that we would otherwise have planned to make. Any unbudgeted tenant and/or capital improvements we undertake may reduce cash that would otherwise be available for distributions to our stockholders. Ultimately, if we are unable to renew leases or re-let space as retail leases expire or renew or re-let such spaces at lower rental rates, our business and operations could be negatively impacted.

Loss of revenues from significant retail tenants could reduce distributions to our stockholders.

For our currently owned and planned acquisitions of grocery-anchored shopping centers, we derive or will derive significant revenues from anchor tenants such as Publix, Kroger, Tom Thumb, The Fresh Market and Bi-Lo.

Distributions to our stockholders could be adversely affected by the loss of revenues in the event a significant retail tenant:

- becomes bankrupt or insolvent;
- experiences a downturn in its business;
- materially defaults on its leases;
- does not renew its leases as they expire; or
- renews at lower rental rates.

Vacated anchor space, including space owned by the anchor, can also reduce rental revenues generated by the shopping center because of the loss of the departed anchor tenant's customer drawing power. If significant tenants vacate a property, then other tenants may be entitled to terminate their leases at the property or pay reduced rent.

We may be unable to collect balances due from retail tenants in bankruptcy.

Although minimum rent is supported by lease contracts of varying term, retail tenants who file bankruptcy have the legal right to reject any or all of their leases and close related stores. In the event that a retail tenant with a significant number of leases in our shopping centers files bankruptcy and rejects its leases, we could experience a significant reduction in our retail revenues and may not be able to collect all pre-petition amounts owed by that party.

Our Common Area Maintenance (“CAM”) contributions may not allow us to recover the majority of our operating expenses from retail tenants.

CAM costs typically include allocable energy costs, repairs, maintenance and capital improvements to common areas, janitorial services, administrative, property and liability insurance costs and security costs. The amount of CAM charges we bill to our retail tenants may not allow us to recover or pass on all these operating expenses to tenants, which may reduce operating cash flow from our retail properties.

Material U.S. Federal Income Tax Considerations

If we fail to maintain our qualification as a REIT, we will be subjected to tax on our income and the amount of distributions we make to our stockholders will be less.

We elected to be taxed as a REIT, commencing with our tax year ended December 31, 2011. A REIT generally is not taxed at the corporate level on income and gains it distributes to its stockholders on a timely basis.

If we were to fail to qualify as a REIT in any taxable year:

- we would not be allowed to deduct our distributions to our stockholders when computing our taxable income;
- we would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and possibly increased state and local taxes;

- we could be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;
- we would have less cash to make distributions to our stockholders; and
- we might be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations we may incur as a result of our disqualification.

Although we intend to operate in a manner intended to qualify as a REIT, it is possible that we may inadvertently terminate our REIT election or that future economic, market, legal, tax or other considerations may cause our board of directors to determine to revoke our REIT election. Even if we qualify as a REIT, we expect to incur some taxes, such as state and local taxes, taxes imposed on certain subsidiaries and potential U.S. federal excise taxes.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating
flexibility and reduce the market price of our Common Stock.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to REITs. Additional changes to the tax laws are likely to continue to occur. Although REITs generally receive better tax treatment than entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a regular corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate the REIT election we have made and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

If the Operating Partnership fails to maintain its status as a partnership, its income may be subject to taxation.

We intend to maintain the status of the Operating Partnership as a partnership for U.S. federal income tax purposes. However, if the IRS were to successfully challenge the status of the Operating Partnership as a partnership for such purposes, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that the Operating Partnership could make to us. This also would result in our losing REIT status, and becoming subject to a corporate level tax on our own income, and would substantially reduce our cash available to pay distributions and the yield to our stockholders. In addition, if any of the partnerships or limited liability companies through which the Operating Partnership owns its properties, in whole or in part, loses its characterization as a partnership and is not otherwise disregarded for U.S. federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the Operating Partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain our REIT qualification.

Our investments in certain debt instruments may cause us to recognize income for U.S. federal income tax purposes even though no cash payments have been received on the debt instruments, and certain modifications of such debt by us could cause the modified debt to not qualify as a good REIT asset, thereby jeopardizing our REIT qualification.

Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may acquire assets, including debt securities requiring us to accrue original issue discount, or OID, or recognize market discount income, that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. In addition, if a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income. We may also be required under the terms of the indebtedness that we incur to use cash received from interest payments to make principal payment on that indebtedness, with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders.

As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, we may be required to (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, (3) distribute amounts that would otherwise be used for future acquisitions or used to repay debt, or (4) make a taxable distribution of our shares of Common Stock as part of a distribution in which stockholders may elect to receive shares of Common Stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements.

The failure of a subordinate loan to qualify as a real estate asset could adversely affect our ability to maintain our qualification as a REIT.

In general, in order for a loan to be treated as a qualifying real estate asset producing qualifying income for purposes of the REIT asset and income tests, the loan must be secured by real property. We may originate (in connection with a forward purchase or option to purchase contract) or acquire subordinate loans that are not directly secured by real property but instead secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a subordinate loan that is not secured by real estate would, if it meets each of the requirements contained in the Revenue Procedure, be treated by the IRS as a qualifying real estate asset. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law and in many cases it may not be possible for us to meet all the requirements of the safe harbor. We cannot provide assurance that any subordinate loan in which we invest would be treated as a qualifying asset producing qualifying income for REIT qualification purposes. If any such loan fails either the REIT income or asset tests, we may be disqualified as a REIT.

Furthermore, if we participate in any appreciation in value of real property securing a mortgage loan and the IRS characterizes such “shared appreciation mortgage” as equity rather than debt, for example, because of a large interest in cash flow of the borrower, we may be required to recognize income, gains and other items with respect to the real property for U.S. federal income tax purposes. This could affect our ability to maintain our qualification as a REIT.

The share ownership restrictions of the Code for REITs and the 9.8% share ownership limit in our charter may inhibit market activity in our shares of stock and restrict our business combination opportunities.

In order to maintain our qualification as a REIT, five or fewer individuals, as defined in the Code, may not own, actually or constructively, more than 50% in value of our issued and outstanding shares of stock at any time during the last half of each taxable year, other than the first year for which a REIT election is made. Attribution rules in the Code determine if any individual or entity actually or constructively owns our shares of stock under this requirement. Additionally, at least 100 persons must beneficially own our shares of stock during at least 335 days of a taxable year for each taxable year, other than the first year for which a REIT election is made. To help insure that we meet these tests, among other purposes, our charter restricts the acquisition and ownership of our shares of stock.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT while we so qualify. Unless exempted by our board of directors, for so long as we qualify as a REIT, our charter prohibits, among other limitations on ownership and transfer of shares of our stock, any person from beneficially or constructively owning (applying certain attribution rules under the Code) more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of our shares of stock. Our board of directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of 9.8% of the value of our outstanding shares would result in the termination of our qualification as a REIT. These restrictions on transferability and ownership will not apply, however, if our board of directors determines that it is no longer in our best interest to continue to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to continue to so qualify as a REIT.

These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our stock or otherwise be in the best interest of our stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2015, we were the sole owner of the following 19 multifamily communities, which comprise our multifamily segment:

Property		Metropolitan area	Year construction completed	Number of Units	Average Unit Size (sq. ft.)
Summit Crossing	(1)	Atlanta, GA	2007	485	1,053
Trail Creek	(1)	Hampton, VA	2007	300	1,084
Stone Rise		Philadelphia, PA	2008	216	1,079
McNeil Ranch		Austin, TX	1999	192	1,071
Ashford Park		Atlanta, GA	1992	408	1,008
Lake Cameron		Raleigh, NC	1997	328	940
Enclave at Vista Ridge		Dallas, TX	2003	300	1,079
Sandstone Creek		Kansas City, KS	2000	364	1,135
Stoneridge Farms		Nashville, TN	2002	364	1,153
Vineyards		Houston, TX	2003	369	1,122
Aster at Lely Resort		Naples, FL	2015	308	979
CityPark View		Charlotte, NC	2014	284	948
Avenues at Cypress		Houston, TX	2014	240	1,166
Venue at Lakewood Ranch		Sarasota, FL	2015	237	1,001
Avenues at Creekside		San Antonio, TX	2014	395	974
Citi Lakes		Orlando, FL	2014	346	984
Avenues at Northpointe		Houston, TX	2013	280	1,154
Lenox Portfolio		Nashville, TN	(2)	474	886
Stone Creek		Houston, TX	2009	246	852
				6,136	

(1) Second phases of our Summit Crossing (140 units) and Trail Creek (96 units) communities were completed in 2013 and 2012, respectively. The combined first and second phases of each are managed as single properties.
(2) The Lenox Portfolio consists of three properties, two of which were completed in 2009 (291 units) and the third in 2015 (183 units).

Our communities are equipped with an array of amenities believed to be sufficient to position Preferred Apartment Communities as attractive residential rental options within each local market. Such amenities can include, but are not limited to, one or more swimming pools, a clubhouse with a business center, tennis courts and laundry facilities. Unit-specific amenities can include high-end appliances, tile kitchen backsplashes, washer and dryers or washer and dryer hookups and ceiling fans. Resident lease terms are generally twelve months in duration.
At December 31, 2015, we were the sole owner of the following 14 grocery-anchored shopping centers, which comprise our retail segment:

Property name	Metropolitan area	Year built	GLA [1]	Percent leased [2]		Anchor tenant
Woodstock Crossing	Atlanta, GA	1994	66,122	92.6	%	Kroger
Parkway Town Centre	Nashville, TN	2005	65,587	89.7	%	Publix
Spring Hill Plaza	Nashville, TN	2005	61,570	100.0	%	Publix
Barclay Crossing	Tampa, FL	1998	54,958	100.0	%	Publix
Deltona Landings	Orlando, FL	1999	59,966	95.5	%	Publix
Kingwood Glen	Houston, TX	1998	103,397	100.0	%	Kroger
Parkway Centre	Columbus, GA	1999	53,088	86.8	%	Publix
Powder Springs	Atlanta, GA	1999	77,853	92.8	%	Publix
Sweetgrass Corner	Charleston, SC	1999	89,124	96.2	%	Bi-Lo
Salem Cove	Nashville, TN	2010	62,356	97.8	%	Publix
Independence Square	Dallas, TX	1977	140,218	94.6	%	Tom Thumb
Royal Lakes Marketplace	Atlanta, GA	2008	119,493	84.4	%	Kroger
Summit Point	Atlanta, GA	2004	111,970	84.4	%	Publix
The Overlook at Hamilton Place	Chattanooga, TN	1992	213,095	98.6	%	The Fresh Market
			1,278,797 [3]			

[1] Gross leasable area, or GLA, represents the total amount of property square footage that can be leased to tenants.
[2] Percent leased represents the percentage of GLA that is leased, including lease agreements that have been fully executed but which have not yet commenced.
[3] Excludes approximately 47,600 square feet of ground floor retail GLA in the Lenox Portfolio.

Our retail leases have original lease terms which generally range from three to seven years for spaces under 5,000 square feet and from 10 to 20 years for spaces over 10,000 square feet. Anchor leases generally contain renewal options for one or more additional periods whereas in-line tenant leases may or may not have renewal options. With the exception of anchor leases, the leases generally contain contractual increases in base rent rates over the lease term and the base rent rates for renewal periods are generally based upon the rental rate for the primary term, which may be adjusted for inflation or market conditions. Anchor leases generally do not contain contractual increases in base rent rates over the lease term and the renewal periods. Our leases generally provide for the payment of fixed monthly rentals and may also provide for the payment of additional rent based upon a percentage of the tenant’s gross sales above a certain threshold level (“percentage rent”). Our leases also generally include tenant reimbursements for common area expenses, insurance, and real estate taxes. Utilities are generally paid by tenants either directly through separate meters or through payment of tenant reimbursements. The foregoing general description of the characteristics of the leases in our centers is not intended to describe all leases and material variations in lease terms may exist.

Our grocery anchor tenants comprised 51.5% of our portfolio GLA at December 31, 2015. Our small in-line tenants represent general retail, consumer services, healthcare providers, and restaurants; none of our small in-line tenants individually constitute more than 2.0% of our portfolio GLA as of December 31, 2015. The following table summarizes our grocery anchor tenants by GLA as of December 31, 2015:

Tenant	GLA	% of GLA within retail portfolio	
Publix	348,332	27.2	%
Kroger	186,436	14.6	%
Bi-Lo	59,824	4.7	%
Tom Thumb	43,600	3.4	%
The Fresh Market	20,400	1.6	%
	658,592	51.5	%

The following table summarizes contractual lease expirations for the next ten years and thereafter, assuming no tenants exercise their renewal options:

35

	Total retail portfolio			
	Number of leases	Leased GLA	Percent of leased GLA	
Month to month	4	6,714	0.6	%
2016	32	69,714	5.8	%
2017	48	92,522	7.7	%
2018	34	63,741	5.3	%
2019	24	249,523	20.8	%
2020	30	127,408	10.6	%
2021	10	22,960	1.9	%
2022	2	3,239	0.3	%
2023	2	12,300	1.0	%
2024+	21	552,313	46.0	%
	207	1,200,434		

Details regarding the mortgage debt on our properties may be found in the consolidated financial statements within this Annual Report on Form 10-K.

Our corporate headquarters is located at 3284 Northside Parkway NW, Suite 150, Atlanta, Georgia 30327.

Item 3. Legal Proceedings

Neither we nor our subsidiaries nor, to our knowledge, our Manager is currently subject to any legal proceedings that we or our Manager consider to be material. To our knowledge, none of our communities are currently subject to any legal proceeding that we consider material.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Common Stock (symbol "APTS") was traded on the NYSE MKT (formerly known as the NYSE Amex) until July 17, 2015, when it began trading on the New York Stock Exchange. The following table sets forth the historical quarterly price data pertaining to our Common Stock, and per-share dividend distributions declared on our Common Stock for 2014 and 2015:

Quarter ended:	High	Low	Close	Dividends
3/31/2014	$ 8.30	$ 7.86	$ 8.06	$ 0.16
6/30/2014	$ 9.19	$ 8.00	$ 8.87	$ 0.16
9/30/2014	$ 9.10	$ 8.32	$ 8.32	$ 0.16
12/31/2014	$ 9.17	$ 8.23	$ 9.10	$ 0.175

Quarter ended:	High	Low	Close	Dividends
3/31/2015	$ 11.03	$ 9.21	$ 10.82	$ 0.175
6/30/2015	$ 11.60	$ 9.95	$ 9.95	$ 0.18
9/30/2015	$ 11.70	$ 9.82	$ 10.88	$ 0.18
12/31/2015	$ 13.66	$ 10.43	$ 13.08	$ 0.1925

As of December 31, 2015, there were approximately 12,900 holders of record of our Common Stock. This total excludes an unknown number of holders of 1,930,651 shares of Common Stock in street name at non-responding brokerage firms.

Dividends

We have declared and subsequently paid cash dividends on shares of our Common Stock for each quarter since our IPO in 2011. Since we have elected to be taxed as a REIT effective with our tax year ended December 31, 2011, we are required to, and intend to, distribute at least 90% of our 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 maintain such status. Dividends are declared with the action and approval of our board of directors and any future distributions are made at our board of director's discretion. Our dividend paying capacity is primarily dependent upon cash generated from our multifamily communities, interest income on our real estate loans and cash needs for capital expenditures, both foreseen and unforeseen, among other factors. Risks inherent in our ability to pay dividends are further described in the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Equity Compensation Plan

The following table sets forth information as of December 31, 2015 regarding our equity compensation plans and our Common Stock authorized for issuance under the plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders (1)	276,560 (2)	N/A	1,544,847
Equity compensation plans not approved by stockholders	—	N/A	—
Total	276,560	N/A	1,544,847

(1) Includes our 2011 Stock Incentive Plan, as amended, or the 2011 Plan, that authorized a maximum of 2,617,500 shares of our Common Stock for issue under the 2011 Plan. Awards may be made in the form of issuances of Common Stock, restricted stock, stock appreciation rights, performance shares, incentive stock options, non-qualified stock options, or other forms. Eligibility criteria, amounts and all terms governing awards pursuant to the 2011 Plan, such as vesting periods and voting and dividend rights on unvested awards, are determined by our the compensation committee of our board of directors.

(2) Represents 276,560 Class A Units of our Operating Partnership, or Class A Units, which are exchangeable for shares of our Common Stock on a one-for-one basis, or cash, as elected by our Operating Partnership.

Shareholder Return Performance Graph

The following stock performance graph and related information shall not be deemed “soliciting material” or “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings under the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The chart above presents comparative investment results of a hypothetical initial investment of $1,000 on April 1, 2011 in: (i) our Common Stock, ticker symbol "APTS;" (ii) the MSCI U. S. REIT Index, an index of equity REIT constituent companies that derive the majority of their revenue from real estate rental activities; and (iii) the S&P Small Cap 600 Index, a broad equity index comprised of constituent companies with capitalization levels that approximate ours. The total return results assume automatic reinvestment of dividends and no transaction costs.

	Value of initial investment on:				
	4/1/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
APTS Common Stock	$ 1,000	$ 863	$ 951	$ 1,167	$ 1,790
MSCI U. S. REIT Index	$ 1,000	$ 1,201	$ 1,231	$ 1,605	$ 1,753
S&P Small Cap 600 Index	$ 1,000	$ 1,064	$ 1,485	$ 1,551	$ 1,499

Sales of Unregistered Securities

There were no previously unreported sales of unregistered securities by the Company during the fiscal year ended 2015.

Use of Proceeds from Sales of Registered Securities

Effective January 1, 2014, we amended our investment guidelines to increase our maximum investment in other real estate related investments, such as grocery-anchored shopping centers from 10% to 20%. Certain proceeds from our Registration Statement (File No. 333-176604), our Follow-On Series A Registration Statement (File No. 333-183355) and our Shelf Registration Statement (File No. 333-188677) have been invested in such grocery-anchored shopping centers.

Item 6. Selected Financial Data

The following table sets forth selected financial and operating data on a historical basis and should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	Twelve months ended December 31,				
	2015	2014	2013	2012	2011
Total revenues	$109,305,512	$56,536,370	$32,133,491	$12,491,235	$7,150,703
Net (loss) income	$(2,425,989)	$2,127,203	$(4,205,492)	$(146,630)	$(8,495,424)
Net loss per share of Common Stock available to common stockholders, basic and diluted	$(0.95)	$(0.31)	$(1.59)	$(0.12)	$(2.23)
Weighted average number of shares of Common Stock outstanding, basic and diluted	22,182,971	17,399,147	9,456,228	5,172,260	3,822,303
Cash dividends declared per share of Common Stock	$0.7275	$0.655	$0.605	$0.545	$0.375
Total assets	$1,295,529,033	$691,382,907	$340,119,848	$122,826,243	$91,913,880
Long term debt	$696,945,291	$354,418,668	$140,516,000	$55,637,000	$55,637,000
Revolving credit facility	34,500,000	$24,500,000	$29,390,000	$14,801,197	$—
Total liabilities	770,075,243	$399,801,033	$174,067,129	$72,768,668	$57,295,979
Preferred Stock (par value outstanding)	$4,830	$1,928	$893	$198	$—
Total equity (deficit)	$525,453,790	$291,581,874	$166,052,719	$50,057,575	$34,617,901
Cash flows provided by (used in):					
Operating activities	$35,221,423	$15,436,062	$8,686,070	$4,178,941	$527,960
Investing activities	$(533,510,211)	$(356,423,742)	$(137,725,734)	$(32,536,608)	$(93,684,911)
Financing activities	$497,615,123	$334,920,519	$135,246,586	$26,783,156	$97,682,696
Funds from operations (1)	$16,701,905	$10,967,373	$(33,080)	$2,957,754	$(285,545)
Normalized funds from operations (1)	$25,952,326	$18,373,674	$9,128,980	$2,960,259	$1,593,131
Adjusted funds from operations (1)	$21,783,083	$14,771,490	$7,809,761	$3,415,973	$1,861,519

(1) See "Reconciliation of Funds From Operations Attributable to Common Stockholders and Unitholders, Normalized Funds From Operations Attributable to Common Stockholders and Unitholders, and Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders to Net Income (Loss) Attributable to Common Stockholders" and definitions of Non-GAAP Measures in the Results of Operations section within "Management's Discussion and Analysis of Financial Condition and Results of Operations," elsewhere in this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Significant Developments

During 2015, we acquired nine multifamily communities located in the Orlando, Nashville, San Antonio, Charlotte, Naples, Sarasota and Houston markets, representing an aggregate of 2,810 units, and with approximately 47,600 square feet of gross leasable area of ground level retail space, for an aggregate purchase price of approximately $431.6 million. We now own 19 multifamily communities with an aggregate of 6,136 units, with an additional potential 19 multifamily communities and 4,708 units under construction through our real estate loan program. There can be no assurance that these acquisitions will occur.

During 2015, we acquired four grocery-anchored shopping centers with an approximate aggregate 585,000 square feet of gross leasable area located in the Atlanta, Dallas, and Chattanooga markets for an aggregate purchase price of approximately $88.0 million.

In connection with these retail acquisitions, our current strategy is to aggregate a critical mass of grocery-anchored shopping center assets within New Market Properties, LLC, a wholly owned subsidiary of our operating partnership, after which we expect to spin off, sell or distribute New Market Properties, LLC, potentially as an independent, publicly traded REIT as soon as we believe it has reached sufficient scale and market conditions warrant. Moreover, there is an expectation that we will continue to own an investment in New Market Properties, LLC following such spin off, sale or distribution. There can be no assurance that any such spin off, sale or distribution will ever occur.

As of December 31, 2015, we had cumulatively issued 486,182 Units and collected net proceeds of approximately $438.6 million from our Primary Series A Offering and our Follow-On Offering.

During the twelve-month period ended December 31, 2015, we issued approximately 548,000 shares of Common Stock pursuant to our at the market offering, or ATM Offering, through MLV & Co. LLC as our sales agent under our Shelf Registration Statement and collected net proceeds of approximately $5.4 million. In addition, during this same period, we issued 582,460 shares of Common Stock upon the exercise of Warrants issued in our Primary Series A Offering and our Follow-On Offering and collected net proceeds of approximately $6.2 million.

Forward-looking Statements

Certain statements contained in this Annual Report on Form 10-K, 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;
- 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 retail and grocery 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;
- 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 "Management’s Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K. 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 section 1A of this Annual Report on Form 10-K for the year ended December 31, 2015 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 Annual Report on Form 10-K.

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 bridge and real estate loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties. As a secondary strategy, we may acquire or originate senior mortgage loans, subordinate loans or real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 20% of our assets in other real estate related investments such as grocery-anchored shopping centers, senior mortgage loans, subordinate loans or real estate related investment loans secured by interests in grocery-anchored shopping centers, membership or partnership interests in grocery-anchored shopping centers and other grocery-anchored shopping center related assets as determined by our Manager as appropriate for us.

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 98.8% interest as of December 31, 2015. New Market Properties, LLC, a wholly-owned subsidiary of the Operating Partnership, owns and conducts the business of our grocery-anchored shopping centers.

Industry Outlook

We believe continued, albeit potentially sporadic, improvement in the United States' economy will continue in 2016, with continued job growth and a sporadic but improving longer term trend in consumer confidence. We believe a growing economy, improved job market and increased consumer confidence should help create favorable conditions in 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 improve on measurably. The pipeline of new multifamily construction, although increasing, has been relatively measured in most of our markets. Nationally, new multifamily construction is currently around or slightly 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 improved absorption levels in our markets, which in most markets has offset or exceeded the new supply coming online. The absorption rate has led to generally stable occupancy rates with increasing 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 contain increases in multifamily supply.

We believe that the grocery-anchored retail sector benefits from many of the same improving metrics as the multifamily sector, namely an improving 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, albeit slow, 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 retail shopping centers. With moderate supply growth following a period of historically low retail construction starts, we believe our centers that are all generally located in Sun Belt markets are well-positioned to have solid operating fundamentals.

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, investors have been willing to accept lower yields on U.S. government backed securities, providing Freddie Mac and Fannie Mae with excellent access to investor capital. 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 capital markets and debt capital markets have generally continued to view the U.S. multifamily sector as a desirable investment despite recent volatility.

We believe the combination of continued high construction mortgage underwriting standards, a less favorable regulatory environment for commercial real estate lending and continued hesitance and reluctance among many prospective homebuyers to believe the net benefits of home ownership are greater than the flexibility offered through renting will continue to work in the existing multifamily sector's favor. This should result in gradual increases in market rents, lower concessions and opportunities for increases in ancillary fee income. We also believe there will be a continued increase in demand for multifamily rental housing due to the ongoing entry of the domestic echo-boomer generation, the sons and daughters of the baby-boom generation, into the workforce, resulting in an increase in demand for rental housing. Finally, we believe any sustained decline in the homeownership rate in the United States would also result in increased demand for multifamily rental housing.

Critical Accounting Policies

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 40 years for buildings, 5 to 10 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. 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 record the acquisition of income-producing real estate as a business combination. 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 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 retail shopping centers 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 retail shopping centers 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, plus any below market probable renewal options. Intangible assets also include the value of customer relationships, which represent the value inherent in the relationships with existing lessees, quantified by management's estimate of the average likelihood of lease renewal. Customer relationships are amortized over the average remaining non-cancelable term of in place leases, plus an estimated renewal period.

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.

Impairment of Real Estate and Related Intangible Assets. We monitor events and changes in circumstances that could indicate that the carrying amounts of our real estate and related intangible assets may not be recoverable or realized. When conditions suggest that an asset group may be impaired, we compare its carrying value to its estimated undiscounted future cash flows, including proceeds from its eventual disposition. If, based on this analysis, we do not believe that we will be able to recover the carrying value of an asset group, we record an impairment to the extent that the carrying value exceeds the estimated fair value of the asset group. Fair market value is determined based on a discounted cash flow analysis. This analysis requires us to use future estimates of net operating income, expected hold period, capitalization rates and discount rates. The use of different assumptions would result in variations of the values of the assets which could impact the amount of our net income and our assets on our balance sheet.

Real Estate Loans

We extend loans for purposes such as to provide partial financing for 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 we extend include characteristics such as exclusive options to purchase the project within a specific time window following expected project completion and stabilization, the rights to incremental exit fees over and above the amount of periodic interest paid during the life of the loans, or both. These characteristics can cause the loans to fall under the definition of a variable interest entity, or VIE, and thus trigger consolidation consideration. We consider the facts and circumstances pertinent to each loan, including the relative amount of financing we are contributing to the overall project cost, decision making rights or control we hold and our rights to expected residual gains or our obligations to absorb expected residual losses from the project. If we are deemed to be the primary beneficiary of a VIE due to holding a controlling financial interest, the majority of decision making control, or by other means, consolidation of the VIE would be required. Arriving at these conclusions requires us to make significant assumptions and judgments concerning each project, especially with regard to our estimates of future market capitalization rates and property net operating income projections. Additionally, we analyze each loan arrangement and utilize these same assumptions and judgments for consideration of whether the loan qualifies for accounting as a loan or as an investment in a real estate development project.

Impairment of Loans and Notes Receivable. We monitor the progress of underlying real estate development projects which are partially financed by our real estate loans and certain of our notes receivable. Draws of interest included in these loans and notes are monitored versus the budgeted amounts, and the progress of projects are monitored versus the estimates in the project timeline. Changes in circumstances could indicate that the carrying amounts of our loans and notes receivable may not be recoverable or realized. Assessments are made for impairment in the event recoverability of the principal amount becomes doubtful. If, upon testing for impairment, the fair value result of the loan is lower than the carrying amount of the loan, a valuation allowance is recorded to lower the carrying amount to fair value, with a loss recorded in earnings. Fair market value is determined based on a discounted cash flow analysis and is substantiated by an independent appraisal if necessary. This analysis requires us to use future estimates of progress of a project versus its budget, local and national economic conditions and discount rates. The use of different assumptions would result in variations of the values of the loans and notes which could impact the amount of our net income and our assets on our consolidated balance sheets.

Revenue Recognition

We generally lease apartment units under leases with terms of thirteen months or less. We generally lease retail properties for rental terms of several years. Rental revenue, net of concessions, is recognized on a straight-line basis over the term of the lease. Differences from the straight-line method, which recognize the effect of any up-front concessions and other adjustments ratably over the lease term, are recorded in the appropriate period, to the extent that adjustments to the straight-line method are material.

Revenue from reimbursements of retail tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized as the respective costs are incurred in accordance with the lease agreements. We estimate the collectability of the 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 income on a straight-line basis, by taking into consideration our historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms.

We recognize gains on sales of real estate either in total or deferred for a period of time, depending on whether a sale has been consummated, the extent of the buyer's investment in the property being sold, whether our receivable, if any, is subject to future subordination, and the degree of our continuing involvement with the property after the sale, if any. If the criteria for profit recognition under the full-accrual method are not met, we defer gain recognition and account for the continued operations of the property by applying the reduced profit, deposit, installment or cost recovery method, as appropriate, until the appropriate criteria are met.

Other income, including interest earned on our cash, is recognized as it is earned. We recognize interest income on real estate loans on an accrual basis over the life of the loan using the effective interest method. Direct loan origination fees are amortized over the life of the loan as an adjustment to interest income. We stop accruing interest on loans when circumstances indicate that it is probable that the ultimate collection of all principal and interest due according to the loan agreement will not be realized, which is generally a delinquency of 30 days in required payments of interest or principal. Any payments received on such non-accrual loans are recorded as interest income when the payments are received. Interest accrual on real estate loan investments is resumed once interest and principal payments become current.

Equity Compensation

We calculate the fair value of equity compensation instruments such as warrants and stock options based upon estimates of their expected term, the expected volatility of and dividend yield on our Common Stock over this expected term period and the market risk-free rate of return. When appropriate, we will also estimate forfeitures of these instruments and accrue the compensation expense, net of estimated forfeitures, over the vesting period(s).

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. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and may be applied using either a full retrospective or a modified approach upon adoption. We are currently evaluating the impact this standard may have on our financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15 ("ASU 2014-15"), Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This new guidance requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter, early adoption is permitted. We are currently in the process of evaluating the impact the adoption of ASU 2014-15 will have on our financial statements.

In February 2015, the FASB issued Accounting Standards Update 2015-02 ("ASU 2015-02"), Consolidation (Topic 810): Amendments to the Consolidation Analysis. This new guidance specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will be required to consolidate the limited partnership. ASU 2015-02 is effective on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The adoption of ASU 2015-02 will not have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance but does not expected its adoption to materially impact the Company's consolidated financial statements.

Results of Operations

Overview

We commenced business operations in April of 2011 with our initial public offering of Common Stock. Our portfolio of real estate assets, as of December 31, 2015, consisted of 19 wholly-owned multifamily communities totaling 6,136 units; 14 grocery-anchored shopping centers with an aggregate of approximately 1,279,000 square feet of gross leasable area; 20 real estate construction loans and three bridge and other loans that are partially supporting or financing the construction of 13 multifamily communities, six student housing communities and two grocery-anchored shopping centers. The total aggregate amount of our real estate loan commitments was approximately $282.4 million at December 31, 2015.

We recorded net losses attributable to common stockholders of approximately $21.2 million, $5.3 million, and $15.0 million for the twelve-month periods ended December 31, 2015, 2014, and 2013, respectively. These results reflect the incurrence of approximately $9.2 million, $7.2 million, and $1.5 million of acquisition costs and fees for these respective periods.

The highlights of our fourth quarter and full year 2015 operating results included:

- Normalized Funds From Operations Attributable to Common Stockholders and Unitholders, or NFFO, was $7,719,495, or $0.34 per share for the fourth quarter 2015, an increase of 21.4% on a per share basis from our NFFO result of $5,678,358, or $0.28 per share for the fourth quarter 2014. For the full year 2015, NFFO was $25,952,326, or $1.16 per share, an increase of 10.5% on a per share basis from our NFFO result of $18,373,674, or $1.05 per share for the year 2014.

- Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders, or AFFO, was $5,285,545, or $0.23 per share for the fourth quarter 2015, compared to our AFFO result of $4,412,745, or $0.22 per share for the fourth quarter 2014. For the full year 2015, AFFO was $21,783,083, or $0.97 per share, an increase of 15.5% on a per share basis from our AFFO result of $14,771,490, or $0.84 per share for the year 2014. AFFO is calculated after deductions for all preferred dividends.

- As of December 31, 2015, our total assets were approximately $1.3 billion, an increase of approximately $604.1 million, or 87.4% compared to our total assets of approximately $691.4 million at December 31, 2014.

- Total revenues for the fourth quarter 2015 were approximately $33.9 million, an increase of approximately $13.9 million, or 69.2%, compared to approximately $20.0 million for the fourth quarter 2014. Total revenues for the full year 2015 were approximately $109.3 million, an increase of approximately $52.8 million, or 93.3%, compared to approximately $56.5 million for the full year 2014.

- Cash flow from operations for the fourth quarter 2015 was approximately $7.0 million, an increase of approximately $1.6 million, or 29.3%, compared to approximately $5.4 million for the fourth quarter 2014. Cash flow from operations for the full year 2015 was approximately $35.2 million, an increase of approximately $19.8 million, or 128.2%, compared to approximately $15.4 million for the full year 2014.

- Our Common Stock dividend of $0.1925 per share for the fourth quarter 2015 represents a growth rate of 10.0% from our fourth quarter 2014 dividend of $0.175 per share and a growth rate of approximately 12.1% on an annualized basis since June 30, 2011, the first quarter end following our initial public offering in April 2011.

- At December 31, 2015, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 55.2%.

- For the fourth quarter 2015, our average occupancy was 94.7%. As of December 31, 2015, our retail portfolio was 93.9% leased.

- For the year 2015, our NFFO payout ratio to our Common Stockholders and Unitholders was approximately 63.2% and our AFFO payout ratio to Common Stockholders and Unitholders was approximately 75.3%. (2)

- For the year 2015, our NFFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 42.0% and our AFFO payout ratio (before the deduction of preferred dividends) to our Preferred Stockholders was approximately 46.3%. [2]

- During the year 2015, we originated 8 real estate loans and two member loans, and converted five bridge loans to real estate loans of up to approximately $171.2 million to partially finance the construction of, or in support of, seven planned multifamily communities, three student housing communities, and two retail shopping centers.

- With the closing of the acquisitions referenced above, we owned as of December 31, 2015, 19 multifamily communities consisting of an aggregate of 6,136 units and 14 grocery-anchored shopping centers comprising an aggregate of 1,278,797 square feet of gross leasable area. Upon completion of all the projects partially financed by our real estate loan portfolio and if we were to acquire all the underlying properties, we would own 19 additional multifamily communities, comprising an aggregate of 4,708 additional units, and including including six student housing communities with 4,010 beds and one additional grocery-anchored shopping center.

- To date in the first quarter 2016, we have acquired three multifamily communities located in each of Orlando and Tampa, Florida, and Atlanta, Georgia, comprising an aggregate of 1,164 units and a grocery-anchored shopping center located in the Atlanta, Georgia market, comprising approximately 75,000 square feet of gross leasable area.

[1] “Per share” refers to per basic weighted average share of Common Stock and Class A Unit outstanding for the periods indicated. See Definitions of Non-GAAP and Other Measures later within this "Results of Operations" section.

[2] We calculate the NFFO and AFFO payout ratios to Common Stockholders and Unitholders as the ratio of Common Stock dividends and distributions to Unitholders to NFFO or AFFO, respectively. We calculate the NFFO and AFFO payout ratios to Preferred Stockholders as the ratio of Preferred Stock dividends to the sum of Preferred Stock dividends and NFFO or AFFO, respectively. See Definitions of Non-GAAP and Other Measures later within this "Results of Operations" section.

During the year ended December 31, 2015, we acquired the following real estate assets:

Acquisition date	Multifamily communities	Location	Units
12/21/2015	Lenox Portfolio	Nashville, Tennessee	474
11/12/2015	Stone Creek	Houston, Texas	246
9/3/2015	Citi Lakes	Orlando, Florida	346
7/31/2015	Avenues at Creekside	San Antonio, Texas	395
6/30/2015	CityPark View	Charlotte, North Carolina	284
6/24/2015	Aster at Lely	Naples, Florida	308
5/21/2015	Venue at Lakewood Ranch	Sarasota, Florida	237
2/13/2015	Avenues at Cypress	Houston, Texas	240
2/13/2015	Avenues at Northpointe	Houston, Texas	280
			2,810

Acquisition date	Grocery anchored shopping centers	Market	Gross leasable area (square feet)
12/22/2015	Overlook at Hamilton Place		213,095

		Chattanooga, Tennessee	
10/30/2015	Summit Point	Atlanta, Georgia	111,970
9/4/2015	Royal Lakes Marketplace	Atlanta, Georgia	119,493
7/1/2015	Independence Square	Dallas, Texas	140,218
			584,776

During the twelve months ended December 31, 2015, we originated the following real estate loans and bridge loans:

Project/Property	(1)	Location	Date of loan	Maturity date	Optional extension date	Total loan commitments	Current / deferred interest % per annum	
Encore		Atlanta, GA	10/9/2015	4/8/2019	10/8/2020	$10,958,200	8.5 / 5	(2)
Encore Capital		Atlanta, GA	10/9/2015	4/8/2019	10/8/2020	9,758,200	8.5 / 5	(2)
Fusion		Irvine, CA	7/1/2015	5/31/2018	5/31/2020	59,052,583	8.5 / 7.5	(2)
Summit Crossing III	(3,4)	Atlanta, GA	2/27/2015	2/26/2018	2/26/2020	7,246,400	8.5 / 6	(2)
Overture	(3,5)	Tampa, FL	7/21/2015	7/21/2018	7/21/2020	6,920,000	8.5 / 6	(2)
Aldridge at Town Village	(3)	Atlanta, GA	1/27/2015	12/27/2017	12/27/2019	10,975,000	8.5 / 6	(2)
18 Nineteen	(3,6,7)	Lubbock, TX	4/9/2015	4/9/2018	4/9/2020	15,598,352	8.5 / 6	(2)
Haven South	(3,6,8)	Waco, TX	5/1/2015	5/1/2018	5/1/2019	15,455,668	8.5 / 6	(2)
Haven Tampa	(6,9)	Tampa, FL	4/17/2015	4/30/2016	—	2,900,000	10 / -	
Bishop Street	(10)	Atlanta, GA	8/31/2015	8/30/2016	—	3,107,012	12 / -	
Dawson Marketplace	(11)	Atlanta, GA	12/16/2015	11/15/2018	11/15/2020	12,857,005	8.5 / 5	(2)
Wade Green	(12)	Atlanta, GA	11/6/2015	2/5/2016	8/5/2016	6,250,000	8.5 / -	
Hidden River	(13)	Tampa, FL	12/4/2015	12/3/2018	12/3/2020	4,734,960	8.5 / 5	(2)
Hidden River Capital	(13)	Tampa, FL	12/4/2015	12/4/2018	12/4/2020	5,380,000	8.5 / 5	(2)
						$171,193,380		

(1) All loans are real estate loans pertaining to developments of multifamily communities, except as otherwise indicated.

(2) Deferred interest becomes due to the Company on the earliest to occur of (i) the maturity date, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing of the loan by the Company or one of its affiliates) and (iv) any other repayment of the loan.

(3) Effective July 1, 2015, the deferred interest rate was increased by 1.0% per annum.

(4) Real estate loan to partially finance the acquisition of land and predevelopment costs for a third phase adjacent to our Summit Crossing multifamily community.

(5) Real estate loan to partially finance the acquisition of land and predevelopment costs for a second phase adjacent to the Crosstown Walk multifamily community.

(6) See note 7 - related party transactions.

(7) Real estate loan in support of a planned student housing community adjacent to the campus of Texas Tech University.

(8) Real estate loan in support of a planned student housing community adjacent to the campus of Baylor University.

(9) Bridge loan in support of a planned student housing community adjacent to the campus of the University of South Florida.

(10) Bridge loan to partially finance the acquisition of land and predevelopment costs for a multifamily community in Atlanta, Georgia.

(11) Real estate loan in support of a planned approximate 200,000 square foot retail center in the Atlanta, Georgia market.

(12) First position loan secured by a grocery-anchored shopping center in the Atlanta, Georgia market.

(13) Real estate loan and a member loan in support of a planned multifamily community in Tampa, Florida.

Certain real estate loan assets include limited purchase options and either exit fees or additional amounts of accrued interest. Exit fees or accrued interest due will be treated as additional consideration for the acquired project if the Company purchases the subject property. Additional accrued interest becomes due in cash to the Company on the earliest to occur of: (i) the maturity of the loan, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing loan by the Company or one of its affiliates) and (iv) any other repayment of the loan. There are no contingent events that are necessary to occur for us to realize the additional interest amounts.

Twelve Months Ended December 31, 2015 Compared to 2014 and Twelve Months Ended December 31, 2014 Compared to 2013

The following discussion and tabular presentations highlight the major drivers behind the line item changes in our results of operations for the twelve months ended December 31, 2015 versus 2014 and December 31, 2014 versus 2013, as summarized in the tables below:

	Year ended December 31,		Change inc (dec)	
	2015	2014	Amount	Percentage
Revenues:				
Rental revenues	$69,128,280	$30,762,423	$38,365,857	124.7 %
Other property revenues	9,495,522	3,946,222	5,549,300	140.6 %
Interest income on loans and notes receivable	23,207,610	18,531,899	4,675,711	25.2 %
Interest income from related party	7,474,100	3,295,826	4,178,274	126.8 %
Total revenues	109,305,512	56,536,370	52,769,142	93.3 %
Operating expenses:				
Property operating and maintenance	10,878,872	4,887,903	5,990,969	122.6 %
Property salary and benefits reimbursement to related party	5,885,242	2,882,283	3,002,959	104.2 %
Property management fees to related parties	3,014,801	1,347,502	1,667,299	123.7 %
Real estate taxes	9,934,412	3,587,287	6,347,125	176.9 %
General and administrative	2,285,789	1,051,849	1,233,940	117.3 %
Equity compensation to directors and executives	2,362,453	1,784,349	578,104	32.4 %
Depreciation and amortization	38,096,334	16,328,715	21,767,619	133.3 %
Acquisition and pursuit costs	4,186,092	3,518,540	667,552	19.0 %
Acquisition fees to related parties	4,967,671	3,714,077	1,253,594	33.8 %
Asset management fees to related parties	7,041,226	3,546,987	3,494,239	98.5 %
Insurance, professional fees and other	3,568,356	1,903,833	1,664,523	87.4 %
Total operating expenses	92,221,248	44,553,325	47,667,923	107.0 %
Contingent asset management and general and administrative expense fees	(1,805,478)	(332,345)	(1,473,133)	443.3 %
Net operating expenses	90,415,770	44,220,980	46,194,790	104.5 %
Operating income	18,889,742	12,315,390	6,574,352	53.4 %
Less interest expense	21,315,731	10,188,187	11,127,544	109.2 %
Net (loss) income	$(2,425,989)	$2,127,203	$(4,553,192)	(214.0)%

49

	Year ended December 31,		Change inc (dec)	
	2014	2013	Amount	Percentage
Revenues:				
Rental revenues	$30,762,423	$20,165,064	$10,597,359	52.6 %
Other property revenues	3,946,222	2,237,759	1,708,463	76.3 %
Interest income on loans and notes receivable	18,531,899	9,214,039	9,317,860	101.1 %
Interest income from related party	3,295,826	516,629	2,779,197	537.9 %
Total revenues	56,536,370	32,133,491	24,402,879	75.9 %
Operating expenses:				
Property operating and maintenance	4,887,903	3,286,590	1,601,313	48.7 %
Property salary and benefits reimbursement to related party	2,882,283	2,186,981	695,302	31.8 %
Property management fees to related parties	1,347,502	883,016	464,486	52.6 %
Real estate taxes	3,587,287	2,279,109	1,308,178	57.4 %
General and administrative	1,051,849	617,433	434,416	70.4 %
Equity compensation to directors and executives	1,784,349	1,191,637	592,712	49.7 %
Depreciation and amortization	16,328,715	15,250,130	1,078,585	7.1 %
Acquisition and pursuit costs	3,518,540	362,113	3,156,427	871.7 %
Acquisition fees to related parties	3,714,077	1,167,053	2,547,024	218.2 %
Asset management fees to related parties	3,546,987	1,983,999	1,562,988	78.8 %
Insurance, professional fees and other	1,903,833	1,038,233	865,600	83.4 %
Total operating expenses	44,553,325	30,246,294	14,307,031	47.3 %
Contingent asset management and general and administrative expense fees	(332,345)	—	(332,345)	— %
Net operating expenses	44,220,980	30,246,294	13,974,686	46.2 %
Operating income	12,315,390	1,887,197	10,428,193	552.6 %
Less interest expense	10,188,187	5,488,352	4,699,835	85.6 %
Loss on early extinguishment of debt	—	604,337	(604,337)	— %
Net income (loss)	$2,127,203	$(4,205,492)	$6,332,695	(150.6)%

Rental Revenues

Rental revenue increased due to property acquisitions during 2015 and 2014, as shown in the following table:

	Twelve months ended December 31,			
	2015 versus 2014 increase		2014 versus 2013 increase	
	Amount (rounded to 000s):	Percent of increase	Amount (rounded to 000s):	Percent of increase
Rental revenues:				
Dunbar Portfolio	$12,416,000	32.4 %	$4,351,000	41.1 %
Houston Portfolio	6,887,000	18.0 %	—	— %
Sunbelt Portfolio and other retail assets	7,581,000	19.8 %	2,717,000	25.6 %
Lakewood Ranch, Aster at Lely, and CityPark View	6,429,000	16.8 %	—	— %
Avenues at Creekside and Citi Lakes	3,822,000	10.0 %	—	— %

Lenox Portfolio and Stone Creek	601,000	1.5	%	—	—	%
Trail II and Summit II	—	—	%	2,710,000	25.6	%
Other	630,000	1.5	%	819,000	7.7	%
Total	$38,366,000	100.0	%	$10,597,000	100.0	%

Occupancy rates and rent growth are the primary drivers of increases in rental revenue from owned multifamily communities. We define average occupancy as market rent reduced by vacancy losses. Factors which we believe affect market rents include vacant unit inventory in local markets, local and national economic growth and resultant employment stability, income levels and growth, the ease of obtaining credit for home purchases, and changes in demand due to consumer confidence in the above factors.

We also collect revenue from residents for items such as utilities, application fees, lease termination fees, and late charges. The increases in other property revenues for the twelve-month period ended December 31, 2015 versus 2014 and 2014 versus 2013 were similarly due to the acquisitions listed above.

Interest income from our real estate loans increased substantially for the twelve-month period ended December 31, 2015 versus 2014, primarily due to the addition of 10 real estate loans and bridge loans since December 31, 2014. We added four real estate loans during the year ended December 31, 2014, net of one which was repaid. Also contributing to the increases in interest income were higher loan balances on real estate loans, from accumulating draws and loan balances as the underlying projects progressed toward completion. The principal amount outstanding on our portfolio of real estate loans and bridge loans was approximately $239.0 million at December 31, 2015, $153.7 million at December 31, 2014 and $111.6 million at December 31, 2013.

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

	Year ended December 31,		
	2015	2014	2013
Real estate loans:			
Current interest payments	$16,188,752	$10,987,856	$4,711,773
Additional accrued interest	10,809,028	6,940,500	3,288,982
Deferred loan fee revenue	829,969	872,513	343,218
Total real estate loan revenue	27,827,749	18,800,869	8,343,973
Interest income on notes and lines of credit	2,853,961	3,026,856	1,386,695
Interest income on loans and notes receivable	$30,681,710	$21,827,725	$9,730,668

Property operating and maintenance expense

Expenses for the operations and maintenance of our multifamily communities and retail assets rose primarily due to the incremental costs brought on by acquisitions during 2015 and 2014, as shown in the following table. The primary components of operating and maintenance expense are utilities, property repairs, and landscaping costs. The expenses incurred for property repairs and, to a lesser extent, utilities could generally be expected to increase gradually over time as the buildings and properties age. Utility costs may generally be expected to increase in future periods as rate increases from providing carriers are passed on to our residents and tenants.

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Property operating and maintenance:						
Dunbar Portfolio	$2,136,000	35.7	%	$722,000	45.1	%
Sunbelt Portfolio and other retail assets	1,291,000	21.5	%	405,000	25.3	%
Houston Portfolio	921,000	15.4	%	—	—	%
Lakewood Ranch, Aster at Lely, and CityPark View	860,000	14.4	%	—	—	%
Avenues at Creekside and Citi Lakes	575,000	9.6	%	—	—	%

Lenox Portfolio and Stone Creek	73,000	1.2	% —	—	%
Trail II and Summit II	—	—	% 301,000	18.8	%
Other	135,000	2.2	% 173,000	10.8	%
Total	$5,991,000	100.0	% $1,601,000	100.0	%

We recorded expense reimbursements to our multifamily property manager for the salary and benefits expense for individuals who handle the on-site management, operations and maintenance of our multifamily communities. These costs increased primarily due to the incremental costs brought on by additional personnel necessary to manage and operate the acquisitions made during 2015 and 2014, as shown in the following table. The number of employees assigned by our property manager to our 19 multifamily communities at December 31, 2015 is not expected to change materially over the foreseeable future.

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Salary and Benefits Reimbursements:						
Dunbar Portfolio	$1,293,000	43.1	%	$426,000	61.3	%
Houston Portfolio	646,000	21.5	%	—	—	%
Lakewood Ranch, Aster at Lely, and CityPark View	629,000	20.9	%	—	—	%
Avenues at Creekside and Citi Lakes	362,000	12.1	%	—	—	%
Lenox Portfolio and Stone Creek	40,000	1.3	%	—	—	%
Trail II and Summit II	—	—	%	231,000	33.2	%
Other	33,000	1.1	%	38,000	5.5	%
Total	$3,003,000	100.0	%	$695,000	100.0	%

Property management fees

We pay a fee for property management services to our Manager in an amount of 4% of gross property revenues as compensation for services such as rental, leasing, operation and management of our multifamily communities and the supervision of any subcontractors; for retail assets, property management fees are 4% of gross property revenues, of which generally 3.5% is paid to a third party management company. The increases were primarily due to properties acquired during 2015 and 2014, as shown in the following table:

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Property management fees:						
Dunbar Portfolio	$568,000	34.1	%	$182,000	39.2	%
Sunbelt Portfolio and other retail assets	395,000	23.7	%	126,000	27.2	%
Lakewood Ranch, Aster at Lely, and CityPark View	264,000	15.8	%	—	—	%
Houston Portfolio	175,000	10.5	%	—	—	%
Avenues at Creekside and Citi Lakes	155,000	9.3	%	—	—	%
Lenox Portfolio and Stone Creek	9,000	0.5	%	—	—	%
Other	101,000	6.1	%	156,000	33.6	%
Total	$1,667,000	100.0	%	$464,000	100.0	%

Real estate taxes

We are liable for property taxes due to the various counties and municipalities that levy such taxes on real property for each of our multifamily communities and retail assets. Real estate taxes rose primarily due to the incremental costs brought on by acquisitions during 2015 and 2014, as shown in the following table:

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Real estate taxes:						
Dunbar Portfolio	$2,270,000	35.8	%	$619,000	47.3	%
Houston Portfolio	1,825,000	28.8	%	—	—	%
Sunbelt Portfolio and other retail assets	1,015,000	16.0	%	316,000	24.2	%
Lakewood Ranch, Aster at Lely, and CityPark View	484,000	7.6	%	—	—	%
Avenues at Creekside and Citi Lakes	406,000	6.4	%	—	—	%
Lenox Portfolio and Stone Creek	61,000	1.0	%	—	—	%
Trail II and Summit II	—	—	%	208,000	15.9	%
Other	286,000	4.4	%	165,000	12.6	%
Total	$6,347,000	100.0	%	$1,308,000	100.0	%

We generally expect the assessed values of our multifamily communities and retail assets to rise over time, owing to our expectation of improving market conditions and the value of our multifamily communities and retail assets, as well as pressure on municipalities to raise revenues.

General and Administrative

The increase was primarily due to higher franchise and net worth taxes, and administrative expenses related to the properties acquired during 2015 and 2014, as shown in the following table:

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
General and administrative expense:						
Taxes, licenses & fees	$325,000	26.3	%	$172,000	39.6	%
Dunbar Portfolio	222,000	18.0	%	115,000	26.5	%
Lakewood, Aster Lely, CityPark	185,000	15.0	%	—	—	%
Houston Portfolio	144,000	11.7	%	—	—	%
Creekside and Citilakes	124,000	10.0	%	—	—	%
Trail II and Summit II	—	—	%	48,000	11.1	%
Sunbelt Portfolio and other retail assets	70,000	5.7	%	23,000	5.3	%
Lenox Portfolio and Stone Creek	24,000	1.9	%	—	—	%
Other	140,000	11.4	%	76,000	17.5	%
	$1,234,000	100.0	%	$434,000	100.0	%

53

Equity compensation to directors and executives

Expenses recorded by grant for equity compensation awards were:

	Year ended December 31,		
	2015	2014	2013
Quarterly board member committee fee grants	$53,926	$47,864	$46,089
Class B Unit awards:			
Executive officers - 2012	—	—	2,580
Executive officers - 2013		2,318	859,901
Executive officers - 2014	3,825	1,433,767	—
Executive officers - 2015	1,984,052		
Vice chairman of board of directors	—	—	25,623
Restricted stock grants:			
2012	—	—	86,250
2013		85,812	171,194
2014	107,321	214,588	—
2015	213,329	—	—
Total	$2,362,453	$1,784,349	$1,191,637

Depreciation and amortization

The net increase in depreciation and amortization was driven by:

	Depreciation and amortization expense by major acquisition category (rounded to 000s) Twelve months ended December 31,		
	2015	2014	2013
Lakewood, Aster Lely, CityPark			
Depreciation	$3,075,000	$—	$—
Amortization of intangible assets	2,438,000	—	—
Creekside and Citilakes			
Depreciation	1,855,000	—	—
Amortization of intangible assets	1,547,000	—	—
Stone Creek and Lenox Portfolio			
Depreciation	233,000	—	—
Amortization of intangible assets	218,000	—	—
Dunbar portfolio			
Depreciation	7,093,000	2,045,000	—
Amortization of intangible assets	1,485,000	2,079,000	—
Houston portfolio			
Depreciation	3,036,000	—	—
Amortization of intangible assets	1,572,000	—	—
Sunbelt Portfolio and other retail assets			
Depreciation	3,970,000	1,067,000	—
Amortization of intangible assets	3,156,000	1,063,000	—
Trail II and Summit II			
Depreciation	1,492,000	1,430,000	373,000
Amortization of intangible assets	—	839,000	909,000

WMAF Acquisitions [1]			
Depreciation	4,138,000	4,845,000	4,505,000
Amortization of intangible assets	—	7,000	6,492,000
Other	2,788,000	2,954,000	2,971,000
Total	$38,096,000	$16,329,000	$15,250,000

[1] The Ashford Park, Lake Cameron, and McNeil Ranch multifamily communities, which were acquired on January 23, 2013 from the Williams Multifamily Acquisition Fund, L.P., a Delaware Limited Partnership, are collectively referred to as the WMAF Acquisitions.

Acquisition and pursuit costs and acquisition fees to related parties

Acquisition and pursuit costs and acquisition fees consisted of:

	Twelve months ended December 31, 2015		
Amount (rounded to 000s):	Acquisition fees	Other acquisition costs	Total acquisition costs
Creekside and Citilakes	$1,196,000	$1,275,000	$2,471,000
Stone Creek and Lenox Portfolio	1,034,000	1,197,000	2,231,000
Lakewood, Aster Lely, CityPark	1,098,000	504,000	1,602,000
Houston Portfolio	760,000	356,000	1,116,000
Grocery anchored shopping centers	880,000	777,000	1,657,000
Other	—	77,000	77,000
Total	$4,968,000	$4,186,000	$9,154,000

	Twelve months ended December 31, 2014		
Amount (rounded to 000s):	Acquisition fees	Other acquisition costs	Total acquisition costs
Dunbar Portfolio	$1,817,000	$1,135,000	$2,952,000
Sunbelt Portfolio	1,184,000	258,000	1,442,000
Other retail acquisitions	713,000	1,964,000	2,677,000
Other	—	162,000	162,000
Total	$3,714,000	$3,519,000	$7,233,000

	Twelve months ended December 31, 2013		
Amount (rounded to 000s):	Acquisition fees	Other acquisition costs	Total acquisition costs
WMAF acquisitions	$908,000	$182,000	$1,090,000
Trail II and Summit II	259,000	115,000	374,000
Retail acquisitions	—	53,000	53,000
Other	—	12,000	12,000
Total	$1,167,000	$362,000	$1,529,000

Included in the acquisition fees recognized for the twelve months ended December 31, 2014 were $714,570 paid as a fee to Joel T. Murphy, which was earned prior to his appointment as a director and Chief Executive Officer of New Market Properties, LLC, a related party, related to the acquisition of nine grocery-anchored shopping centers. In addition, Mr. Murphy was paid a fee of $57,268 in connection with one grocery-anchored shopping center acquisition prior to becoming a director of the Company and the Chief Executive Officer of New Market Properties, LLC, which is included in other acquisition costs for other retail acquisitions. Acquisition fees paid to our Manager are calculated as 1% of the gross purchase price of the multifamily community, the retail asset, or of the principal amount of the real estate loan and are governed by the Management Agreement. These costs also include similar expenditures for services provided by third parties.

Asset management fees and general and administrative fees to related party

Monthly asset management fees are equal to one-twelfth of 0.50% of the total book value of assets, as adjusted. General and administrative expense fees are equal to 2% of the monthly gross revenues of the Company. Both are calculated as prescribed by the Management Agreement and are paid monthly to our Manager. These fees rose primarily due to the incremental assets and revenues brought on by acquisitions during 2015 and 2014, as shown in the following tables:

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Revenues:						
Dunbar Portfolio	$13,990,000	31.9	%	$4,854,000	39.4	%
Houston Portfolio	7,392,000	16.8	%	—	—	%
Sunbelt Portfolio and other retail assets	9,918,000	22.6	%	3,474,000	28.2	%
Lakewood Ranch, Aster at Lely, and CityPark View	7,053,000	16.1	%	—	—	%
Avenues at Creekside and Citi Lakes	4,196,000	9.6	%	—	—	%
Lenox Portfolio and Stone Creek	635,000	1.4	%	—	—	%
Other	731,000	1.6	%	3,978,000	32.4	%
Total	$43,915,000	100.0	%	$12,306,000	100.0	%

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Gross real estate assets:						
Dunbar Portfolio	$1,839,000	0.4	%	$178,295,000	61.1	%
Houston Portfolio	74,693,000	14.6	%	—	—	%
Sunbelt Portfolio and other retail assets	84,665,000	16.6	%	112,085,000	38.4	%
Lakewood Ranch, Aster at Lely, and CityPark View	130,353,000	25.5	%	—	—	%
Avenues at Creekside and Citi Lakes	117,494,000	23.0	%	—	—	%
Lenox Portfolio and Stone Creek	100,705,000	19.7	%	—	—	%
Other	1,061,000	0.2	%	1,647,000	0.5	%
Total	$510,810,000	100.0	%	$292,027,000	100.0	%

Insurance, professional fees and other expenses

The increase consisted of:

	Twelve months ended December 31,					
	2015 versus 2014 increase			2014 versus 2013 increase		
	Amount (rounded to 000s):	Percent of increase		Amount (rounded to 000s):	Percent of increase	
Insurance, professional fees, and other:						
Audit and tax fees	$147,000	8.8	%	$490,000	56.6	%
Insurance premiums	1,058,000	63.5	%	266,000	30.7	%
Legal fees and other	460,000	27.7	%	110,000	12.7	%
Total	$1,665,000	100.0	%	$866,000	100.0	%

Asset management and general and administrative expense fees deferred

The Manager may, in its discretion, defer some or all of the asset management, property management, or general and administrative expense fees for properties owned by us. Any contingent fees become due and payable to the extent that, in the event of any capital transaction, the net sale proceeds exceed the allocable capital contributions for the asset plus a 7% priority annual return on the asset. A cumulative total of approximately $2.1 million of combined asset management and general and administrative expense fees as of December 31, 2015 have been deferred by the Manager. We will recognize any contingent fees in future periods to the extent, if any, we determine that it is probable that the estimated net sale proceeds would exceed the hurdles listed above. As of December 31, 2015, there was insufficient evidence to support recognition of these contingent fees; therefore, we have not recognized any expense for the amounts deferred.

Interest expense

The increase consisted of:

	Twelve months ended December 31,			
	2015 versus 2014 increase (decrease)		2014 versus 2013 increase	
	Amount (rounded to 000s):	Percent of increase	Amount (rounded to 000s):	Percent of increase
Interest expense:				
Lakewood, Aster Lely, CityPark	$1,834,000	16.5 %	$—	— %
Creekside, Citilakes	783,000	7.0 %	—	— %
Stone Creek and Lenox Portfolio	145,000	1.3 %	—	— %
Dunbar Portfolio	3,174,000	28.5 %	1,179,000	25.1 %
Houston Portfolio	1,546,000	13.9 %	—	— %
Sunbelt Portfolio and other retail assets	2,626,000	23.6 %	854,000	18.2 %
Trail II and Summit II	—	— %	772,000	16.4 %
Line of Credit	(442,000)	(4.0)%	599,000	12.7 %
Term Note	(218,000)	(2.0)%	365,000	7.8 %
Loan participants	1,277,000	11.5 %	220,000	4.7 %
Other	403,000	3.6 %	711,000	15.1 %
	$11,128,000	100.0 %	$4,700,000	100.0 %

Loss on early extinguishment of debt

In conjunction with the acquisition of Trail II, on June 25, 2013, we refinanced the original variable rate mortgage on the first phase of the Trail Creek community with a new 4.22% fixed rate mortgage secured by the combined Trail Creek community in the amount of approximately $28.1 million. In doing so, we recorded a loss on early debt extinguishment, which consisted of a three percent prepayment penalty to the lender of $458,250 paid from the proceeds of the refinancing, and the non-cash writeoff of unamortized deferred loan costs of $146,087.

Funds From Operations Attributable to Common Stockholders and Unitholders (FFO)

Analysts, managers and investors have, since the first real estate investment trusts were created, made certain adjustments to reported net income amounts under U.S. GAAP in order to better assess these vehicles' liquidity and cash flows. FFO is one of the most commonly utilized Non-GAAP measures currently in practice. In its 2002 White Paper on Funds From Operations, which was most recently revised in 2012, the National Association of Real Estate Investment Trusts, or NAREIT, standardized the definition of how Net income/loss should be adjusted to arrive at FFO, in the interests of uniformity and comparability. The NAREIT definition of FFO (and the one reported by the Company) is:

Net income/loss:
• excluding impairment charges on and gains/losses from sales of depreciable property;
• plus depreciation and amortization of real estate assets and deferred leasing costs; and
• after adjustments for unconsolidated partnerships and joint ventures.

Not all companies necessarily utilize the standardized NAREIT definition of FFO, so caution should be taken in comparing the Company's reported FFO results to those of other companies. The Company's FFO results are comparable to the FFO results of other companies that follow the NAREIT definition of FFO and report these figures on that basis. The Company believes FFO is useful to investors as a supplemental gauge of our operating and cash-generating results. FFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders.

Normalized Funds From Operations Attributable to Common Stockholders and Unitholders (NFFO)

Normalized FFO makes certain adjustments to FFO, which are either not likely to occur on a regular basis or are otherwise not representative of the Company's ongoing operating performance. For example, since the Company is acquiring properties on a regular basis, it incurs substantial costs related to such acquisitions, which are required under GAAP to be recognized as expenses when they are incurred. The Company adds back any such acquisition and pursuit costs, including costs incurred in connection with obtaining short term debt financing for acquisitions to FFO in its calculation of NFFO since such costs are not representative of our fund generating results on an ongoing basis. The Company also adds back any realized losses on debt extinguishment and any non-cash dividends in this calculation. NFFO figures reported by us may not be comparable to those NFFO figures reported by other companies.

We utilize NFFO as a measure of the operating performance of our portfolio of real estate assets. We believe NFFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other real estate companies that are not as involved in ongoing acquisition activities. NFFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders.

Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders (AFFO)

AFFO makes further adjustments to NFFO results in order to arrive at a more refined measure of operating and financial performance. There is no industry standard definition of AFFO and practice is divergent across the industry. The Company calculates AFFO as:

NFFO, plus:
• non-cash equity compensation to directors and executives;
• amortization of loan closing costs, excluding costs incurred in connection with obtaining short term financing related to acquisitions;
• depreciation and amortization of non-real estate assets;
• net loan fees received; and
• deferred interest income received;

Less:
• non-cash loan interest income;
• cash paid for pursuit costs on abandoned acquisitions;
• cash paid for loan closing costs;
• amortization of acquired real estate intangible liabilities; and
• normally-recurring capital expenditures and capitalized retail direct leasing costs.

AFFO figures reported by us may not be comparable to those AFFO figures reported by other companies. We utilize AFFO as another measure of the operating performance of our portfolio of real estate assets. We believe AFFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other real estate companies. AFFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders.

FFO, NFFO, and AFFO are not considered measures of liquidity and are not alternatives to measures calculated under GAAP.

Reconciliation of Funds From Operations Attributable to Common Stockholders and Unitholders,
Normalized Funds From Operations Attributable to Common Stockholders and Unitholders, and
Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders
to Net (Loss) Income Attributable to Common Stockholders [(A)]

		Three months ended December 31,		
		2015	2014	2013
Net (loss) income attributable to common stockholders (See note 1)		$(6,756,775)	$(2,329,055)	$430,293
Add:	Income attributable to non-controlling interests (See note 2)	(4,609)	967	3,490
	Depreciation of real estate assets	8,545,481	4,874,763	2,046,170
	Amortization of acquired real estate intangible assets	3,058,298	2,633,101	514,411
Funds from operations attributable to common stockholders and Unitholders		4,842,395	5,179,776	2,994,364
Add:	Acquisition and pursuit costs	2,877,100	324,898	286,861
	Loan cost amortization on acquisition Term Note (See note 3)	—	173,684	—
Normalized funds from operations attributable to common stockholders and Unitholders		7,719,495	5,678,358	3,281,225
	Non-cash equity compensation to directors and executives	601,185	437,242	301,691
	Amortization of loan closing costs (See note 4)	404,315	276,526	140,921
	Depreciation/amortization of non-real estate assets	82,792	29,806	10,842
	Net loan fees received (See note 5)	348,317	86,383	431,181
	Deferred interest income received (See note 6)	130,072	241,192	530,086
Less:	Non-cash loan interest income (See note 5)	(3,328,607)	(1,940,194)	(1,492,886)
	Abandoned pursuit costs	—	(519)	—
	Cash paid for loan closing costs	(42,023)	—	(106,676)
	Amortization of acquired real estate intangible liabilities (See note 7)	(379,025)	(173,188)	(45,599)
	Normally recurring capital expenditures (See note 8)	(250,976)	(222,861)	(98,286)
		—		
Adjusted funds from operations attributable to common stockholders and Unitholders		$5,285,545	$4,412,745	$2,952,499
Common Stock dividends and distributions to Unitholders declared:				
	Common Stock dividends	$4,314,999	$3,697,436	$2,451,697
	Distributions to Unitholders (See note 2)	53,238	25,377	17,118
	Total	$4,368,237	$3,722,813	$2,468,815
Common Stock dividends and Unitholder distributions per share		$0.1925	$0.175	$0.16
FFO per weighted average basic share of Common Stock and Unit		$0.21	$0.25	$0.23
NFFO per weighted average basic share of Common Stock and Unit		$0.34	$0.28	$0.25
AFFO per weighted average basic share of Common Stock and Unit		$0.23	$0.22	$0.22
Weighted average shares of Common Stock and Units outstanding: [(A)]				
	Basic:			
	Common Stock	22,402,366	20,364,971	13,191,276

Class A Units	276,560	145,011	106,988
Common Stock and Class A Units	22,678,926	20,509,982	13,298,264
Diluted: (B)			
Common Stock and Class A Units	23,443,082	20,750,050	13,469,326
Actual shares of Common Stock outstanding, including 15,067, 39,216, and 29,016 unvested shares of restricted Common Stock at December 31, 2015, 2014 and 2013, respectively.	22,776,618	21,443,203	15,323,594
Actual Class A Units outstanding	276,560	145,011	106,988
Total	23,053,178	21,588,214	15,430,582

(A) Units and Unitholders refer to Class A Units in our Operating Partnership, or Class A Units, and holders of Class A Units, respectively. The Unitholders were granted awards of Class B Units in our Operating Partnership, or Class B Units, for annual service which became vested and earned and automatically converted to Class A Units. The Class A Units collectively represent an approximate 1.22% weighted average non-controlling interest in the Operating Partnership for the three-month period ended December 31, 2015.
(B) Since our NFFO and AFFO results are positive for the periods reflected above, we are presenting recalculated diluted weighted average shares of Common Stock and Class A Units for these periods for purposes of this table, which includes the dilutive effect of common stock equivalents from grants of the Class B Units, warrants included in units of Preferred Stock issued, as well as annual grants of restricted Common Stock. The weighted average shares of Common Stock outstanding presented on the Consolidated Statements of Operations are the same for basic and diluted for any period for which we recorded a net loss available to common stockholders.

Reconciliation of Funds From Operations Attributable to Common Stockholders and Unitholders, Normalized Funds From Operations Attributable to Common Stockholders and Unitholders, and Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders to Net Loss Attributable to Common Stockholders [A]

		Twelve months ended December 31,		
		2015	2014	2013
Net loss attributable to common stockholders (See note 1)		$(21,171,858)	$(5,312,921)	$(14,992,930)
Add:	Loss attributable to non-controlling interests (See note 2)	(25,321)	33,714	(222,404)
	Depreciation of real estate assets	27,497,386	12,181,439	7,781,306
	Amortization of acquired real estate intangible assets	10,401,698	4,065,141	7,400,948
Funds from operations attributable to common stockholders and Unitholders		16,701,905	10,967,373	(33,080)
Add:	Acquisition and pursuit costs	9,153,763	7,232,617	1,529,166
	Loan cost amortization on acquisition Term Note (See note 3)	96,658	173,684	—
	Prepayment penalty on early debt extinguishment (See note 9)	—	—	604,337
	Deemed non-cash dividend on Series B Preferred Stock	—	—	7,028,557
	Organization costs	—	—	—
Normalized funds from operations attributable to common stockholders and Unitholders		25,952,326	18,373,674	9,128,980
	Non-cash equity compensation to directors and executives	2,362,453	1,784,349	1,191,637
	Amortization of loan closing costs (See note 4)	1,377,618	831,375	567,780
	Depreciation/amortization of non-real estate assets	197,250	82,135	67,878
	Net loan fees received (See note 5)	1,387,109	484,674	1,136,230
	Deferred interest income received (See note 6)	3,380,451	1,555,710	814,321
Less:	Non-cash loan interest income (See note 5)	(9,924,973)	(7,202,831)	(3,823,023)
	Abandoned pursuit costs	(39,657)	(127,326)	—
	Cash paid for loan closing costs	(571,876)	(67,257)	(313,131)
	Amortization of acquired real estate intangible liabilities (See note 7)	(1,074,202)	(254,802)	(375,993)
	Normally recurring capital expenditures (See note 8)	(1,263,416)	(688,211)	(584,918)
		—		
Adjusted funds from operations attributable to common stockholders and Unitholders		$21,783,083	$14,771,490	$7,809,761
Common Stock dividends and distributions to Unitholders declared:				
	Common Stock dividends	$16,196,324	$11,747,328	$6,544,714
	Distributions to Unitholders (See note 2)	202,545	106,640	64,727
	Total	$16,398,869	$11,853,968	$6,609,441
Common Stock dividends and Unitholder distributions per share		$0.7275	$0.655	$0.605
FFO per weighted average basic share of Common Stock and Unit		$0.74	$0.63	$—
NFFO per weighted average basic share of Common Stock and Unit		$1.16	$1.05	$0.95

AFFO per weighted average basic share of Common Stock and Unit	$0.97	$0.84	$0.82
Weighted average shares of Common Stock and Units outstanding: (A)			
Basic:			
Common Stock	22,182,971	17,399,147	9,456,228
Class A Units	278,745	160,944	106,402
Common Stock and Class A Units	22,461,716	17,560,091	9,562,630
Diluted: (B)			
Common Stock and Class A Units	22,982,002	17,736,588	9,726,453
Actual shares of Common Stock outstanding, including 15,067, 39,216, and 29,016 unvested shares of restricted Common Stock at December 31, 2015, 2014 and 2013, respectively.	22,776,618	21,443,203	15,323,594
Actual Class A Units outstanding	276,560	145,011	106,988
Total	23,053,178	21,588,214	15,430,582

(A) Units and Unitholders refer to Class A Units in our Operating Partnership, or Class A Units, and holders of Class A Units, respectively. The Unitholders were granted awards of Class B Units in our Operating Partnership, or Class B Units, for annual service which became vested and earned and automatically converted to Class A Units. The Class A Units collectively represent an approximate 1.24% weighted average non-controlling interest in the Operating Partnership for the twelve-month period ended December 31, 2015.

(B) Since our NFFO and AFFO results are positive for the periods reflected above, we are presenting recalculated diluted weighted average shares of Common Stock and Class A Units for these periods for purposes of this table, which includes the dilutive effect of common stock equivalents from grants of the Class B Units, warrants included in units of Preferred Stock issued, as well as annual grants of restricted Common Stock. The weighted average shares of Common Stock outstanding presented on the Consolidated Statements of Operations are the same for basic and diluted for any period for which we recorded a net loss available to common stockholders.

Notes to Reconciliation of Funds From Operations Attributable to Common Stockholders and Unitholders, Normalized Funds From Operations Attributable to Common Stockholders and Unitholders, and Adjusted Funds From Operations Attributable to Common Stockholders and Unitholders to Net (Loss) Income Attributable to Common Stockholders

1) Rental and other property revenues and expenses for the twelve-month period ended December 31, 2015 include activity for the nine multifamily communities and four grocery-anchored shopping centers acquired during 2015 only from their respective dates of acquisition. Similarly, rental and other property revenues and expenses for the twelve-month period ended December 31, 2014 include activity for the four multifamily communities and ten grocery-anchored shopping centers acquired during 2014 only from their respective dates of acquisition.

2) Non-controlling interests in our Operating Partnership consisted of a total of 276,560 Class A Units as of December 31, 2015, which were awarded primarily to our key executive officers. The Class A Units are apportioned a percentage of our financial results as non-controlling interests. The weighted average ownership percentage of these holders of Class A Units was calculated to be 1.22%, 0.71% and 0.80% for the three-month periods ended December 31, 2015, 2014, and 2013 respectively and 1.24%, 0.92%, and 1.11% for the twelve-month periods ended December 31, 2015, 2014, and 2013 respectively.

3) We incurred loan closing costs for the acquisition of the Avenues at Northpointe and Avenues at Cypress multifamily communities in 2015 on our $32 million acquisition term loan facility with Key Bank National Association, or Term Loan. These costs were deferred and were being amortized over the life of the loan until it was repaid in full on May 12, 2015. Similarly, we incurred loan closing costs in 2014 on a $45 million Term Loan to partially finance the acquisitions of the Sunbelt and Dunbar portfolios in the third quarter 2014; this term loan was repaid in full on December 23, 2014. Since the amortization expense of these deferred costs is similar in character to acquisition costs, they are therefore an additive adjustment in the calculation of NFFO.

4) We incurred loan closing costs on our existing mortgage loans, which are secured on a property-by-property basis by each of our acquired multifamily communities and retail assets, and also for occasional amendments to our $70 million revolving line of credit with Key Bank National Association, or our Revolving Line of Credit. These loan closing costs are being amortized over the lives of the respective mortgage loans and the Revolving Line of Credit, and the non-cash amortization expense is an addition to NFFO in the calculation of AFFO. Neither we nor the Operating Partnership have any recourse liability in connection with any of the mortgage loans, nor do we have any cross-collateralization arrangements with respect to the assets securing the mortgage loans, other than security interests in 49% of the equity interests of the subsidiaries owning such assets, granted in connection with our Revolving Line of Credit, which provides for full recourse liability. At December 31, 2015, aggregate unamortized loan costs were approximately $8.6 million, which will be amortized over a weighted average remaining loan life of approximately 5.7 years.

5) We receive loan fees in conjunction with the origination of certain real estate loans. These fees are then recognized as revenue over the lives of the applicable loans as adjustments of yield using the effective interest method. The total fees received in excess of amortization income, after the payment of acquisition fees to Preferred Apartment Advisors, LLC, our Manager, are additive adjustments in the calculation of AFFO. Correspondingly, the non-cash income recognized under the effective interest method is a deduction in the calculation of AFFO. We also accrue over the lives of certain loans additional interest amounts that become due to us at the time of repayment of the loan or refinancing of the property, or when the property is sold to a third party. This non-cash income is deducted from NFFO in the calculation of AFFO.

6) The Company records deferred interest revenue on certain of its real estate loans. These adjustments reflect the receipt during the periods presented of interest income which was earned and accrued prior to those periods

presented on various real estate loans.

7) This adjustment reflects straight-line rent adjustments and the reversal of the non-cash amortization of below-market and above-market lease intangibles, which were recognized in conjunction with the Company's acquisitions and which are amortized over the estimated average remaining lease terms from the acquisition date for multifamily communities and over the remaining lease terms for retail assets. At December 31, 2015, the balance of unamortized below-market lease intangibles was approximately $9.3 million, which will be recognized over a weighted average remaining lease period of approximately 8.4 years.

8) We deduct from NFFO normally recurring capital expenditures that are necessary to maintain our assets' revenue streams in the calculation of AFFO. No adjustment is made in the calculation of AFFO for nonrecurring capital expenditures, which totaled $730,821, $575,883, and $239,948 for the three-month periods ended December 31, 2015, 2014, and 2013 respectively and $2,871,202, $1,391,570, and $733,143 for the twelve-month periods ended December 31, 2015, 2014, and 2013 respectively. This adjustment also deducts from NFFO capitalized amounts for third party costs during the period to originate or renew leases in our grocery-anchored shopping centers.

9) On June 25, 2013, we refinanced the mortgage on the first phase of the Trail Creek community concurrently with the acquisition of Trail II. In doing so, we recorded a loss on early debt extinguishment, which consisted of a three percent prepayment penalty to the lender of $458,250 paid from the proceeds of the refinancing, and the non-cash writeoff of unamortized deferred loan costs of $146,087.

10) We incurred legal costs pertaining to the negotiation of an extension of our management agreement with our Manager and reported these costs as an additive adjustment to FFO in our calculation of NFFO for the three-month period ended September 30, 2015. This adjustment was reversed for the twelve-month period ended December 31, 2015 since we did not complete an extension to our management agreement and we postponed further discussions until later in 2016.

Liquidity and Capital Resources

Short-Term Liquidity

We believe our principal short-term liquidity needs are to fund:

- operating expenses directly related to our portfolio of multifamily communities and grocery-anchored shopping centers (including regular maintenance items);
- capital expenditures incurred to lease our multifamily communities and grocery-anchored shopping centers;
- interest expense on our outstanding property level debt;
- amounts due on our Credit Facility;
- distributions that we pay to our preferred stockholders, common stockholders, and unitholders;
- cash redemptions that we may pay to our preferred stockholders, and
- committed investments.

We have a credit facility, or Credit Facility, with Key Bank National Association, or Key Bank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of Key Bank), working capital and other general corporate purposes on an as needed basis. The maximum borrowing capacity on the Revolving Line of Credit was $40.0 million until the amendment of the loan agreement pursuant to the Third Modification Agreement, which became effective July 1, 2014. The Third Modification Agreement increased our borrowing capacity on the Revolving Line of Credit from $40.0 million to $45.0 million and extended the maturity date to July 1, 2015. Once our operating real estate assets exceeded $300 million, the borrowing capacity was increased to $50.0 million.
On February 12, 2015, we extended the maturity of our Revolving Line of Credit to February 12, 2016 and amended the interest rate to LIBOR plus 3.25% per annum. On August 28, 2015, we entered into the Third Amended and Restated Credit Agreement, under which our borrowing capacity on the Revolving Line of Credit was increased to $70.0 million and the maturity date was extended to August 27, 2018.
Also on February 12, 2015, we entered into a $32.0 million term loan with Key Bank National Association under the Credit Facility, or the Term Loan, to partially finance the acquisition of two multifamily communities in Houston, Texas. The Term Loan accrued interest at a rate of LIBOR plus 4.0% per annum until it was repaid in full on May 12, 2015.

The 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 material financial covenants include minimum net worth and debt service coverage ratios and maximum leverage and dividend payout ratios. As of December 31, 2015, we were in compliance with all covenants related to the Amended and Restated Credit Agreement, as shown in the table below.

Covenant (1)	Requirement		Result
Net worth	Minimum $275,000,000	(2)	$525,453,790
Debt yield	Minimum 8.0%		8.69%
Payout ratio	Maximum 95%	(3)	80.1%
Total leverage ratio	Maximum 62.5%		56.7%
Debt service coverage ratio	Minimum 1.50x		2.65x

(1) All covenants are as defined in the credit agreement for the Revolving Line of Credit.

(2) Minimum $275 million, plus 75% of the net proceeds of any equity offering, which totaled approximately$373 million as of December 31, 2015.
(3)Calculated on a trailing four-quarter basis. For the twelve-month period ended December 31, 2015, the maximum dividends and distributions allowed under this covenant was approximately $41,675,000.

At December 31, 2015, we had a balance owed of $34.5 million under the Credit Facility. Interest expense on the Credit Facility was approximately $1.1 million (excluding deferred loan cost amortization of approximately $263,000) and the weighted average interest rate was 3.7% for the twelve-month period ended December 31, 2015.

Our net cash provided by operating activities for the twelve-month periods ended December 31, 2015, 2014 and 2013 was approximately $35.2 million, $15.4 million and $8.7 million, respectively. The increase in net cash provided by operating activities for 2015 compared to 2014 was primarily due to the incremental cash generated by property income provided by the Dunbar, Sunbelt and Houston Portfolios, the CityPark View, Aster at Lely and Lakewood Ranch acquisitions, and an increase in cash collections of interest income from our larger portfolio of real estate loans and notes. The increase in net cash provided by operating activities for 2014 compared to 2013 was primarily due to the incremental cash generated by property income provided by the Dunbar Portfolio, retail, and Trail II and Summit II acquisitions, and an increase in cash collections of interest income from our larger portfolio of real estate loans and notes.

The majority of our revenue is derived from residents and tenants under existing leases at our multifamily communities and retail shopping centers. Therefore, our operating cash flow is principally dependent on: (1) the number of multifamily communities and retail shopping centers in our portfolio; (2) rental rates; (3) occupancy rates; (4) operating expenses associated with these multifamily communities and retail projects; and (5) the ability of our residents and tenants to make their rental payments. We believe we are well positioned to take advantage of the recent improvements in real estate fundamentals, such as higher occupancy rates, positive new and renewal rates over expiring leases, a declining home ownership rate and a decline in turnover, which we believe are all positive developments in the real estate industry.

We also earn interest revenue from the issuance of real estate-related loans and may receive fees at the inception of these loans for committing and originating them. Interest revenue we receive on these loans is influenced by (1) market interest rates on similar loans; (2) the availability of credit from alternative financing sources; (3) the desire of borrowers to finance new real estate projects; and (4) unique characteristics attached to these loans, such as exclusive purchase options.

Our net cash used in investing activities was approximately $533.5 million, $356.4 million and $137.7 million for the twelve-month periods ended December 31, 2015, 2014, and 2013, respectively. Disbursements for property acquisitions rose from approximately $34.2 million in 2013 to approximately $299.5 million during 2014, and approximately $420.7 million in 2015, as our property acquisition activity increased substantially during 2014 and 2015. Cash disbursements for real estate loans and notes receivable which totaled approximately $110.1 million in 2013, dropped to approximately $81.6 million during 2014, and rose to approximately $152.0 million in 2015.

Cash used in investing activities is primarily driven by acquisitions and dispositions of multifamily properties and retail shopping centers and acquisitions and maturities or other dispositions of real estate loans and other real estate and real estate-related assets, and secondarily by capital expenditures related to our owned properties. We will seek to acquire more multifamily communities and retail shopping centers at costs that we expect will be accretive to our financial results. Capital expenditures may be nonrecurring and discretionary, as part of a strategic plan intended to increase a property’s value and corresponding revenue-generating power, or may be normally recurring and necessary to maintain the income streams and present value of a property. Certain capital expenditures may be budgeted and reserved for upon acquiring a property as initial expenditures necessary to bring a property up to our standards or to add features or amenities that we believe make the property a compelling value to prospective residents or tenants in its individual market. These budgeted nonrecurring capital expenditures in connection with an acquisition are funded from the capital source(s) for the acquisition and are not dependent upon subsequent property operational cash flows for funding.

63

For the twelve-month period ended December 31, 2015, our capital expenditures, not including changes in related payables were:

	Nonrecurring capital expenditures			Recurring	
	Budgeted at acquisition	Other	Total	capital expenditures	Total
Multifamily:					
Summit Crossing	$—	$50,634	$50,634	$126,180	$176,814
Trail Creek	—	95,205	95,205	109,610	204,815
Stone Rise	—	32,966	32,966	88,573	121,539
Ashford Park	—	212,491	212,491	155,411	367,902
McNeil Ranch	—	7,993	7,993	62,969	70,962
Lake Cameron	—	72,714	72,714	109,030	181,744
Stoneridge	118,510	19,680	138,190	133,996	272,186
Vineyards	63,988	8,230	72,218	83,895	156,113
Enclave	39,685	14,258	53,943	97,234	151,177
Sandstone	709,523	6,491	716,014	124,467	840,481
Cypress	45,675	11,614	57,289	19,724	77,013
Northpointe	77,907	8,837	86,744	17,803	104,547
Lakewood Ranch	119,222	19,251	138,473	1,516	139,989
Aster at Lely	—	6,150	6,150	23,122	29,272
CityPark View	—	—	—	9,854	9,854
Avenues at Creekside	19,576	—	19,576	39,389	58,965
Citilakes	22,347	734	23,081	—	23,081
Stone Creek	70,186	—	70,186	4,890	75,076
	1,286,619	567,248	1,853,867	1,207,663	3,061,530
Retail:					
Woodstock	264,930	28,803	293,733	736	294,469
Parkway Town Centre	319,121	—	319,121	4,704	323,825
Spring Hill Plaza	30,040	3,800	33,840	—	33,840
Deltona Landings	—	—	—	1,409	1,409
Salem Cove	29,820	—	29,820	—	29,820
Kingwood Glen	326,207	7,307	333,514	27,899	361,413
Powder Springs	—	—	—	8,371	8,371
Sweetgrass	—	—	—	98	98
Independence Square	—	7,307	7,307	5,015	12,322
Royal Lakes	—	—	—	7,521	7,521
	970,118	47,217	1,017,335	55,753	1,073,088
	$2,256,737	$614,465	$2,871,202	$1,263,416	$4,134,618

For the twelve-month period ended December 31, 2014, our capital expenditures, not including changes in related payables were:

	Nonrecurring capital expenditures			Recurring capital expenditures	Total
	Budgeted at acquisition	Other	Total		
Summit Crossing	$—	$216,412	$216,412	$101,007	$317,419
Trail Creek	—	180,129	180,129	97,600	277,729
Stone Rise	—	51,443	51,443	66,494	117,937
Ashford Park	23,483	433,375	456,858	136,462	593,320
McNeil Ranch	35,026	27,233	62,259	72,683	134,942
Lake Cameron	29,053	83,011	112,064	98,054	210,118
Stoneridge	22,047	—	22,047	29,282	51,329
Vineyards	22,177	—	22,177	22,235	44,412
Enclave	22,177	812	22,989	30,283	53,272
Sandstone	22,220	1,022	23,242	34,111	57,353
Woodstock Crossing	221,950	—	221,950	—	221,950
Total	$398,133	$993,437	$1,391,570	$688,211	$2,079,781

Net cash provided by financing activities was approximately $497.6 million, $334.9 million and $135.2 million for the twelve-month periods ended December 31, 2015, 2014 and 2013, respectively. During the 2015 period, our significant financing cash sources were approximately $256.9 million of net proceeds from the mortgage financing transactions and approximately $264.5 million of net proceeds from our Follow-on Offering. During the 2014 period, our significant financing cash sources were the receipt of approximately $227.6 million in net proceeds from the mortgage financing transactions related to our property acquisitions, $93.7 million of net proceeds from our Follow-on Offering, proceeds from our Term Loan of $44.25 million, and net proceeds from our At-the-Market offering of approximately $49.0 million. During the 2013 period, our significant financing cash flows included the receipt of approximately $63.2 million of proceeds from our Unit offering, $37.0 million from the placement of our Series B Preferred Stock, and approximately $30.7 million in proceeds from the sale of Common Stock during November 2013.

Distributions

In order to maintain our status as a REIT for U.S. federal income tax purposes, we must comply with a number of organizational and operating requirements, including a requirement to distribute 90% of our 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 our stockholders. As a REIT, we generally will not be subject to federal income taxes on the taxable income we distribute to our stockholders. Generally, our objective is to meet our short-term liquidity requirement of funding the payment of our quarterly Common Stock dividends, as well as monthly dividends to holders of our Preferred Stock, through net cash generated from operating results.

For the twelve-month periods ended December 31, 2015 and 2014, our aggregate dividends and distributions paid totaled approximately $33.1 million and $17.5 million, respectively. Excluding the impact of approximately $7.2 million of acquisition costs incurred for the 2014 period, our cash flows from operating activities were sufficient to fund our cash dividend distributions for those respective periods. We expect our cash flow from operations for future periods to be sufficient to fund both our quarterly Common Stock dividends and our monthly Preferred Stock dividends, with the possible exceptions of periods in which we incur significant acquisition costs, or periods of significant debt extinguishment charges.

Our Preferred Stock dividend activity consisted of:

2015			2014		
Record date	Number of shares	Aggregate dividends declared	Record date	Number of shares	Aggregate dividends declared
January 30, 2015	192,607	$984,217	January 31, 2014	89,313	$454,344
February 27, 2015	206,007	1,047,189	February 28, 2014	93,005	468,337
March 31, 2015	223,699	1,141,491	March 31, 2014	98,200	497,855
April 30, 2015	243,570	1,244,249	April 30, 2014	101,436	510,905
May 29, 2015	267,273	1,366,207	May 30, 2014	105,630	533,800
June 30, 2015	288,392	1,480,101	June 30, 2014	109,865	556,074
July 31, 2015	311,944	1,588,310	July 31, 2014	115,114	583,110
August 31, 2015	334,013	1,701,019	August 29, 2014	123,334	626,595
September 30, 2015	358,687	1,824,796	September 30, 2014	135,109	693,812
October 30, 2015	384,085	1,955,840	October 31, 2014	146,145	744,271
November 30, 2015	417,895	2,138,764	November 30, 2014	159,325	812,608
December 31, 2015	446,165	2,279,751	December 31, 2014	175,024	900,609
	Total	$18,751,934			$7,382,320

Our board of directors reviews the Preferred Stock dividend monthly to determine whether we have funds legally available for payment of such dividends in cash, and there can be no assurance that the Preferred Stock dividends will consistently be paid in cash. Dividends may be paid as a combination of cash and stock in order to satisfy the annual distribution requirements applicable to REITs. We expect the aggregate dollar amount of monthly Preferred Stock dividend payments to increase at a rate that approximates the rate at which we issue new Units from our Follow-On Offering.

Our Common Stock dividend activity consisted of:

2015				2014			
Record date	Number of shares	Dividend per share	Aggregate dividends paid	Record date	Number of shares	Dividend per share	Aggregate dividends paid
March 13, 2015	22,004,309	$0.175	$3,850,754	March 14, 2014	15,336,059	$0.16	$2,453,769
June 15, 2015	22,290,677	0.18	4,012,322	June 16, 2014	16,613,827	0.16	2,658,212
September 15, 2015	22,323,604	0.18	4,018,249	September 15, 2014	18,361,942	0.16	2,937,911
December 15, 2015	22,415,578	0.1925	4,314,999	December 15, 2014	21,128,203	0.175	3,697,436
Total		$0.7275	$16,196,324			$0.655	11,747,328

Our quarterly Common Stock dividend declaration on November 5, 2015 of $0.1925 per share represented an overall increase of 54% from our initial Common Stock dividend per share of $0.125 following our IPO, or an annualized dividend growth rate of approximately 12.1%. Our board of directors reviews the proposed Common Stock dividend declarations quarterly, and there can be no assurance that the current dividend level will be maintained.

We believe that our short-term liquidity needs are and will continue to be adequately funded.

Long-Term Liquidity Needs

We believe our principal long-term liquidity needs are to fund:

- the principal amount of our long-term debt as it becomes due or matures;
- capital expenditures needed for our multifamily communities and retail shopping centers;
- costs associated with current and future capital raising activities;
- costs to acquire additional multifamily communities, retail assets or other real estate and enter into new and fund existing lending opportunities; and
- our minimum distributions necessary to maintain our REIT status.

We intend to finance our future investments with the net proceeds from additional issuances of our securities, including our Follow-on Offering, Common Stock, and units of limited partnership interest in our Operating Partnership, and/or borrowings. The success of our acquisition strategy may depend, in part, on our ability to access further capital through issuances of additional securities, especially our Follow-on Offering. See below for details regarding our Follow-on Offering of 900,000 Units. If we are unsuccessful in raising additional funds, we may not be able to obtain any assets in addition to those we have acquired.

On November 18, 2011, the SEC declared effective our registration statement on Form S-11 (registration number 333-176604), or the Registration Statement, for our Primary Series A Offering. The price per Unit is $1,000. The Preferred Stock ranks senior to the Common Stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution and winding up. Holders of the Preferred Stock are entitled to receive, when and as authorized by our board of directors and declared by us out of legally available funds, cumulative cash dividends on each share of Preferred Stock at an annual rate of six percent (6%) of the Stated Value, which is $1,000. Dividends on each share of Preferred Stock will begin accruing on the date of issuance. On June 26, 2014, we amended the redemption schedule of the Preferred Stock to allow 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 redemptions are entitled to any accrued but unpaid dividends. 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 $9.00 per share. The current market price per share is determined using the volume weighted average closing market price for the 20 trading days prior to the date of issuance of the Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance.

On October 11, 2013, the SEC declared effective our Follow-On Offering Registration Statement for an offering of up to an additional 900,000 Units to be offered from time to time on a “reasonable best efforts” basis. Except as described in the prospectus for the Follow-On Offering, the terms of the Follow-On Offering are substantially similar to the terms of the Primary Series A Offering. As of December 31, 2015, we had issued an aggregate of 486,182 Units from our Primary Series A Offering and Follow-On Offering. Subsequent to the expiration of our Primary Series A Offering on December 31, 2013, there were 503,226 Units available to be issued from our Follow-on Offering.

Aggregate offering expenses, including selling commissions and dealer manager fees, will be capped at 11.5% of the aggregate gross proceeds of the Primary Series A Offering and the Follow-On Offering, of which we will reimburse our Manager up to 1.5% of the gross proceeds of these offerings for all organization and offering expenses incurred, excluding selling commissions and dealer manager fees; however, upon approval by the conflicts committee of our board of directors, we may reimburse our Manager for any such expenses incurred above the 1.5% amount as permitted by the Financial Industry Regulatory Authority.

Pursuant to FINRA Rule 2310(b)(5), which will become effective April 11, 2016, and as described in Regulatory Notice 15-02, we have prepared for our stockholders an estimate of the per share value of our Preferred Stock. We have determined the estimated value of our Preferred Stock is $1,000 per share. Our estimated value was determined with the material assistance of a third party valuation expert. The details of the methodology we used to determine estimated value may be found on a schedule attached to this Annual Report on Form 10-K as Exhibit 99.1.

On May 17, 2013, we filed our Shelf Registration Statement, which was declared effective by the SEC on July 19, 2013. The Shelf Registration Statement allows us to offer equity or debt securities in an amount of up to $200 million. In November 2013, we sold approximately 4.2 million shares of Common Stock via a public offering under the Shelf Registration Statement and collected net proceeds of approximately $30.7 million, which was used to pay off the balance of our Revolving Line of Credit and for other general corporate purposes.

On February 28, 2014, we filed a prospectus supplement to our Shelf Registration Statement to issue and sell up to $100 million of our Common Stock from time to time pursuant to the ATM Offering. As of December 31, 2015, we had cumulatively issued approximately 6.5 million shares of Common Stock at an average price of $8.62 per share pursuant to the ATM Offering, resulting in net proceeds of approximately $54.4 million, after deducting commissions.

Our ability to raise funds through the issuance of our securities is dependent on, among other things, general market conditions for REIT's, market perceptions about us, and the current trading price of our Common Stock. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but the equity and credit markets may not consistently be available on terms that are attractive to us or at all.

The sources to fulfill our long-term liquidity in the future may include borrowings from a number of sources, including repurchase agreements, securitizations, resecuritizations, warehouse facilities and credit facilities (including term loans and revolving facilities), in addition to our Revolving Credit Facility. We have utilized, and we intend to continue to utilize, leverage in making our investments in multifamily communities and retail shopping centers. The number of different multifamily communities, retail shopping centers and other investments we will acquire will be affected by numerous factors, including the amount of funds available to us. By operating on a leveraged basis, we will have more funds available for our investments. This will allow us to make more investments than would otherwise be possible, resulting in a larger and more diversified portfolio.

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the fair market value of our tangible assets (including our real estate assets, real estate loans, notes receivable, accounts receivable and cash and cash equivalents) on a portfolio basis. As of December 31, 2015, our outstanding debt (both secured and unsecured) was approximately 50.8% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 2015. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. Our investment guidelines, which can be amended by our board without stockholder approval, limit our borrowings (secured and unsecured) to 75% of the cost of our tangible assets at the time of any new borrowing. These targets, however, will not apply to individual real estate assets or investments. The amount of leverage we will place on particular investments will depend on our Manager's assessment of a variety of factors which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in the portfolio, the availability and cost of financing the asset, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and the health of the commercial real estate market in general. In addition, factors such as our outlook on interest rates, changes in the yield curve slope, the level and volatility of interest rates and their associated credit spreads, the underlying collateral of our assets and our outlook on credit spreads relative to our outlook on interest rate and economic performance could all impact our decision and strategy for financing the target assets. At the date of acquisition of each asset, we anticipate that the investment cost for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. Finally, we intend to acquire all our real estate assets through separate single purpose entities and we intend to finance each of these assets using debt financing techniques for that asset alone without any cross-collateralization to our other real estate assets or any guarantees by us or our Operating Partnership. We intend to have no long-term unsecured debt at the Company or Operating Partnership levels, except for our Revolving Line of Credit.

Our secured and unsecured aggregate borrowings are intended by us to be reasonable in relation to our tangible assets and will be reviewed by our board of directors at least quarterly. In determining whether our borrowings are reasonable in relation to our tangible assets, we expect that our board of directors will consider many factors, including without limitation the lending standards of government-sponsored enterprises, such as Fannie Mae and Freddie Mac, for loans in connection with the financing of multifamily properties, the leverage ratios of publicly traded and non-traded REITs with similar investment strategies, and general market conditions. There is no limitation on the amount that we may borrow for any single investment.

Our ability to incur additional debt is dependent on a number of factors, including our credit ratings (if any), the value of our assets, our degree of leverage and borrowing restrictions imposed by lenders. We will continue to monitor the debt markets, including Fannie Mae and/or Freddie Mac (from both of whom we have obtained single asset secured financing on all of our multifamily communities), and as market conditions permit, access borrowings that are advantageous to us.

If we are unable to obtain financing on favorable terms or at all, we may have to curtail our investment activities, including acquisitions and improvements to real properties, which could limit our growth prospects. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise capital by issuing more securities or borrowing more money. We may be forced to dispose of assets at inopportune times in order to maintain our REIT qualification and Investment Company Act exemption. Our ability to generate cash from asset sales is limited by market conditions and certain rules applicable to REITs. We may not be able to sell a property or properties as quickly as we would like or on terms as favorable as we would like.

Furthermore, if interest rates or other factors at the time of financing result in higher costs of financing, then the interest expense relating to that financed indebtedness would be higher. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could adversely affect our transaction and development activity, financial condition, results of operations, cash flow, our ability to pay principal and interest on our debt and our ability to pay distributions to our stockholders. Finally, sellers may be less inclined to offer to sell to us if they believe we may be unable to obtain financing.

As of December 31, 2015, we had long term mortgage indebtedness of approximately $696.9 million, all of which was incurred by us in connection with the acquisition or refinancing of our multifamily communities and grocery-anchored shopping centers.

As of December 31, 2015, we had approximately $2.4 million in unrestricted cash and cash equivalents available to meet our short-term and long-term liquidity needs. We believe that our long-term liquidity needs are and will continue to be adequately funded through the sources discussed above.

Off-Balance Sheet Arrangements

As of December 31, 2015, we had 457,059 outstanding Warrants from our sales of Units. The Warrants are 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 $9.00 per share. The current market price per share is determined using the volume weighted average closing market price for the 20 trading days prior to the date of issuance of the Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance. As of December 31, 2015, a total of 29,123 Warrants had been exercised into 582,460 shares of Common stock and a remaining 164,211 Warrants had passed the initial exercise date and so became potentially exercisable into a total of 3,284,220 shares of Common Stock. The remainder of the Warrants outstanding at December 31, 2015 become potentially exercisable between January 15, 2016 and December 30, 2016 and have exercise prices that range between $10.87 and $15.05 per share. If all the Warrants outstanding at December 31, 2015 became exercisable and were exercised, gross proceeds to us would be approximately $109.8 million and we would as a result issue an additional 9,141,180 shares of Common Stock.

Contractual Obligations

As of December 31, 2015, our contractual obligations consisted of the mortgage notes secured by our acquired properties and the Revolving Credit Facility. Based on the London Interbank Offered Rate, or LIBOR, being charged at December 31, 2015 of 0.43%, our estimated future required payments on these instruments were:

	Total	Less than one year	1-3 years	3-5 years	More than five years
Mortgage debt obligations:					
Interest	$134,640,431	$23,896,041	$46,020,611	$33,572,786	$31,150,993
Principal	696,945,291	8,791,656	43,315,796	289,183,828	355,654,011
Line of Credit:					
Interest	77,867	77,867	—	—	—
Principal	34,500,000	34,500,000	—	—	—
Total	$866,163,589	$67,265,564	$89,336,407	$322,756,614	$386,805,004

In addition, we had unfunded real estate loan balances totaling approximately $43.5 million at December 31, 2015.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk. All our floating-rate debt is tied to the 30-day LIBOR. As of December 31, 2015, we have three variable rate mortgages, on our Avenues at Creekside, Citi Lakes and Royal Lakes properties, with a principal amount of approximately $95.7 million. Two of these mortgages have LIBOR effectively capped at 5.0% and 4.33% (all-in rates of 6.6% and 6.5%) under Freddie Mac's capped adjustable-rate mortgage program. The Royal Lakes mortgage of $9.8 million is uncapped. Our Revolving Line of Credit accrued interest at a spread over LIBOR of 3.25% as of December 31, 2015; this combined rate is uncapped. Because of the short term nature of this instrument, we believe our interest rate risk is minimal. We have no business operations which subject us to trading risk.

We have and will continue to manage interest rate risk as follows:

- maintain a reasonable ratio of fixed-rate, long-term debt to total debt so that floating-rate exposure is kept at an acceptable level;
- place interest rate caps on floating-rate debt where appropriate; and

- take advantage of favorable market conditions for long-term debt and/or equity financings.

We use various financial models and advisors to achieve our objectives.

If interest rates under our floating-rate LIBOR-based indebtedness fluctuated by 100 basis points, our interest costs, based on outstanding borrowings at December 31, 2015, would increase by approximately $934,000 on an annualized basis, or decrease by approximately $400,500 on an annualized basis. The difference between the interest expense amounts related to an increase or decrease in our floating-rate interest cost is because LIBOR was 0.43% at December 31, 2015, therefore we have limited the estimate of how much our interest costs may decrease because we use a floor of 0% for LIBOR.

Item 8. Financial Statements and Supplementary Data

The following documents are located in Part IV, Item 15 of this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Operations for the twelve months ended December 31, 2015, 2014, and 2013

Consolidated Statements of Stockholders' Equity for the twelve months ended December 31, 2015, 2014, and 2013

Consolidated Statements of Cash Flows for the twelve months ended December 31, 2015, 2014 and 2013

Notes to Consolidated Financial Statements

Schedule III- Real Estate Investments and Accumulated Depreciation as of December 31, 2015

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934 (Exchange Act) as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and/or the board of directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria described in Internal Control - Integrated Framework

(2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded the Company’s internal control over financial reporting was effective as of December 31, 2015.
The effectiveness of the Company’s internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report included in this Annual Report on Form 10-K.

Evaluation of disclosure controls and procedures.

Management of the Company evaluated, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Accounting Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of December 31, 2015, the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Accounting Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and such information is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosures.
Changes in internal control over financial reporting.

As required by the Exchange Act Rule 13a-15(d), the Company's Chief Executive Officer and Chief Accounting Officer evaluated the Company's internal control over financial reporting to determine whether any change occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during such period.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item regarding our directors and officers is incorporated herein by reference to our proxy statement, or our 2016 Proxy Statement, to be filed with the SEC with regard to our 2016 Annual Meeting of Shareholders.

Item 11. Executive Compensation

Information required by this item regarding our officers is incorporated herein by reference to our 2016 Proxy Statement to be filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item regarding our officers is incorporated herein by reference to our 2016 Proxy Statement to be filed with the SEC.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this item regarding our officers and directors is incorporated herein by reference to our 2016 Proxy Statement to be filed with the SEC.

Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated herein by reference to our 2016 Proxy Statement to be filed with the SEC.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

(a)(2) Financial Statement Schedules

(a)(3) Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as a part of this report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Preferred Apartment Communities, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Preferred Apartment Communities, Inc. and its subsidiaries (the "Company") at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 14, 2016

Preferred Apartment Communities, Inc.
Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
Assets		
Real estate		
Land	$145,929,264	$79,272,457
Building and improvements	764,298,467	377,030,987
Tenant improvements	5,781,199	3,240,784
Furniture, fixtures, and equipment	90,667,257	36,864,668
Construction in progress	609,399	66,647
Gross real estate	1,007,285,586	496,475,543
Less: accumulated depreciation	(53,994,666)	(26,388,066)
Net real estate	953,290,920	470,087,477
Real estate loans, net of deferred fee income ($0 and $20,313,722 carried at fair value)	180,688,293	128,306,697
Real estate loans to related parties, net	57,313,465	24,924,976
Total real estate and real estate loans, net	1,191,292,678	623,319,150
Cash and cash equivalents	2,439,605	3,113,270
Restricted cash	12,539,440	4,707,865
Notes receivable	18,489,247	14,543,638
Note receivable and revolving line of credit from related party	19,454,486	14,153,922
Accrued interest receivable on real estate loans	14,294,648	8,038,447
Acquired intangible assets, net of amortization of $27,032,157 and $17,030,176	19,381,473	12,702,980
Deferred loan costs, net of amortization of $791,002 and $808,522	488,770	79,563
Deferred offering costs	5,834,304	6,333,763
Tenant receivables (net of allowance of $434,773 and $103,452) and other assets	11,314,382	4,390,309
Total assets	$1,295,529,033	$691,382,907
Liabilities and equity		
Liabilities		
Mortgage notes payable, principal amount	$696,945,291	$354,418,668
Less: deferred loan costs, net of amortization of $2,021,696 and $810,336	(8,099,517)	(5,027,505)
Mortgage notes payable, net of deferred loan costs	688,845,774	349,391,163
Revolving line of credit	34,500,000	24,500,000
Real estate loan participation obligation	13,544,160	7,990,798
Accounts payable and accrued expenses	12,644,818	4,941,703
Accrued interest payable	1,803,389	1,116,750
Dividends and partnership distributions payable	6,647,507	4,623,246
Acquired below market lease intangibles, net of amortization of $1,578,205 and $660,259	9,253,450	5,935,931
Security deposits and other liabilities	2,836,145	1,301,442
Total liabilities	770,075,243	399,801,033

Commitments and contingencies (Note 12)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, $0.01 par value per share; 1,050,000 shares authorized; 486,182 and 193,334 shares issued; 482,964 and 192,846 shares outstanding at December 31, 2015 and 2014, respectively	4,830	1,928
Common Stock, $0.01 par value per share; 400,066,666 shares authorized; 22,761,551 and 21,403,987 shares issued and outstanding at December 31, 2015 and 2014, respectively	227,616	214,039
Additional paid in capital	536,450,877	300,576,349
Accumulated deficit	(13,698,520)	(11,297,852)
Total stockholders' equity	522,984,803	289,494,464
Non-controlling interest	2,468,987	2,087,410
Total equity	525,453,790	291,581,874
Total liabilities and equity	$1,295,529,033	$691,382,907

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Operations

	Year ended December 31,		
	2015	2014	2013
Revenues:			
Rental revenues	$69,128,280	$30,762,423	$20,165,064
Other property revenues	9,495,522	3,946,222	2,237,759
Interest income on loans and notes receivable	23,207,610	18,531,899	9,214,039
Interest income from related parties	7,474,100	3,295,826	516,629
Total revenues	109,305,512	56,536,370	32,133,491
Operating expenses:			
Property operating and maintenance	10,878,872	4,887,903	3,286,590
Property salary and benefits reimbursement to related party	5,885,242	2,882,283	2,186,981
Property management fees (including $2,608,364, $1,237,387 and $833,016 to related parties)	3,014,801	1,347,502	883,016
Real estate taxes	9,934,412	3,587,287	2,279,109
General and administrative	2,285,789	1,051,849	617,433
Equity compensation to directors and executives	2,362,453	1,784,349	1,191,637
Depreciation and amortization	38,096,334	16,328,715	15,250,130
Acquisition and pursuit costs (including $189,115, $173,578 and $21,754 to related party)	4,186,092	3,518,540	362,113
Acquisition fees to related parties	4,967,671	3,714,077	1,167,053
Asset management fees to related party	7,041,226	3,546,987	1,983,999
Insurance, professional fees and other expenses	3,568,356	1,903,833	1,038,233
Total operating expenses	92,221,248	44,553,325	30,246,294
Asset management and general and administrative expense fees deferred	(1,805,478)	(332,345)	—
Net operating expenses	90,415,770	44,220,980	30,246,294
Operating income	18,889,742	12,315,390	1,887,197
Interest expense	21,315,731	10,188,187	5,488,352
Loss on early extinguishment of debt	—	—	604,337
Net (loss) income	(2,425,989)	2,127,203	(4,205,492)
Consolidated net loss (income) attributable to non-controlling interests	25,321	(33,714)	222,404
Net income (loss) income attributable to the Company	(2,400,668)	2,093,489	(3,983,088)
Dividends declared to Series A preferred stockholders	(18,751,934)	(7,382,320)	(3,272,670)
Dividends declared to Series B preferred stockholders	—	—	(690,476)
Deemed non-cash dividend to holders of Series B Preferred Stock	—	—	(7,028,557)
Earnings attributable to unvested restricted stock	(19,256)	(24,090)	(18,139)

Net loss attributable to common stockholders	$(21,171,858)	$(5,312,921)	$(14,992,930)
Net loss per share of Common Stock available to common stockholders, basic and diluted	$(0.95)	$(0.31)	$(1.59)
Weighted average number of shares of Common Stock outstanding:			
Basic and diluted	22,182,971	17,399,147	9,456,228

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2013, 2014 and 2015

	Series A Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated (Deficit)	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at December 31, 2012	$198	$52,885	$59,412,744	$(9,408,253)	$50,057,574	$1	$50,057,575
Issuance of Units	695	—	68,644,568	—	68,645,263	—	68,645,263
Syndication and offering costs	—	—	(11,979,453)	—	(11,979,453)	—	(11,979,453)
Equity compensation to executives and directors	—	54	1,191,583	—	1,191,637	—	1,191,637
Vesting of restricted stock	—	330	(330)	—	—	—	—
Vesting of Class B Units and conversion to Class A Units	—	—	(520,837)	—	(520,837)	520,837	—
Conversion of Class A Units to Common Stock	—	61	40,935	—	40,996	(40,996)	—
Current period amortization of Class B Units	—	—	(888,104)	—	(888,104)	888,104	—
Conversion of Series B Preferred Stock to Common Stock	—	57,143	39,942,857	—	40,000,000	—	40,000,000
Issuance of Common Stock	—	42,472	32,873,305	—	32,915,777	—	32,915,777
Net loss	—	—	—	(3,983,088)	(3,983,088)	(222,404)	(4,205,492)
Reallocation adjustment to non-controlling interests	—	—	(384,688)	—	(384,688)	384,688	—
Distributions to non-controlling interests	—	—	—	—	—	(64,728)	(64,728)
Dividends to series A preferred stockholders	—	—	(3,272,670)	—	(3,272,670)	—	(3,272,670)

($5.00 per share per month)							
Dividends to series B preferred stockholders ($17.26 per share)	—	—	(690,476)	—	(690,476)	—	(690,476)
Dividends to common stockholders ($0.605 per share)	—	—	(6,544,714)	—	(6,544,714)	—	(6,544,714)
Balance at December 31, 2013	$893	$152,945	$177,824,720	$(13,391,341)	$164,587,217	$1,465,502	$166,052,719
Issuance of Units	1,039	—	103,891,596	—	103,892,635	—	103,892,635
Redemptions of Series A Preferred Stock	(4)	331	(105,468)	—	(105,141)	—	(105,141)
Issuance of Common Stock	—	59,373	50,328,560	—	50,387,933	—	50,387,933
Syndication and offering costs	—	—	(13,321,535)	—	(13,321,535)	—	(13,321,535)
Equity compensation to executives and directors	—	57	348,207	—	348,264	—	348,264
Vesting of restricted stock	—	293	(293)	—	—	—	—
Conversion of Class A Units to Common Stock	—	1,040	565,158	—	566,198	(566,198)	—
Current period amortization of Class B Units	—	—	—	—	—	1,436,085	1,436,085
Net income	—	—	—	2,093,489	2,093,489	33,714	2,127,203
Reallocation adjustment to non-controlling interests	—	—	175,052	—	175,052	(175,052)	—
Distributions to non-controlling interests	—	—	—	—	—	(106,641)	(106,641)
Dividends to series A preferred stockholders ($5.00 per share per month)	—	—	(7,382,320)	—	(7,382,320)	—	(7,382,320)
Dividends to common stockholders ($0.655 per share)	—	—	(11,747,328)	—	(11,747,328)	—	(11,747,328)
Balance at December 31, 2014	$1,928	$214,039	$300,576,349	$(11,297,852)	$289,494,464	$2,087,410	$291,581,874

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity, continued
For the years ended December 31, 2013, 2014 and 2015

	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, 2015	$1,928	$214,039	$300,576,349	$(11,297,852)	$289,494,464	$2,087,410	$291,581,874
Issuance of Units	2,929	—	292,681,380	—	292,684,309	—	292,684,309
Redemptions of Series A Preferred Stock	(27)	599	(1,899,616)	—	(1,899,044)	—	(1,899,044)
Issuance of Common Stock	—	5,479	5,487,829	—	5,493,308	—	5,493,308
Exercises of warrants	—	5,825	6,165,219	—	6,171,044	—	6,171,044
Syndication and offering costs	—	—	(33,363,362)	—	(33,363,362)	—	(33,363,362)
Equity compensation to executives and directors	—	51	374,525	—	374,576	—	374,576
Vesting of restricted stock	—	543	(543)	—	—	—	—
Conversion of Class A Units to Common Stock	—	1,080	717,582	—	718,662	(718,662)	—
Current period amortization of Class B Units	—	—	—	—	—	1,987,877	1,987,877
Net loss	—	—	—	(2,400,668)	(2,400,668)	(25,321)	(2,425,989)
Reallocation adjustment to non-controlling interests	—	—	659,772	—	659,772	(659,772)	—
Distributions to non-controlling interests	—	—	—	—	—	(202,545)	(202,545)
Dividends to series A preferred stockholders ($5.00 per share per month)	—	—	(18,751,934)	—	(18,751,934)	—	(18,751,934)
Dividends to common	—	—	(16,196,324)	—	(16,196,324)	—	(16,196,324)

stockholders ($0.7275 per share)							
Balance at December 31, 2015	$4,830	$227,616	$536,450,877	$(13,698,520)	$522,984,803	$2,468,987	$525,453,790

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

F- 4

Preferred Apartment Communities, Inc.
Consolidated Statements of Cash Flows

	Year ended December 31,		
	2015	2014	2013
Operating activities:			
Net (loss) income	$(2,425,989)	$2,127,203	$(4,205,492)
Reconciliation of net (loss) income to net cash provided by operating activities:			
Depreciation expense	27,672,387	12,258,812	7,844,423
Amortization expense	10,423,947	4,069,903	7,405,707
Amortization of above and below market leases	(816,509)	(242,893)	(368,433)
Deferred fee income amortization	(868,615)	(904,144)	(440,837)
Deferred loan cost amortization	1,474,276	887,216	712,642
Increase in accrued interest income on real estate loans	(6,256,200)	(4,751,788)	(2,850,845)
Equity compensation to executives and directors	2,362,453	1,784,349	1,191,637
Deferred cable income amortization	(19,743)	(19,009)	(10,935)
Loss on asset disposal	—	2,804	—
Changes in operating assets and liabilities:			
(Increase) in tenant receivables and other assets	(2,341,649)	(1,723,648)	(375,738)
Increase (decrease) in accounts payable and accrued expenses	4,866,996	1,124,078	(346,221)
Increase in accrued interest payable	616,681	673,651	50,734
Increase in prepaid rents	362,625	120,236	96,577
Increase (decrease) in security deposits and other liabilities	170,763	29,292	(17,149)
Net cash provided by operating activities	35,221,423	15,436,062	8,686,070
Investing activities:			
Investments in real estate loans	(114,026,945)	(54,939,135)	(86,401,588)
Repayments of real estate loans	18,772,024	13,857,393	—
Notes receivable issued	(19,339,695)	(11,704,662)	(14,587,092)
Notes receivable repaid	15,350,624	6,327,396	2,661,809
Note receivable issued to and draws on line of credit by related party	(18,634,237)	(14,981,065)	(9,097,522)
Repayments of line of credit by related party	12,502,579	6,680,951	4,308,310
Acquisition fees received on real estate loans	2,761,047	1,111,131	2,272,460
Acquisition fees paid on real estate loans	(1,349,273)	(555,583)	(1,136,230)
Acquisition fees paid to real estate loan participants	(24,665)	(107,398)	—
Acquisition of properties	(420,700,550)	(299,506,416)	(34,173,631)
Additions to real estate assets - improvements	(4,239,725)	(2,118,349)	(1,341,777)
Proceeds from asset disposal	—	4,773	—
Deposits paid on acquisitions	(660,400)	—	—
Increase in restricted cash	(3,920,995)	(492,778)	(230,473)
Net cash used in investing activities	(533,510,211)	(356,423,742)	(137,725,734)
Financing activities:			
Proceeds from mortgage notes payable	256,865,500	227,556,000	59,045,000
Payments for mortgage debt	(4,175,271)	(13,653,331)	(56,594,389)
Payments for deposits and other mortgage loan costs	(4,481,004)	(5,291,302)	(1,719,030)
Proceeds from real estate loan participants	4,996,680	7,908,835	—

Proceeds from lines of credit	295,800,000	96,433,305	88,184,149
Payments on lines of credit	(285,800,000)	(101,323,306)	(73,595,345)
Proceeds from Term Loan	32,000,000	44,250,000	—
Repayment of the Term Loan	(32,000,000)	(44,250,000)	—
Proceeds from sales of Series B Preferred Stock, net of offering costs	—	—	36,959,366
Proceeds from sales of Units, net of offering costs and redemptions	264,454,768	93,651,581	63,213,966
Proceeds from sales of Common Stock	5,381,848	48,995,741	30,737,306
Common Stock dividends paid	(15,578,760)	(10,501,589)	(4,864,633)
Series A Preferred Stock dividends paid	(17,373,097)	(6,913,550)	(3,611,351)
Distributions to non-controlling interests	(174,686)	(98,380)	(47,610)
Payments for deferred offering costs	(2,300,855)	(1,843,485)	(2,460,843)
Net cash provided by financing activities	497,615,123	334,920,519	135,246,586
Net (decrease) increase in cash and cash equivalents	(673,665)	(6,067,161)	6,206,922
Cash and cash equivalents, beginning of period	3,113,270	9,180,431	2,973,509
Cash and cash equivalents, end of period	$2,439,605	$3,113,270	$9,180,431

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

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

	Year ended December 31,		
	2015	2014	2013
Supplemental cash flow information:			
Cash paid for interest	$19,154,375	$8,509,477	$4,680,725
Supplemental disclosure of non-cash activities:			
Accrued capital expenditures	$226,892	$38,740	$67,201
Dividends payable - Common Stock	$4,314,999	$3,697,436	$2,451,697
Dividends payable - Series A Preferred Stock	$2,279,270	$900,433	$431,663
Deemed non-cash dividend to holders of Series B Preferred Stock	$—	$—	$7,028,557
Partnership distributions payable to non-controlling interests	$53,238	$25,379	$17,118
Accrued and payable deferred offering costs	$571,786	$219,001	$399,141
Writeoff of fully depreciated or amortized assets	$667,514	$—	$—
Writeoff of fully amortized liabilities	$(100,573)	$—	$—
Reclass of offering costs from deferred asset to equity	$3,994,184	$1,180,651	$438,315
Bridge and land acquisition loans converted to real estate loans	$49,188,665	$24,051,084	$4,680,439
Mortgage loans assumed on acquisitions	$—	$—	$82,428,389
Real estate loan balance applied to purchase of property	$10,000,000	$—	$12,419,446
Fair value issuances of equity compensation	$2,321,578	$1,810,301	$1,165,100
Noncash settlement of loans	$—	$—	$450,000

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements
December 31, 2015

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 loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 20% of its assets in other real estate related investments such as grocery-anchored shopping centers, 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 7).

As of December 31, 2015, the Company had 22,761,551 shares of common stock, par value $0.01 per share, or Common Stock, issued and outstanding and was the approximate 98.8% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 276,560 at December 31, 2015 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 plans to conduct substantially all of its business through the Operating Partnership. New Market Properties, LLC, a wholly-owned subsidiary of the Operating Partnership, owns and conducts the business of the Company's grocery-anchored shopping centers.

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.

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

The Company generally records its initial investments in income-producing real estate at fair value at the acquisition date in accordance with ASC 805-10, Business Combinations. The aggregate purchase price of acquired properties is apportioned to the tangible and identifiable intangible assets and liabilities acquired at their estimated fair values. The value of acquired land, buildings and improvements is estimated by formal appraisals, observed comparable sales transactions, and information gathered during pre-acquisition due diligence activities and the valuation approach considers the value of the property as if it were vacant. 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. Intangible assets and liabilities for multifamily communities include the values of in-place leases, customer relationships, and above-market or below-market leases. Additional intangible assets for retail properties also include costs to initiate leases such as commissions and legal costs.

In-place lease values for multifamily communities are estimated by calculating the estimated time to fill a hypothetically empty apartment complex to its stabilization level (estimated to be 92% 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. The amounts of above-market or below-market lease values are developed by comparing the Company's estimate of the average market rent to the average contract rent of the leases in place at the property acquisition date. This ratio is applied on a lease by lease basis to derive a total asset or liability amount for the property. The above-market or below-market lease values are recorded as a reduction or increase, respectively, to rental revenue over the remaining average non-cancelable term of the respective leases, plus any below market probable renewal options.

The fair values of in-place leases for retail shopping centers 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 retail shopping centers 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, plus any below market probable renewal options.
Intangible assets also include the value of customer relationships, which represent the value inherent in the relationships with existing lessees, quantified by management's estimate of the average likelihood of lease renewal. Customer relationships are amortized on a straight-line basis over the average remaining non-cancelable term of in place leases, plus an estimated renewal period.
Estimating the fair values of the tangible and intangible assets requires us to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount and capitalization rates, market absorption periods, and the number of years the property is held for investment. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocations, which would impact the amount of our reported net income. Acquired intangible assets and liabilities have no residual value.

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. 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 the discounted net cash flows of the asset group.

Deferred Leasing Costs

Costs incurred to obtain tenant leases are amortized using the straight-line method over the term of the related lease agreement. Such costs include lease incentives, leasing commissions and legal costs. If the lease is terminated early, the remaining unamortized deferred leasing cost is written off.

Loans and Notes Held for Investment

The Company carries its investments in real estate loans at amortized cost with assessments made for impairment in the event recoverability of the principal amount becomes doubtful. If, upon testing for impairment, the fair value result of the loan is lower than the carrying amount of the loan, a valuation allowance is recorded to lower the carrying amount to fair value, with a loss recorded in earnings. Recoveries of valuation allowances are only recognized in the event of maturity or a sale or disposition in an amount above carrying value. The balances of real estate loans presented on the consolidated balance sheets consist of drawn amounts on the loans, net of deferred loan fee revenue. These loan balances are presented in the asset section of the consolidated balance sheets inclusive of loan balances from third party participant lenders, with the participant amount presented within the liabilities section. See the "Revenue Recognition" section of this Note for other loan-related policy disclosures required by ASC 310-10-50-6. Certain loans have historically contained contingent exit fees, which are deemed to be embedded derivatives. The Company elects the fair value option for these loans and recognizes in earnings any material changes in fair value.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Restricted cash includes cash restricted by state law or contractual requirement and relates primarily to real estate tax and insurance escrows, capital improvement reserves and resident security deposits.

Fair Value Measurements

Certain assets and liabilities are required to be carried at fair value, or if they are deemed impaired, to be adjusted to reflect this condition. The Company follows the guidance provided by ASC 820, Fair Value Measurements and Disclosures, in accounting and reporting for real estate assets where appropriate, as well as debt instruments both held for investment and as liabilities. The standard requires disclosure of fair values calculated utilizing each of the following input type within the following hierarchy:

• Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date.
• Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
• Level 3 – Unobservable inputs for the asset or liability.

Deferred Loan Costs

Deferred loan costs are amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the related indebtedness.

Non-controlling Interest

Non-controlling interest represents the equity interest of the Operating Partnership that is not owned by the Company. Non-controlling interest is adjusted for contributions, distributions and earnings or loss attributable to the non-controlling interest in the consolidated entity in accordance with the Agreement of Limited Partnership of the Operating Partnership, as amended.

Redeemable Preferred Stock

Shares of the Series A Redeemable Preferred Stock, stated value $1,000 per share, or Preferred Stock, are redeemable at the option of the holder, subject to a declining redemption fee schedule. Redemptions are therefore outside the control of the Company. However, the Company retains the right to fund any redemptions of Preferred Stock in either Common Stock or cash at its option. Therefore, the Company records the Preferred Stock as a component of permanent stockholders' equity.

Deferred Offering Costs

Deferred offering costs represent direct costs incurred by the Company related to current equity offerings, excluding costs specifically identifiable to a closing, such as commissions, dealer-manager fees, and other registration fees. For issuances of equity that occur on one specific date, associated offering costs are reclassified as a reduction of proceeds raised on the date of issue. Our ongoing offering of up to a maximum of 900,000 units, consisting of one share of Series A Redeemable Preferred Stock, or Preferred Stock, and one warrant, or Warrant, to purchase 20 shares of Common Stock, or Units, generally closes on a bimonthly basis in variable amounts. Such offering is referred to herein as the Follow-on Offering, pursuant to our registration statement on Form S-3 (registration number 333-183355), as may be amended from time to time. Deferred offering costs related to the Follow-on Offering and Shelf Offering (as defined in Note 6) are reclassified to the stockholders' equity section of the consolidated balance sheet as a reduction of proceeds raised on a pro-rata basis equal to the ratio of total Units or value of shares issued to the maximum number of Units, or the value of shares, as applicable, that are expected to be issued.

Revenue Recognition

Rental revenue is recognized when earned from residents of the Company's multifamily communities, which is over the terms of rental agreements, typically of 13 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.

Rental revenue from tenants' operating leases in the Company's retail shopping centers is recognized on a straight-line basis over the term of the lease regardless of when payments are due. 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 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 minimum rent. 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 lease 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.

Interest income on real estate loans and notes receivable is recognized on an accrual basis over the lives of the loans or notes using the effective interest rate method. In the event that a loan or note is refinanced with the proceeds of another loan issued by the Company, any unamortized loan fee revenue from the first loan will be recognized as interest revenue over the term of the new loan. Direct loan origination fees applicable to real estate loans are amortized over the lives of the loans as adjustments to interest income. The accrual of interest on all these instruments ceases when there is concern as to the ultimate collection of principal or interest, which is generally a delinquency of

30 days in required payments of interest or principal. Any payments received on such non-accrual loans are recorded as interest income when the payments are received. Real estate loan assets are reclassified as accrual-basis once interest and principal payments become current. Certain real estate loan assets include limited purchase options and either exit fees or additional amounts of accrued interest. Exit fees or accrued interest due will be treated as additional consideration for the acquired project if the Company purchases the subject property. Additional accrued interest becomes due in cash to the Company on the earliest to occur of: (i) the maturity of the loan, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing loan by the Company or one of its affiliates) and (iv) any other repayment of the loan.

The PAC Rewards program allows residents in the Company's multifamily communities to accumulate reward points on a monthly basis for actions such as resident referrals and making rent payments online. Once a property has been enrolled in the program, a resident must rent an apartment from the Company for at least 14 months before reward points may be redeemed for services or upgrades to a resident’s unit. The Company accrues a liability for the estimated cost of these future point redemptions, net of a 35% breakage fee, which is the Company’s current estimate of rewards points that will not be redeemed. In accordance with Staff

Accounting Bulletin 13.A.3c, the Company deems its obligations under PAC Rewards as inconsequential to the delivery of services according to the lease terms. Therefore, the expense related to the PAC Rewards Program is included in property operating and maintenance expense on the consolidated statements of operations.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with guidance provided by ASC 505-50, Equity-Based Payments to Non-Employees and ASC 718, Stock Compensation. We calculate the fair value of equity compensation instruments at the date of grant based upon estimates of their expected term, the expected volatility of and dividend yield on our Common Stock over this expected term period and the market risk-free rate of return. We also estimate forfeitures of these instruments and accrue the compensation expense, net of estimated forfeitures, over the vesting period(s). We record the fair value of restricted stock awards based upon the closing stock price on the trading day immediately preceding the date of grant.

Acquisition Costs

The Company expenses property acquisition costs as incurred, which include costs such as due diligence, legal, certain accounting, environmental and consulting, when the acquisition constitutes a business combination. The Company capitalizes these costs for transactions deemed to be asset acquisitions.

Capitalization and Depreciation

The Company capitalizes tenant improvements, replacements of furniture, fixtures and equipment, as well as carpet, appliances, air conditioning units, certain common area items and other assets. Significant repair and renovation costs that improve the usefulness or extend the useful life of the properties are also capitalized. These assets are then depreciated on a straight-line basis over their estimated useful lives, as follows:

- Buildings: 30 - 40 years
- Furniture, fixtures & equipment: 5 - 10 years
- Improvements to buildings and land: 5 - 10 years
- Tenant improvements: shorter of economic life or lease term

Operating expenses related to unit turnover costs, such as carpet cleaning, mini-blind replacements and minor repairs are expensed as incurred.

Income Taxes

The Company has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes 100% of the Company's annual REIT taxable income to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could materially adversely affect the Company's net income and net cash available for distribution to stockholders. The Company intends to operate in such a manner as to maintain its election for treatment as a REIT.

The Company recognizes a liability for uncertain tax positions. An uncertain tax position is defined as a position taken or expected to be taken in a tax return that is not based on clear and unambiguous tax law and which is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company measures the tax benefits recognized based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income or loss available to common stockholders by the weighted average number of shares of Common Stock outstanding for the period. Net income or loss attributable to common stockholders is calculated by deducting dividends due to preferred stockholders, including deemed non-cash dividends emanating from beneficial conversion features within convertible preferred stock, as well as nonforfeitable dividends due to holders of unvested restricted stock, which are participating securities under the two-class method of calculating earnings per share. Diluted earnings (loss) per share is computed by dividing net income or net loss available to common stockholders by the weighted average number of shares of Common Stock outstanding adjusted for the effect of dilutive securities such as share grants or warrants. No adjustment is made for potential common stock equivalents that are anti-dilutive during the period.

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. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016 and may be applied using either a full retrospective or a modified approach upon adoption. We are currently evaluating the impact this standard may have on our financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15 (“ASU 2014-15”), Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This new guidance requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter, early adoption is permitted. We are currently in the process of evaluating the impact the adoption of ASU 2014-15 will have on our financial statements.

In February 2015, the FASB issued Accounting Standards Update 2015-02 ("ASU 2015-02"), Consolidation (Topic 810): Amendments to the Consolidation Analysis. This new guidance specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will be required to consolidate the limited partnership. ASU 2015-02 is effective on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The adoption of ASU 2015-02 will not have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02 ("ASU 2016-02"), Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance but does not expected its adoption to materially impact the Company’s consolidated financial statements.

3. Real Estate Assets

The Company's real estate assets consisted of:

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

	As of December 31,	
	2015	2014
Multifamily communities [1]	19	10
Units	6,136	3,326
Retail shopping centers	14	10
Approximate gross leasable area [2]	1,279,000	694,000

[1] The acquired second phases of the Trail Creek and Summit Crossing communities are managed in combination with the initial phases of these communities and are therefore considered single properties.
[2] 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 2015 total above.

Multifamily communities acquired

During the twelve-month periods ended December 31, 2015 and 2014, the Company completed the acquisition of the following multifamily communities:

Acquisition date	Property	Location	Approximate purchase price (millions)	Units
12/21/2015	Lenox Portfolio	Nashville, Tennessee	$77.6	474
11/12/2015	Stone Creek	Houston, Texas	$25.8	246
9/3/2015	Citi Lakes	Orlando, Florida	$63.4	346
7/31/2015	Avenues at Creekside	San Antonio, Texas	$56.2	395
6/30/2015	CityPark View	Charlotte, North Carolina	$32.7	284
6/24/2015	Aster at Lely	Naples, Florida	$52.5	308
5/21/2015	Venue at Lakewood Ranch	Sarasota, Florida	$47.4	237
2/13/2015	Avenues at Cypress	Houston, Texas	[1]	240
2/13/2015	Avenues at Northpointe	Houston, Texas	[1]	280
				2,810
9/26/2014	Enclave at Vista Ridge	Dallas, Texas	[2]	300
9/26/2014	Sandstone Creek Apartments	Kansas City, Kansas	[2]	364
9/26/2014	Stoneridge Farms at Hunt Club	Nashville, Tennessee	[2]	364
9/26/2014	Vineyards Apartments	Houston, Texas	[2]	369
				1,397

[1] Avenues at Cypress and Avenues at Northpointe are referred to collectively as the Houston Portfolio, which was acquired for approximately $76.0 million.

(2) The four properties listed are referred to collectively as the Dunbar Portfolio, which was acquired for approximately $181.3 million.

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 allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities, but are preliminary and are subject to refinement for a period of up to one year from the closing of the acquisitions.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

	Lenox Portfolio	Stone Creek	Citi Lakes	Avenues at Creekside
Land	$7,877,823	$2,210,630	$5,558,033	$5,983,724
Buildings and improvements	61,262,221	20,711,950	49,416,492	42,050,104
Furniture, fixtures and equipment	6,281,010	2,203,724	7,411,367	6,939,014
Tenant improvements	71,705	—	—	—
Lease intangibles	2,122,241	623,696	964,108	1,227,158
Prepaids & other assets	171,814	75,074	40,032	89,582
Escrows	739,340	844,515	280,863	1,058,468
Accrued taxes	(564,841)	(375,842)	(187,792)	(440,660)
Security deposits, prepaid rents, and other liabilities	(260,403)	(37,331)	(80,629)	(218,438)
Net assets acquired	$77,700,910	$26,256,416	$63,402,474	$56,688,952
Cash paid	$27,896,449	$9,439,483	$18,952,474	$15,063,952
Mortgage debt [1]	49,804,461	16,816,933	44,450,000	41,625,000
Total consideration	$77,700,910	$26,256,416	$63,402,474	$56,688,952
Twelve months ended December 31, 2015:				
Revenue	$194,000	$442,000	$1,685,000	$2,511,000
Net income (loss)	$(81,000)	$(116,000)	$(511,000)	$(1,095,000)
Cumulative acquisition costs incurred by the Company	$1,504,000	$727,000	$1,620,000	$851,000
Remaining amortization period of intangible assets and liabilities (months)	15.9	6.5	4.5	0.5

[1] Mortgage debt on Lenox Village Town Center, Stone Creek, and Avenues at Creekside totaling approximately $89.8 million was assumed as part of the acquisition of those properties.

	CityPark View	Aster at Lely	Venue at Lakewood Ranch	Houston Portfolio	Dunbar Portfolio
Land	$3,558,793	$7,675,409	$3,791,050	$7,162,226	$16,033,101
Buildings and improvements	23,797,764	37,661,901	37,574,391	54,217,075	148,701,272
Furniture, fixtures and equipment	4,562,148	6,132,384	5,375,690	13,078,872	13,345,980
Lease intangibles	737,790	1,030,306	669,369	1,571,827	3,564,244
Prepaids & other assets	99,124	106,717	80,201	150,326	75,600
Escrows	211,428	—	401,294	362,332	1,519,846
Accrued taxes	(105,756)	(23,413)	(216,252)	(212,601)	(1,694,340)
Security deposits, prepaid rents, and other liabilities	(40,152)	(64,689)	(35,157)	(99,181)	(221,610)
Net assets acquired	$32,821,139	$52,518,615	$47,640,586	$76,230,876	$181,324,093

Cash paid	$721,139	$18,518,615	$16,830,586	$25,452,876	$61,432,093
Real estate loan balance applied	10,000,000	—	—	—	—
Mortgage debt	22,100,000	34,000,000	30,810,000	50,778,000	119,892,000
Total consideration	$32,821,139	$52,518,615	$47,640,586	$76,230,876	$181,324,093
Twelve months ended December 31, 2015:					
Revenue	$1,856,000	$2,556,000	$2,641,000	$7,392,000	$18,846,000
Net income (loss)	$(818,000)	$(1,279,000)	$(766,000)	$(2,588,000)	$(2,777,000)
Twelve months ended December 31, 2014:					
Revenue					$4,854,000
Net income (loss)					$(2,574,000)
Cumulative acquisition costs incurred by the Company	$276,000	$438,000	$889,000	$1,142,000	$851,000
Remaining amortization period of intangible assets and liabilities (months)	0	0	0	0	0

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

Grocery-anchored shopping centers acquired

During the twelve-month periods ended December 31, 2015 and 2014, the Company completed the acquisition of the following grocery-anchored shopping centers:

Acquisition date	Property	Market	Approximate purchase price (millions)	Gross leasable area (square feet) [3]
12/22/2015	Overlook at Hamilton Place	Chattanooga, Tennessee	$33.8	213,095
10/30/2015	Summit Point	Atlanta, Georgia	$19.6	111,970
9/4/2015	Royal Lakes Marketplace	Atlanta, Georgia	$16.6	119,493
7/1/2015	Independence Square	Dallas, Texas	$18.0	140,218
				584,776
10/6/2014	Salem Cove	Nashville, Tennessee	$14.2	62,356
9/30/2014	Deltona Landings	Orlando, Florida	[1]	59,966
9/30/2014	Powder Springs	Atlanta, Georgia	[1]	77,853
9/30/2014	Kingwood Glen	Houston, Texas	[1]	103,397
9/30/2014	Parkway Centre	Columbus, Georgia	[1]	53,088
9/30/2014	Barclay Crossing	Tampa, Florida	[1]	54,958
9/30/2014	Sweetgrass Corner	Charleston, South Carolina	[1]	89,124
9/5/2014	Spring Hill Plaza	Nashville, Tennessee	[2]	61,570
9/5/2014	Parkway Town Centre	Nashville, Tennessee	[2]	65,587
2/12/2014	Woodstock Crossing	Atlanta, Georgia	$5.7	66,122
				694,021

[1] The six grocery-anchored shopping centers, referred to collectively as the Sunbelt Portfolio, were acquired for approximately $74.2 million. The Company transferred its right to purchase a seventh shopping center in the portfolio, located in Miami, Florida, to the anchoring grocery tenant.

[2] The two grocery-anchored shopping centers, referred to collectively as the Nashville Portfolio, were acquired for approximately $24.1 million.

[3] Gross leasable area amounts are unaudited.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

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, but is preliminary and is subject to refinement for a period of up to one year from the closing of the acquisition.

	Overlook at Hamilton Place	Summit Point	Royal Lakes Marketplace	Independence Square
Land	$6,786,593	$7,063,874	$4,874,078	$4,114,574
Buildings and improvements	24,332,628	10,903,486	9,921,403	13,123,553
Tenant improvements	911,580	526,468	517,191	566,857
In-place leases	2,029,643	1,203,246	957,093	1,567,944
Above-market leases	361,433	329,546	198,238	35,127
Leasing costs	527,136	368,221	365,629	392,451
Below-market leases	(1,402,013)	(842,682)	(315,837)	(1,775,506)
Other assets	75,304	83,123	88,553	—
Security deposits, prepaid rents, and other liabilities	(97,976)	(139,884)	(145,581)	(226,599)
Net assets acquired	$33,524,328	$19,495,398	$16,460,767	$17,798,401
Cash paid	$12,524,328	$6,595,398	$6,660,767	$17,798,401
Mortgage debt	21,000,000	12,900,000	9,800,000	—
Total consideration	$33,524,328	$19,495,398	$16,460,767	$17,798,401
Twelve months ended December 31, 2015:				
Revenue	$86,000	$275,000	$432,000	$993,000
Net income (loss)	$(43,000)	$(48,000)	$(13,000)	$(162,000)
Cumulative acquisition costs incurred by the Company	$561,000	$266,000	$245,000	$573,000
Remaining amortization period of intangible assets and liabilities (years)	6.1	6.8	9.9	6.4

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

	Salem Cove	Total Sunbelt Portfolio	Nashville Portfolio	Woodstock Crossing
Land	$2,427,095	$17,111,929	$7,429,756	$1,750,576
Buildings and improvements	9,526,490	53,584,375	12,926,230	3,760,654
Tenant improvements	745,880	587,038	1,872,156	39,447
Furniture, fixtures and equipment	—	105,293	—	—
In-place leases	1,315,254	5,400,067	2,280,106	245,850
Above market leases	119,302	319,501	11,107	30,051
Leasing costs	440,438	1,202,561	842,551	123,731
Below market leases	(374,459)	(4,160,764)	(1,228,006)	(450,310)
Escrows	—	403,591	—	226,830 (1)
Other assets	12,576	316,852	29,521	—
Other liabilities	(53,721)	(621,815)	(89,974)	(25,436)
Net assets acquired	$14,158,855	$74,248,628	$24,073,447	$5,701,393
Cash paid	$4,558,855	$27,388,628	$6,973,447	$5,701,393
Mortgage debt	9,600,000	46,860,000	17,100,000	—
Total consideration	$14,158,855	$74,248,628	$24,073,447	$5,701,393
Twelve months ended December 31, 2015:				
Revenue	$1,187,000	$7,396,000	$2,327,000	$696,000
Net income (loss)	$(141,000)	$(690,000)	$14,000	$25,000
Twelve months ended December 31, 2014:				
Revenue	$286,000	$1,809,000	$748,000	$631,000
Net income (loss)	$(12,000)	$(551,000)	$(21,000)	$122,000
Cumulative acquisition costs incurred by the Company	$227,000	$1,450,000	$2,235,000	$272,000
Remaining amortization period of intangible assets and liabilities (years)	12.4	5.5	8.8	8.0

(1) Funds set aside for budgeted non-recurring capital expenditures.

Amortization and depreciation expense consisted of:

	Year ended December 31,		
	2015	2014	2013
Depreciation:			
Buildings and improvements	$16,653,380	$6,896,205	$3,887,797
Furniture, fixtures, and equipment	11,019,007	5,362,607	3,956,626
	27,672,387	12,258,812	7,844,423
Amortization:			
Acquired intangible assets	10,401,697	4,065,142	7,400,946
Deferred leasing costs	12,920	—	—
Website development costs	9,330	4,761	4,761

Total depreciation and amortization	$ 38,096,334	$ 16,328,715	$ 15,250,130

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

4. Acquired Intangible Assets and Liabilities

The Company recorded the following acquired lease intangible assets and liabilities and related accumulated amortization, as of
December 31, 2015 and 2014:

	December 31, 2015			December 31, 2014		
	Multifamily	Retail	Total	Multifamily	Retail	Total
In-place leases	$24,704,733	$14,439,414	$39,144,147	$15,837,024	$9,221,651	$25,058,675
Above-market leases	—	1,386,254	1,386,254	—	479,883	479,883
Customer relationships	1,588,277	—	1,588,277	1,588,277	—	1,588,277
Lease origination costs	78,786	4,216,166	4,294,952	—	2,606,321	2,606,321
Acquired intangible assets	$26,371,796	$20,041,834	$46,413,630	$17,425,301	$12,307,855	$29,733,156
Less accumulated amortization of:						
In-place leases	$(21,608,833)	$(2,965,096)	$(24,573,929)	$(14,351,922)	$(892,714)	$(15,244,636)
Above market leases	—	(233,833)	(233,833)	—	(49,795)	(49,795)
Customer relationships	(1,588,277)	—	(1,588,277)	(1,588,277)	—	(1,588,277)
Lease origination costs	(1,466)	(634,652)	(636,118)	—	(147,468)	(147,468)
Acquired intangible assets, net	$3,173,220	$16,208,253	$19,381,473	$1,485,102	$11,217,878	$12,702,980
Below market lease liability	$383,593	$10,448,062	$10,831,655	$383,593	$6,212,597	$6,596,190
Less: accumulated amortization	(383,593)	(1,194,612)	(1,578,205)	(383,593)	(276,666)	(660,259)
Below market lease liability, net	$—	$9,253,450	$9,253,450	$—	$5,935,931	$5,935,931

The Company recognized amortization of acquired intangible assets and liabilities for the years ended December 31, 2015 and 2014 as follows:

	Year ended December 31, 2015			2014			2013
Amortization expense	Multifamily	Retail	Total	Multifamily	Retail	Total	Multifamily
Intangible assets:							
Leases in place	$7,256,911	$2,612,544	$9,869,455	$2,871,156	$912,341	$3,783,497	$6,486,354
Above-market leases (1)	—	202,011	202,011	—	49,874	49,874	—
Customer relationships	—	—	—	131,029	—	131,029	914,592
Lease origination costs	1,466	530,776	532,242	—	150,616	150,616	—
	$7,258,377	$3,345,331	$10,603,708	$3,002,185	$1,112,831	$4,115,016	$7,400,946

Intangible liabilities:							
Below-market leases (1)	$—	$1,018,520	$1,018,520	$15,160	$277,607	$292,767	$368,433

(1) Amortization of above and below market lease intangibles are recorded as a decrease and an increase to rental revenue, respectively.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

Net intangible assets and liabilities as of December 31, 2015 will be amortized as follows:

	Acquired Intangible Assets			Below market lease intangible liability
	In-place leases	Above-market leases	Lease origination costs	
For the years ending December 31:				
2016	$5,942,888	$ 315,601	$760,324	$(1,383,965)
2017	2,516,586	244,573	644,487	(1,238,519)
2018	1,884,055	196,277	537,442	(1,112,793)
2019	1,082,516	146,725	377,586	(1,056,511)
2020	640,217	99,039	270,443	(945,805)
Thereafter	2,503,956	150,206	1,068,552	(3,515,857)
Total	$14,570,218	$ 1,152,421	$3,658,834	$(9,253,450)
Weighted-average amortization period (in years)	5.1	5.1	7.5	8.4

As of December 31, 2015, the weighted average remaining amortization period for all the Company's intangible assets and liabilities was approximately 5.6 years and 8.4 years, respectively.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

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

At December 31, 2015, our portfolio of fixed rate, interest-only real estate loans consisted of:

Project/Property (1)		Location	Date of loan	Maturity date	Optional extension date	Total loan commitments	Senior loans held by unrelated third parties	Current / deferred interest % per annum	
Crosstown Walk		Tampa, FL	4/30/2013	11/1/2016	5/1/2018	$10,962,000	$25,900,000	8 / 7.5	(2,3)
City Vista		Pittsburgh, PA	8/31/2012	6/1/2016	7/1/2017	16,107,735	$28,400,000	8 / 6	(3)
Overton Rise		Atlanta, GA	5/8/2013	11/1/2016	5/1/2018	16,600,000	$31,700,000	8 / 7.5	(2)
Haven West	(4,5)	Atlanta, GA	7/15/2013	6/2/2016	6/2/2018	6,940,795	$16,195,189	8 / 6	(3)
Haven 12	(5,6)	Starkville, MS	6/16/2014	6/16/2017	11/30/2020	6,116,384	$18,615,081	8.5 / 6.5	(3,7)
Founders' Village		Williamsburg, VA	8/29/2013	8/29/2018	--	10,346,000	$26,936,000	8 / 6	(3)
Encore		Atlanta, GA	10/9/2015	4/8/2019	10/8/2020	10,958,200	$46,892,800	8.5 / 5	(3)
Encore Capital		Atlanta, GA	10/9/2015	4/8/2019	10/8/2020	9,758,200	$—	8.5 / 5	(3)
Palisades		Northern VA	8/18/2014	2/18/2018	8/18/2019	17,270,000	$38,000,000	8 / 5	(3)
Fusion		Irvine, CA	7/1/2015	5/31/2018	5/31/2020	59,052,583	$43,747,287	8.5 / 7.5	(3)
Green Park		Atlanta, GA	12/1/2014	12/1/2017	12/1/2019	13,464,372	$27,775,000	8.5 / 4.33	(3)
Stadium Village	(5,8)	Atlanta, GA	6/27/2014	6/27/2017	--	13,424,995	$34,825,000	8.5 / 4.33	(3)
Summit Crossing III	(9)	Atlanta, GA	2/27/2015	2/26/2018	2/26/2020	7,246,400	$16,822,000	8.5 / 6	(3,7)
Overture	(10)	Tampa, FL	7/21/2015	7/21/2018	7/21/2020	6,920,000	$17,080,000	8.5 / 6	(3,7)
Aldridge at Town Village		Atlanta, GA	1/27/2015	12/27/2017	12/27/2019	10,975,000	$28,338,937	8.5 / 6	(3,7)
18 Nineteen	(5,11)	Lubbock, TX	4/9/2015	4/9/2018	4/9/2020	15,598,352	$34,871,251	8.5 / 6	(3,7)
Haven South	(5,12)	Waco, TX	5/1/2015	5/1/2018	5/1/2019	15,455,668	$41,827,034	8.5 / 6	(3,7)
Haven Tampa	(5,13)	Tampa, FL	4/17/2015	4/30/2016	—	2,900,000	$—	10 / -	
Bishop Street	(14)	Atlanta, GA	8/31/2015	8/30/2016	—	3,107,012	$—	12 / -	
Dawson Marketplace	(15)	Atlanta, GA	12/16/2015	11/15/2018	11/15/2020	12,857,005	$36,740,430	8.5 / 5	(3)
Wade Green	(16)	Atlanta, GA	11/6/2015	2/5/2016	8/5/2016	6,250,000	$—	8.5 / -	

Hidden River	(17)	Tampa, FL	12/4/2015	12/3/2018	12/3/2020	4,734,960	$27,620,600	8.5 / 5	(3)
Hidden River Capital	(17)	Tampa, FL	12/4/2015	12/4/2018	12/4/2020	5,380,000	$—	8.5 / 5	(3)
						$282,425,661			

(1) All loans are real estate loans pertaining to developments of multifamily communities, except as otherwise indicated. The borrowers for each of these projects are as follows: "Crosstown Walk" - Iris Crosstown Partners LLC; "City Vista" - Oxford City Vista Development LLC; "Overton Rise" - Newport Overton Holdings, LLC; "Haven West" - Haven Campus Communities Member, LLC; "Haven 12" - Haven Campus Communities - Starkville, LLC; "Founders' Village" - Oxford NTW Apartments LLC; "Encore" - GP - RV Land I, LLC; "Encore Lending" - Encore Capital Member, LLC; "Palisades" - Oxford Palisades Apartments LLC; "Fusion" - 360 - Irvine, LLC; "Green Park" - Weems Road Property Owner, LLC; "Stadium Village" - Haven Campus Communities - Kennesaw, LLC; "Summit Crossing III" - Oxford Forsyth Development, LLC; "Overture" - Iris Crosstown Apartments II, LLC; "Aldridge at Town Village" - Newport Town Village Holdings, LLC; "18 Nineteen" - Haven Campus Communities Lubbock, LLC; "Haven South" - Haven Waco Partners, LLC; "Haven Tampa" - Haven Campus Communities - Tampa, LLC; "Bishop Street" - Newport Bishop LLC; "Dawson Marketplace" - Hendon-BRE Dawson Marketplace, LLC; "Wade Green" - Wade Green Associates, LLLP; "Hidden River" - Oxford Hidden River Lending, LLC; and "Hidden River Capital" - Mill Green Capital, LLC.

(2) Effective July 1, 2015, the deferred interest rate was increased by 1.5% per annum.

(3) Deferred interest becomes due to the Company on the earliest to occur of (i) the maturity date, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing of the loan by the Company or one of its affiliates) and (iv) any other repayment of the loan.

(4) Real estate loan in support of a completed student housing community adjacent to the campus of the University of West Georgia.

(5) See note 7 - related party transactions.

(6) Real estate loan in support of a completed student housing community adjacent to the campus of Mississippi State University.

(7) Effective July 1, 2015, the deferred interest rate was increased by 1.0% per annum.

(8) Real estate loan in support of a completed student housing community adjacent to the campus of Kennesaw State University.

(9) Real estate loan to partially finance the acquisition of land and predevelopment costs for a third phase adjacent to our Summit Crossing multifamily community.

(10) Real estate loan to partially finance the acquisition of land and predevelopment costs for a second phase adjacent to the Crosstown Walk multifamily community.

(11) Real estate loan in support of a planned student housing community adjacent to the campus of Texas Tech University.

(12) Real estate loan in support of a planned student housing community adjacent to the campus of Baylor University.

(13) Bridge loan in support of a planned student housing community adjacent to the campus of the University of South Florida.

(14) Bridge loan to partially finance the acquisition of land and predevelopment costs for a multifamily community in Atlanta, Georgia.

(15) Real estate loan in support of a planned approximate 200,000 square foot retail center in the Atlanta, Georgia market.

(16) First position loan secured by a grocery-anchored shopping center in the Atlanta, Georgia market.

(17) Real estate loan and a member loan in support of a planned multifamily community in Tampa, Florida.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

The Palisades, Green Park, Stadium Village and Founders' Village loans are subject to a loan participation agreement with a syndicate of unaffiliated third parties, under which the syndicate is to fund 25% of the loan commitment amount and collectively receive 25% of interest payments and returns of principal.

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 borrower. 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 Haven Tampa, Bishop Street, and Wade Green loans are also collateralized by the acquired land or property. The Haven West loan is additionally collateralized by an assignment by the developer of security interests in an unrelated project. 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 December 31, 2015, none of the Company's real estate loans were delinquent.

	As of December 31, 2015				Carrying amount as of	
Project/Property	Amount drawn	Loan Fee received from borrower - 2%	Acquisition fee paid to Manager - 1%	Unamortized deferred loan fee revenue	December 31, 2015	December 31, 2014
Crosstown Walk	$10,962,000	$219,240	$(109,620)	$(11,960)	$10,950,040	$10,862,615
CityPark View [1]	—	200,000	(100,000)	—	—	9,951,728
City Vista	16,107,735	322,134	(161,067)	(24,304)	16,083,431	13,708,474
Aster at Lely [1]	—	254,265	(127,133)	—	—	12,330,262
Overton Rise	16,603,935	332,079	(166,040)	(30,976)	16,572,959	15,773,937
Haven West	6,784,167	138,816	(69,408)	(8,332)	6,775,835	6,753,917
Haven 12	5,815,849	122,328	(61,164)	—	5,815,849	5,506,157
Founders' Village [2]	9,866,000	197,320	(98,660)	(24,184)	9,841,816	9,804,058
Encore	10,958,200	539,695	(269,847)	(63,922)	10,894,278	11,966,456
Encore Capital	6,036,465	—	—	—	6,036,465	—
Palisades [2]	16,070,000	321,400	(160,700)	(6,183)	16,063,817	14,374,036
Fusion	37,332,837	1,120,890	(560,445)	(260,602)	37,072,235	20,313,722
Green Park [2]	12,356,189	269,287	(134,644)	(25,701)	12,330,489	4,602,691
Stadium Village [2]	13,329,868	268,500	(134,250)	(8,575)	13,321,293	12,664,902
Summit Crossing III	7,246,400	144,928	(72,464)	(40,507)	7,205,894	2,393,639
Overture	4,519,495	138,400	(69,200)	(38,049)	4,481,446	2,225,079
Aldridge at Town Village	9,776,455	219,500	(109,750)	(68,923)	9,707,532	—

18 Nineteen	14,496,563	311,967	(155,984)	(74,995)	14,421,568	—
Haven South	14,200,703	309,113	(154,557)	(112,849)	14,087,852	—
Haven Tampa	2,900,000	58,000	(29,000)	(8,933)	2,891,067	—
Bishop Street	3,107,012	62,140	(31,070)	(20,234)	3,086,778	—
Dawson Marketplace	11,573,432	257,140	(128,570)	(10,080)	11,563,352	—
Wade Green	6,250,000	62,500	—	(24,696)	6,225,304	—
Hidden River	—	94,699	(47,350)	(47,350)	(47,350)	—
Hidden River Capital	2,671,870	107,600	(53,800)	(52,062)	2,619,808	—
	$238,965,175	$6,071,941	$(3,004,723)	$(963,417)	$238,001,758	$153,231,673

(1) Loan was repaid in full by the borrower during 2015.
(2) 25% of the net amount collected by the Company as an Acquisition fee was paid to the associated loan participant.

F- 21

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

The Company holds options, but not obligations, to purchase certain of the properties which are partially financed by its real estate loans, as shown in the table below. The option purchase prices are negotiated at the time of the loan closing.

Project/Property	Purchase option window Begin	End	Purchase option price	Total units upon completion	Total beds (student housing communities)
Crosstown Walk	7/1/2016	12/31/2016	$39,654,273	342	—
City Vista	2/1/2017	5/31/2017	$43,560,271	272	—
Overton Rise	7/8/2016	12/8/2016	$51,500,000	294	—
Haven West	8/1/2016	1/31/2017	$26,138,466	160	568
Haven 12	9/1/2016	11/30/2016	(1)	152	536
Founders' Village	2/1/2017	5/31/2017	$44,266,000	247	—
Encore	1/8/2018	5/8/2018	(1)	340	—
Palisades	3/1/2017	7/31/2017	(1)	304	—
Fusion	1/1/2018	4/1/2018	(1)	280	—
Green Park	11/1/2017	2/28/2018	(1)	310	—
Stadium Village	9/1/2016	11/30/2016	(1)	198	792
Summit Crossing III	8/1/2017	11/30/2017	(1)	172	—
Overture	1/1/2018	5/1/2018	(1)	180	—
Aldridge at Town Village	11/1/2017	2/28/2018	(1)	300	—
18 Nineteen	10/1/2017	12/31/2017	(1)	217	732
Haven South	10/1/2017	12/31/2017	(1)	250	840
Haven Tampa	N/A	N/A	N/A	158	542
Bishop Street	N/A	N/A	N/A	232	—
Dawson Marketplace	12/16/2017	12/15/2018	(1)	—	—
Oxford Encore	N/A	N/A	N/A	—	—
Wade Green	N/A	N/A	N/A	—	—
Hidden River Lending	9/1/2018	12/31/2018	(1)	300	—
				4,708	4,010

(1) The purchase price is to be calculated based upon market cap rates at the time of exercise of the purchase option, with discounts ranging from between 20 and 60 basis points, depending on the loan.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

At December 31, 2015, our portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of: 12/31/2015	12/31/2014	Interest rate
360 Residential, LLC [1]	3/20/2013	6/30/2016	$ 2,000,000	$ 1,304,999	$ 1,107,348	12 %
TPKG 13th Street Development, LLC [2]	5/3/2013	N/A	—	—	5,605,178	N/A
Preferred Capital Marketing Services, LLC [3]	1/24/2013	12/31/2016	1,500,000	1,305,550	1,500,000	10 %
Riverview Associates, Ltd. [2]	12/17/2012	N/A	—	—	300,000	N/A
Pecunia Management, LLC [2]	11/16/2013	N/A	—	—	200,000	N/A
Oxford Contracting LLC [1]	8/27/2013	4/30/2017	1,500,000	1,475,000	1,475,000	8 %
Preferred Apartment Advisors, LLC [1,3,4]	8/21/2012	12/31/2016	13,000,000	12,793,440	9,128,038	8 %
Haven Campus Communities, LLC [1,3]	6/11/2014	6/30/2016	5,400,000	5,359,904	3,540,099	12 %
Oxford Capital Partners, LLC [1,5]	6/27/2014	3/31/2017	13,400,000	10,502,626	4,029,737	12 %
Newport Development Partners, LLC [1]	6/17/2014	6/30/2016	3,000,000	806,318	1,860,560	12 %
360 Residential, LLC II [1]	12/30/2015	12/31/2017	3,255,000	2,477,952	—	15 %
Hendon Properties, LLC [1]	12/8/2015	3/31/2017	2,000,000	2,000,000	—	12 %
Unamortized loan fees				(82,056)	(48,400)	
			$ 45,055,000	$ 37,943,733	$ 28,697,560	

[1] A revolving credit line, the amounts payable under which are collateralized by guaranties of payment and performance by the principals of the borrower.
[2] The outstanding balance was fully repaid during 2015.
[3] See related party disclosure in Note 7.
[4] The amounts payable under this revolving credit line were collateralized by an assignment of the Manager's rights to fees due under the fourth amended and restated management agreement, or 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:

	Year ended December 31, 2015	2014	2013
Real estate loans:			
Current interest payments	$ 16,188,752	$ 10,987,856	$ 4,711,773
Additional accrued interest	10,809,028	6,940,500	3,288,982
Deferred loan fee revenue	829,969	872,513	343,218
Total real estate loan revenue	27,827,749	18,800,869	8,343,973
Interest income on notes and lines of credit	2,853,961	3,026,856	1,386,695

Interest income on loans and notes receivable	$30,681,710	$21,827,725	$9,730,668

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 at a fixed price within a specific time window following project completion and stabilization, the rights to incremental exit fees over and above the amount of periodic interest paid during the life of the loans, or both. These characteristics 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.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

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's real estate loans partially finance the development activities of the borrowers' associated legal entities. Each of these loans create variable interests in each of these entities, and according to the Company's analysis, are deemed to be VIEs, due to the combined factors of the sufficiency of the borrowers' investment at risk, the existence of payment and performance guaranties provided by the borrowers, as well as the limitations on the fixed-price purchase options on the City Vista, Overton Rise, Crosstown Walk, Haven West, and Founders' Village loans. The Company has concluded that it is not the primary beneficiary of the borrowing entities. It has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. Therefore, since the Company has concluded it is not the primary beneficiary, 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 December 31, 2015 of approximately $60.3 million. The maximum aggregate amount of loans to be funded as of December 31, 2015 was approximately $61.0 million.

The Company is subject to a concentration of credit risk that could be considered significant with regard to the Crosstown Walk, City Vista, Founders' Village, Palisades, Encore, Encore Capital, Summit Crossing III, Overture, Hidden River and Hidden River Capital real estate loans, the promissory note from Oxford Contracting, LLC, and the revolving line of credit to Oxford Capital Partners, LLC, as identified specifically by the two named principals of the borrowers, W. Daniel Faulk, Jr. and Richard A. Denny, and as evidenced by repayment guaranties offered in support of these loans. The drawn amount of these loans total approximately $96.4 million (with a total commitment amount of $114.6 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. The Company generally requires secured interests in one or a combination of the membership interests of the borrowing entity or the entity holding the project, guaranties of loan repayment, and project completion performance guaranties as credit protection with regard to its real estate loans, as is customary in the real estate loan industry. The Company has performed assessments of the guaranties with regard to the obligors' ability to perform according to the terms of the guaranties if needed and has concluded that the guaranties reduce the Company's risk and exposure to the above-described credit risk in place as of December 31, 2015.

The Company is also subject to a geographic concentration of risk that could be considered significant with regard to the Overton Rise, Haven West, Encore, Encore Capital, Green Park, Stadium Village, Summit Crossing III, Aldridge at Town Village, Bishop Street, Dawsonville Marketplace, and Wade Green real estate loans, all of which are partially supporting proposed multifamily communities, student housing projects, and two shopping centers in or near Atlanta, Georgia. The drawn amount of these loans as of December 31, 2015 totaled approximately $104.0 million (with a total commitment amount of approximately $111.6 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.

The borrowers and guarantors behind the Crosstown Walk, City Vista, Founders' Village, Palisades, Encore, Encore Capital, Summit Crossing III, Overture, Hidden River, and Hidden River Capital real estate loans, the promissory note to Oxford Contracting, LLC, and the revolving line of credit to Oxford Capital Partners, LLC collectively qualify as a major customer as defined in ASC 280-10-50, as the revenue recorded from this customer exceeded ten percent of the Company's total revenues. The Company recorded revenue from transactions with this major customer within its financing segment of approximately $12.6 million, $8.6 million and $5.4 million for the twelve-month periods ended December 31, 2015, 2014, and 2013, respectively.

6. Redeemable Preferred Stock and Equity Offerings

The Company's Follow-on Offering is being offered by International Assets Advisory, LLC, or the Dealer Manager, on a "reasonable best efforts" basis. Each share of Preferred Stock ranks senior to Common Stock 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 $9.00 per share. The current market price per share is determined using the volume weighted average closing market price for the 20 trading days prior to the date of issuance of the Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

As of December 31, 2015, offering costs specifically identifiable to Unit offering closing transactions, such as commissions, dealer manager fees, and other registration fees, totaled approximately $47.2 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 $10.8 million. As of December 31, 2015, the Company had issued 486,182 Units and collected net proceeds of approximately $438.6 million after commissions. A total of 3,218 shares of Preferred Stock were subsequently redeemed. The number of Units issued was approximately 49.1% of the maximum number of Units anticipated to be issued under the Primary Series A Offering and the Follow-On Offering. Consequently, the Company cumulatively recognized approximately 49.1% of the approximate $10.8 million deferred to date, or approximately $5.3 million as a reduction of stockholders' equity. The remaining balance of offering costs not yet reflected as a reduction of stockholder's equity, approximately $5.8 million, are reflected in the asset section of the consolidated balance sheet as deferred offering costs at December 31, 2015. The remainder of current and future deferred offering costs related to the Follow-on 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 1.5% (discussed further below) of the total gross proceeds raised during the Unit offerings.

Aggregate offering expenses, including selling commissions and dealer manager fees, will be capped at 11.5% of the aggregate gross proceeds of the Primary Series A Offering and the Follow-On Offering, of which the Company will reimburse its Manager up to 1.5% of the gross proceeds of these offerings 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 January 17, 2013, the Company issued 40,000 shares of its Series B Preferred Stock at a purchase price of $1,000 per share through a private placement transaction. The net proceeds totaled approximately $37.0 million after commissions. On May 9, 2013, the common stockholders approved the issuance of Common Stock upon the conversion of the Series B Preferred Stock. As a result of such approval, the Series B Preferred Stock was converted into 5,714,274 shares of Common Stock on May 16, 2013.

On May 17, 2013, the Company filed a registration statement on Form S-3 (File No. 333-188677) for an offering up to $200 million of equity or debt securities, or Shelf Registration Statement, which was declared effective by the SEC on July 19, 2013. Deferred offering costs related to this Shelf Registration Statement totaled approximately $721,000 as of December 31, 2015, of which approximately $333,000 are reflected as deferred offering costs in the asset section of the consolidated balance sheet at December 31, 2015. These costs will likewise be recognized as a reduction of stockholders' equity in the proportion of the proceeds from securities issued to the maximum amount of securities registered. During November 2013, the Company sold approximately 4.2 million shares of Common Stock and collected net proceeds of approximately $30.7 million, or 16.5% of the total amount of securities available for issuance under the Shelf Registration Statement. These offering costs related to the Shelf Registration Statement will likewise be recognized as a reduction of stockholders' equity in the proportion of the proceeds from securities issued to the maximum amount of securities registered.

On February 28, 2014, the Company filed a prospectus supplement to the Shelf Registration Statement to issue and sell up to $100 million of Common Stock from time to time in an "at the market" offering, or the ATM Offering, through MLV & Co. LLC as sales agent. Through December 31, 2015, the Company sold approximately 6.5 million shares of Common Stock through the ATM offering and collected net proceeds of approximately $54.4 million.

7. 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. 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)
December 31, 2015

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:

		Twelve months ended December 31,		
Type of Compensation	Basis of Compensation	2015	2014	2013
Acquisition fees	1% of the gross purchase price of real estate assets acquired or loans advanced	$ 6,292,280	$ 4,272,586	$ 2,303,283
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	3,622,589	2,163,783	1,347,415
Property management fees	Monthly fee equal to 4% of the monthly gross revenues of the properties managed	2,456,968	1,229,319	883,016
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	1,764,555	1,058,927	636,584
		$ 14,136,392	$ 8,724,615	$ 5,170,298

Included in the acquisition fees recognized for the twelve months ended December 31, 2014 were $714,570 paid as a fee to Joel T. Murphy, which was earned prior to his appointment as a director and Chief Executive Officer of New Market Properties, LLC, a related party, related to the acquisition of nine grocery-anchored shopping centers. Mr. Murphy was also paid a fee of $57,268 in connection with one grocery-anchored shopping center acquisition prior to becoming a director of the Company and the Chief Executive Officer of New Market Properties, LLC, which is included in other acquisition costs.

The Management Agreement also entitles the Manager to receive construction management fees as compensation for services rendered in connection with the construction, development or landscaping of the properties, including the supervision of any third party vendors engaged by the Manager to provide such services; such fee is an amount equal to the customary and competitive market rates in light of the size, type and location of the property. The Company paid construction management fees of $59,554 to the Manager for the twelve month period ended December 31, 2015, which were capitalized as part of the related capital improvement. There were no such amounts paid to the Manager for prior periods.

The Manager may, in its discretion, defer some or all of the asset management, property management, or general and administrative expense fees for properties owned by the Company. Any contingent fees become due and payable to the extent that, in the event of any capital transaction, the net sale proceeds exceed the allocable capital contributions for the asset plus a 7% priority annual return on the asset. A total of approximately $2.1 million of combined asset management and general and administrative expense fees related to the acquired properties as of December 31, 2015 have been deferred by the Manager. The Company will recognize any contingent fees in future periods to the extent, if any, it determines that it is probable that the estimated net sale proceeds would exceed the hurdles listed above. As of December 31, 2015, the Company determined that there was insufficient evidence to support recognition of these contingent fees; therefore, the Company has not recognized any expense for the contingent amounts deferred.

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:

Year ended December 31,		
2015	2014	2013
$ 5,885,242	$ 2,882,283	$ 2,186,981

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 $804,648, $778,888 and $346,200 for the twelve-month periods ended December 31, 2015, 2014 and 2013, respectively and Preferred Capital Securities, LLC, or PCS, was reimbursed $390,872 for the twelve-month period ended December 31, 2015. These costs are recorded as deferred offering costs until such time as additional closings occur on the Unit offerings or the Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders’ equity.

The Company's Haven West, Haven 12, Stadium Village, 18 Nineteen, Haven South, and Haven Tampa 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 disposition fees based on the lesser of (A) one-half of the commission that would be reasonable and customary; and (B) 1% of the sale price of the asset.

Furthermore, the Manager holds the special limited partnership interest in the Operating Partnership, which entitles the Manager to distributions from the Operating Partnership equal to 15% of any net proceeds from the sale of a property that are remaining after the payment of (i) the capital and certain expenses related to all realized investments (including the sold asset), and (ii) a 7% priority annual return on such capital and expense; provided that all accrued and unpaid dividends on the Preferred Stock have been paid in full.

The Company did not incur any of these other potential fees during the twelve-month periods ended December 31, 2015, 2014, or 2013.

On September 4, 2015, the Company acquired Royal Lakes Marketplace, a grocery-anchored shopping center in the Atlanta, Georgia market, from Madison Retail - Royal Lakes, LLC, a Georgia limited liability company. WRF provided an equity investment in support of the development of Royal Lakes Marketplace and received $1.9 million from the sales proceeds. The Company executed a net profits interest agreement on September 4, 2015 with the Seller of Royal Lakes Marketplace, or Net Profits Interest Agreement. The Net Profits Interest Agreement grants the seller a 30% profit sharing interest in proceeds net of closing costs for Qualifying Transactions (as defined below) related to the four pads of vacant outparcel land acquired as part of the Royal Lakes Marketplace transaction. Qualifying Transactions, as defined in the agreement, include the sale of the outparcels, entry into a ground lease on the outparcels or a build-to-suit transaction. The profit sharing interest expires if no Qualifying Transactions are initiated by September 4, 2020.

The Company holds a promissory note in the amount of $1,305,550 due from Preferred Capital Marketing Services, LLC, or PCMS, which is a wholly-owned subsidiary of NELL Partners.

The Company extended a revolving line of credit with a maximum borrowing amount of $13.0 million to its Manager. See Note 19, Subsequent Events.

8. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions on its Preferred Stock in the amount of $5.00 per share per month, prorated for partial months at issuance as necessary. The Company's cash distributions on its Preferred Stock were:

F- 27

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

2015			2014		
Record date	Number of shares	Aggregate dividends declared	Record date	Number of shares	Aggregate dividends declared
January 30, 2015	192,607	$984,217	January 31, 2014	89,313	$454,344
February 27, 2015	206,007	1,047,189	February 28, 2014	93,005	468,337
March 31, 2015	223,699	1,141,491	March 31, 2014	98,200	497,855
April 30, 2015	243,570	1,244,249	April 30, 2014	101,436	510,905
May 29, 2015	267,273	1,366,207	May 30, 2014	105,630	533,800
June 30, 2015	288,392	1,480,101	June 30, 2014	109,865	556,074
July 31, 2015	311,944	1,588,310	July 31, 2014	115,114	583,110
August 31, 2015	334,013	1,701,019	August 29, 2014	123,334	626,595
September 30, 2015	358,687	1,824,796	September 30, 2014	135,109	693,812
October 30, 2015	384,085	1,955,840	October 31, 2014	146,145	744,271
November 30, 2015	417,895	2,138,764	November 30, 2014	159,325	812,608
December 31, 2015	446,165	2,279,751	December 31, 2014	175,024	900,609
	Total	$18,751,934		Total	$7,382,320

The Company's dividend activity on its Common Stock for the twelve-month periods ended December 31, 2015 and 2014 was:

2015				2014			
Record date	Number of shares	Dividend per share	Aggregate dividends paid	Record date	Number of shares	Dividend per share	Aggregate dividends paid
March 13, 2015	22,004,309	$0.175	$3,850,754	March 14, 2014	15,336,059	$0.16	$2,453,769
June 15, 2015	22,290,677	0.18	4,012,322	June 16, 2014	16,613,827	0.16	2,658,212
September 15, 2015	22,323,604	0.18	4,018,249	September 15, 2014	18,361,942	0.16	2,937,911
December 15, 2015	22,415,578	0.1925	4,314,999	December 15, 2014	21,128,203	$0.175	3,697,436
		$0.7275	$16,196,324			$0.655	$11,747,328

The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as those declared on the Common Stock. At December 31, 2015, the Company had 276,560 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:

2015			2014		
Declaration date	Payment date	Aggregate distributions	Declaration date	Payment date	Aggregate distributions
February 5, 2015	April 22, 2015	$49,063	February 6, 2014	April 22, 2014	$36,552

April 29, 2015	July 15, 2015	50,465	May 8, 2014	July 17, 2014	21,509
August 6, 2015	October 21, 2015	49,779	August 7, 2014	October 17, 2014	23,201
November 5, 2015	January 15, 2016	53,238	November 3, 2014	January 15, 2015	25,379
		$202,545			$106,641

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

The income tax characterization of the Company's dividend distributions were as follows:

	2015		2014		2013	
Preferred Stock:						
Ordinary income	100	%	100	%	70.2	%
Return of Capital	—		—		29.8	%
Common Stock:						
Ordinary income	33	%	100	%	—	
Return of Capital	67	%	—		100	%

9. 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, or, as amended, the 2011 Plan, to incentivize, compensate and retain eligible officers, consultants, and non-employee directors. Awards may be made in the form of issuances of Common Stock, restricted stock, stock appreciation rights ("SARs"), performance shares, incentive stock options, non-qualified stock options, or other forms. Eligibility for receipt of, amounts, and all terms governing awards pursuant to the 2011 Plan, such as vesting periods and voting and dividend rights on unvested awards, are determined by the Compensation Committee of the Company's Board of Directors.

On May 9, 2013, the Company's stockholders approved the second amendment to the 2011 Plan, to increase the aggregate number of authorized shares of Common Stock authorized for issuance under the 2011 Plan to 1,317,500 and to extend the expiration date of the 2011 Plan to December 31, 2016.

Equity compensation expense by award type for the Company was:

	Year ended December 31,			Unamortized expense as of December 31,
	2015	2014	2013	2015
Quarterly board member committee fee grants	$ 53,926	$ 47,864	$ 46,089	$ —
Class B Unit awards:				
Executive officers - 2012	—	—	2,580	—
Executive officers - 2013	—	2,318	859,901	—
Executive officers - 2014	3,825	1,433,767	—	—
Executive officers - 2015	1,984,052	—	—	5,236
Vice chairman of board of directors	—	—	25,623	—
Restricted stock grants:				
2012	—	—	86,250	—
2013	—	85,812	171,194	—
2014	107,321	214,588	—	—
2015	213,329	—	—	106,683
Total	$ 2,362,453	$ 1,784,349	$ 1,191,637	$ 111,919

Restricted Stock Grants

On May 9, 2013, the Company granted a total of 29,016 shares of restricted Common Stock to its independent board members, in payment of their annual retainer fees. The per-share fair value was $8.85 and total compensation cost in the amount of $256,792 was recognized on a straight-line basis over the period ending with the vest date, which was May 8, 2014. On January 1, 2014,

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

1,957 shares of restricted stock from this grant were forfeited upon the transition of the vice chairman of the Company's board of directors from an independent director status to an employee of the Manager.

On January 1, 2014, the Company granted 2,178 shares of restricted Common Stock to a new independent board member, in pro-rata payment of his annual retainer fee. The per-share fair value was $8.04 and total compensation cost in the amount of $17,511 was recognized on a straight-line basis over the period beginning on the date of grant and ending on May 8, 2014.

On May 8, 2014, the Company granted a total of 39,216 shares of restricted Common Stock to its independent board members, in payment of their annual retainer fees. The per-share fair value was $8.21 and total compensation cost in the amount of $321,963 will be recognized on a straight-line basis over the period ending on the earlier of first anniversary of the grant date and the date of the next annual meeting of the Company's stockholders.

On May 7, 2015, the Company granted a total of 30,133 shares of restricted Common Stock to its independent board members, in payment of their annual retainer fees. The per-share fair value was $10.62 and total compensation cost in the amount of $320,012 will be recognized over the four following 90-day periods following the date of grant. The shares granted will vest on a pro-rata basis over these same four periods.

Directors’ Stock Grants

The Company grants shares of Common Stock to its independent board members in payment of their meeting fees. The total compensation cost of these immediate-vesting awards was recorded in full at the grant dates and the fair values were based upon the closing prices of the Common Stock on the trading days immediately preceding the dates of grant. Details concerning these grants were:

Grant date	Number of shares	Fair value per share	Total fair value
2/7/2013	2,115	$ 8.59	$ 18,168
8/8/2013	708	$ 8.45	5,983
11/7/2013	2,178	$ 8.28	18,034
12/26/2013	488	$ 8.00	3,904
	5,489		$ 46,089
2/6/2014	2,241	$ 8.00	$ 17,928
8/7/2014	1,350	$ 8.80	11,880
11/3/2014	2,102	$ 8.59	18,056
	5,693		$ 47,864
2/5/2015	1,782	$ 10.05	$ 17,909
5/7/2015	564	$ 10.62	5,990
8/6/2015	1,647	$ 10.94	18,019
11/4/2015	540	$ 11.14	6,016
11/5/2015	534	$ 11.22	5,992
	$ 5,067		$ 53,926

Class B OP Units

On January 2, 2013, pursuant to the limited partnership agreement of the Operating Partnership, the Company caused the Operating Partnership to grant 142,046 Class B Units of the Operating Partnership, or Class B OP Units, to certain of its executive officers as compensation for service to be rendered during 2013. On January 2, 2014, the Company caused the Operating Partnership to grant 239,556 Class B OP Units for service to be rendered during 2014. On January 2, 2015, the Company caused the Operating Partnership to grant 285,997 Class B OP Units for service to be rendered during 2015.

The Class B OP Units become Vested Class B OP Units at the Initial Valuation Date, which is one year 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 OP Units become earned Class B OP Units and automatically convert into Class A OP 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 OP Units may become Earned Class B OP 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 OP Units that do not become Earned Class B OP Units on the Initial Valuation Date are subsequently remeasured on a quarterly basis until such time as all Vested Class B OP Units become Earned Class B OP Units or are forfeited due to termination of continuous service as an officer of the Company 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 OP Units to qualify to become fully Earned Class B OP Units.

The market capitalization achievement measure described above that determines the transition of the Vested Class B OP Units to Earned Class B OP Units requires the utilization of a Monte Carlo simulation 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 3, 2013, the 106,988 outstanding Class B OP Units for service provided during 2012 became fully vested and earned and automatically converted to Class A OP Units of the Operating Partnership. On January 2, 2014, 131,464 of the 142,046 outstanding Class B OP Units for 2013 became fully vested and earned and automatically converted to Class A OP Units of the Operating Partnership. The remaining 10,582 unvested 2013 Class B OP Units became vested and earned and automatically converted to Class A OP Units of the Operating Partnership on June 30, 2014.

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

Grant dates	1/2/2013		1/2/2014		1/2/2015	
Stock price	$7.88		$8.05		$9.21	
Dividend yield	7.36	%	8.12	%	7.60	%
Expected volatility	32.1	%	32.72	%	30.13	%
Risk-free interest rate	2.91	%	3.80	%	2.55	%
Derived service period (years)	1.0		1.0		1.0	
Number of Units granted	142,046		239,556		285,997	

Calculated fair value per Unit, assuming:			
50% vesting	$—	$—	$—
100% vesting	$6.07	$5.94	$6.81
Total fair value of Units	$862,219	$1,422,963	$1,947,640
Target market threshold increase	$1,150,000	$1,959,000	$2,629,000

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 $0.145 for the 2013 annual awards, $0.16 for the 2014 awards and $0.1925 for the 2015 awards.

Since the Company has a limited amount of operating history in the public equity market, the expected volatility assumption was derived from the observed historical volatility of the common stock prices of a select group of peer companies within the REIT industry that most closely approximate the Company's size, capitalization, leverage, line of business and geographic focus markets.

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.

The forfeiture rate assumption for these Class B OP Units was set to 0%.

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.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

10. Indebtedness

Mortgage Notes Payable

The following table shows certain details regarding our mortgage notes payable:

	Acquisition/ refinancing date	Principal balance as of December 31, 2015	Principal balance as of December 31, 2014	Maturity date	Interest rate [1]		Interest only through date [2]
Trail Creek	6/25/2013	$28,109,000	$28,109,000	7/1/2020	4.22	%	7/1/2020
Stone Rise	7/3/2014	25,014,250	25,187,000	8/1/2019	2.89	%	8/31/2015
Summit Crossing	4/21/2011	20,366,748	20,685,760	5/1/2018	4.71	%	5/1/2014
Summit Crossing secondary financing	8/28/2014	5,145,250	5,229,386	9/1/2019	4.39	%	N/A
Summit II	3/20/2014	13,357,000	13,357,000	4/1/2021	4.49	%	3/1/2020
Ashford Park	1/24/2013	25,626,000	25,626,000	2/1/2020	3.13	%	2/28/2018
Ashford Park secondary financing	8/28/2014	6,520,564	6,632,542	2/1/2020	4.13	%	N/A
McNeil Ranch	1/24/2013	13,646,000	13,646,000	2/1/2020	3.13	%	2/28/2018
Lake Cameron	1/24/2013	19,773,000	19,773,000	2/1/2020	3.13	%	2/28/2018
Enclave	9/26/2014	24,862,000	24,862,000	10/1/2021	3.68	%	10/31/2017
Sandstone	9/26/2014	31,556,664	32,200,225	10/1/2019	3.18	%	N/A
Stoneridge	9/26/2014	27,302,546	27,859,349	10/1/2019	3.18	%	N/A
Vineyards	9/26/2014	34,775,000	34,775,000	10/1/2021	3.68	%	10/31/2017
Spring Hill Plaza	9/5/2014	9,868,025	9,900,000	10/1/2019	3.36	%	10/31/2015
Parkway Town Centre	9/5/2014	7,176,745	7,200,000	10/1/2019	3.36	%	10/31/2015
Woodstock Crossing	8/8/2014	3,090,953	3,138,389	9/1/2021	4.71	%	N/A
Deltona Landings	9/30/2014	7,074,722	7,215,551	10/1/2019	3.48	%	N/A
Powder Springs	9/30/2014	7,465,051	7,613,650	10/1/2019	3.48	%	N/A
Kingwood Glen	9/30/2014	11,836,741	12,072,363	10/1/2019	3.48	%	N/A
Barclay Crossing	9/30/2014	6,655,117	6,787,594	10/1/2019	3.48	%	N/A
Sweetgrass Corner	9/30/2014	8,063,653	8,221,429	10/1/2019	3.58	%	N/A
Parkway Centre	9/30/2014	4,635,162	4,727,430	10/1/2019	3.48	%	N/A
Salem Cove	10/6/2014	9,600,000	9,600,000	11/1/2024	4.21	%	11/30/2016
Avenues at Cypress	2/13/2015	22,578,863	—	9/1/2022	3.43	%	N/A
Avenues at Northpointe	2/13/2015	27,878,000	—	3/1/2022	3.16	%	3/31/2017
Lakewood Ranch	5/21/2015	30,528,618	—	12/1/2022	3.55	%	N/A
Aster Lely	6/24/2015	33,746,379	—	7/5/2022	3.84	%	N/A
CityPark View	6/30/2015	21,924,060	—	7/1/2022	3.27	%	N/A
Avenues at Creekside	7/31/2015	41,625,000	—	8/1/2024	1.79	% [3]	8/31/2016
Citi Lakes	9/3/2015	44,282,826	—	4/1/2023	2.36	% [4]	N/A
Independence Square	8/27/2015	12,617,500	—	9/1/2022	3.93	%	9/30/2016
Royal Lakes Marketplace	9/4/2015	9,800,000	—	9/4/2020	2.74	% [5]	4/3/2017
Stone Creek	11/12/2015	16,792,850	—	10/1/2046	3.75	%	N/A

Lenox Village Town Center	12/21/2015	31,394,460	—	5/1/2019	3.82	%	N/A
Lenox Village III	12/21/2015	18,410,000	—	1/1/2023	4.04	%	N/A
Overlook at Hamilton Place	12/22/2015	21,000,000	—	1/1/2026	4.19	%	N/A
Summit Point	10/30/2015	12,846,544	—	11/1/2022	3.57	%	N/A
Total		$696,945,291	$354,418,668				

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

Footnotes to Mortgage Notes Table

(1) Interest rates are fixed, except as indicated.
(2) Following the indicated interest only period (where applicable), monthly payments of accrued interest and principal are based on a 30-year amortization period through the maturity date.
(3) The mortgage instrument was assumed as part of the sales transaction; It accrues interest at a variable rate which consists of the one-month London Interbank Offered Rate, or 1 Month LIBOR, plus 160 basis points. The 1 Month LIBOR index is capped at 5.0%.
(4) Variable rate which consists of 1 Month LIBOR plus 217 basis points. The 1 Month LIBOR index is capped at 4.33%.
(5) Variable rate which consisted of 1 Month LIBOR plus 250 basis points.

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 December 31, 2015, the Company has an outstanding principal balance of $9.8 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 2.74% as of December 31, 2015.

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.

Credit Facility

The Company has a credit facility, or Credit Facility, with Key Bank National Association, or Key Bank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of Key Bank), working capital and other general corporate purposes on an as needed basis. The maximum borrowing capacity on the Revolving Line of Credit was $40,000,000 until the amendment of the loan agreement pursuant to the Third Modification Agreement, which became effective July 1, 2014.
The Third Modification Agreement increased our borrowing capacity on the Revolving Line of Credit from $40 million to $45 million and extended the maturity date to July 1, 2015. Once the Company's operating real estate assets exceeded $300 million, the borrowing capacity was increased to $50 million. On February 12, 2015, the Company extended the maturity of its Revolving Line of Credit to February 12, 2016 and amended the interest rate to 1 Month LIBOR plus 3.25% per annum. On August 28, 2015, we entered into the Third Amended and Restated Credit Agreement, under which our borrowing capacity on the Revolving Line of Credit was increased to $70.0 million and the maturity date was extended to August 27, 2018.

On September 19, 2014, the Company entered into an Amended and Restated Credit Agreement with Key Bank that also added a $45 million term loan, or Term Loan, to the Company's Credit Facility, for the specific purpose to partially finance the acquisitions of the Sunbelt and Dunbar portfolios. The Term Loan bore interest at 1 Month LIBOR plus 4.5%. On December 23, 2014, the Company repaid in full the outstanding principal and accrued interest owed and thereby terminated the Term Loan. On February 12, 2015, the Company entered into a $32.0 million term loan with Key Bank National Association under the Credit Facility, or the Term Loan, to partially finance the acquisition of two multifamily communities in Houston, Texas. The Term Loan accrued interest at a rate of 1 Month LIBOR plus 4.0% per annum until it was repaid in full on May 12, 2015.

The 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,

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

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 December 31, 2015, 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 $275,000,000	(2)	$525,453,790
Debt yield	Minimum 8.0%		8.69%
Payout ratio	Maximum 95%	(3)	80.1%
Total leverage ratio	Maximum 62.5%		56.7%
Debt service coverage ratio	Minimum 1.50x		2.65x

(1) All covenants are as defined in the credit agreement for the Revolving Line of Credit.
(2) Minimum $275 million plus 75% of the net proceeds of any equity offering, which totaled approximately $373 million as of December 31, 2015.
(3)Calculated on a trailing four-quarter basis. For the twelve-month period ended December 31, 2015, the maximum dividends and distributions allowed under this covenant was approximately $41,675,000.

Loan fees and closing costs for the establishment and subsequent amendments of the Revolving Line of Credit, the Term Loan, as well as the mortgage debt on the Company's multifamily communities and grocery-anchored shopping centers, are amortized utilizing the straight-line method over the lives of the loans, which approximates the effective interest method. At December 31, 2015, aggregate unamortized loan costs were approximately $8.6 million, which will be amortized over a weighted average remaining loan life of approximately 5.7 years. The weighted average interest rate for the Credit Facility was 3.7% for the twelve-month period ended December 31, 2015. The Revolving Line of Credit also bore a commitment fee on the average daily unused portion of the Revolving Credit Facility of 0.35% per annum until August 28, 2015, when the unused commitment fee was amended to 0.20% or 0.30% per annum, based on the amount borrowed as a percentage of the total commitment, pursuant to the Third Amended and Restated Credit Agreement.

Interest Expense

Interest expense, including amortization of deferred loan costs was:

	Year ended December 31,		
	2015	2014	2013
Multifamily communities:			
Properties acquired prior to 2014	$6,334,002	$5,930,170	$4,446,828
Dunbar Portfolio	4,352,703	1,179,122	—
Houston Portfolio	1,545,993	—	—
Other properties acquired during 2015	2,761,356	—	—
Retail shopping centers:			
Sunbelt Portfolio	1,824,503	474,244	—
Nashville Portfolio	655,488	207,987	—
Other	999,887	171,866	—
Interest paid to real estate loan participants	1,496,566	219,587	—

	19,970,498	8,182,976	4,446,828
Revolving Credit Facility and Term Note	1,345,233	2,005,211	1,041,524
Interest Expense	$21,315,731	$10,188,187	$5,488,352

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

Future Principal Payments

The Company’s estimated future principal payments due on its debt instruments, including its line of credit as of December 31, 2015 were:

Period	Future principal payments
2016	$43,291,656
2017	10,809,696
2018	32,506,100
2019	180,737,566
2020	108,446,262
thereafter	355,654,011
Total	$731,445,291

11. 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 for the years ended December 31, 2015, 2014 and 2013.

12. 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 December 31, 2015, the amount guarantied by the Company was $6.4 million and is reduced by $555,000 per lease year over the term of the lease.
Certain officers and employees of the Manager have been assigned company credit cards. As of December 31, 2015, the Company guarantied up to $405,000 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 $2.1 million of combined asset management and general and administrative expense fees related to the acquired properties as of December 31, 2015 have been deferred by the Manager. The Company will recognize any contingent fees in future periods to the extent, if any, it determines that it is probable that the estimated net sale proceeds would exceed the hurdles listed above.

At December 31, 2015, the Company had unfunded balances on its real estate loan portfolio of approximately $43.5 million.

13. Operating Leases

The Company’s grocery-anchored shopping centers are leased to tenants under operating leases for which the terms vary. The future minimum rental income due under the remaining non-cancelable terms of the Company's operating leases in place, excluding tenant reimbursements of operating expenses and real estate taxes and additional percentage rent based on tenants’ sales volumes, as of December 31, 2015, is presented below, assuming that all leases which expire are not renewed and tenant renewal options are not exercised:

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

For the years ending December 31:	Future Minimum Rents
2016	$ 13,638,704
2017	12,190,508
2018	10,987,319
2019	8,913,162
2020	7,251,423
Thereafter	30,412,505
	$ 83,393,621

The Company’s grocery-anchored shopping centers are geographically concentrated within the Sunbelt region of the United States. The Company’s retail tenant base primary consists of national and regional supermarkets, consumer services, healthcare providers, and restaurants. Our grocery anchor tenants comprise approximately 51.5% of our gross leasable area. Our credit risk, therefore, is concentrated in the retail/grocery real estate sector. Amounts required as security deposits vary depending upon the terms of the respective leases and the creditworthiness of the tenant, with the exception of our grocer anchor tenants, who generally are not required to provide security deposits. Exposure to credit risk is limited to the extent that tenant receivables exceed security deposits. Security deposits related to tenant leases are included in security deposits and other liabilities in the accompanying consolidated balance sheets.

14. 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 three distinct segments: multifamily communities, real estate related financing, and retail.

Multifamily Communities - consists of the Company's portfolio of owned residential multifamily communities.

Financing - consists of the Company's investment 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.

Retail - consists of the Company's portfolio of grocery-anchored shopping centers.

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.

	December 31, 2015	December 31, 2014
Assets:		
Multifamily communities	$781,224,019	$368,224,617
Financing	290,268,921	189,984,602
Retail	211,647,262	123,932,893
Other	12,388,831	9,240,795
Consolidated assets	$1,295,529,033	$691,382,907

Total capitalized expenditures of $3,579,457 and $1,868,904 (excluding the purchase price of acquisitions) were recorded for the twelve months ended December 31, 2015 and 2014, respectively, attributable to the Company's multifamily communities segment. Total capitalized expenditures of $1,088,585 and $221,950 (excluding the purchase price of acquisitions) were recorded for the twelve months ended December 31, 2015 and 2014, respectively, attributable to the Company's retail segment.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

	Twelve months ended December 31,		
	2015	2014	2013
Revenues			
Multifamily communities	$65,232,087	$31,234,822	$22,402,823
Financing	30,681,709	21,827,725	9,730,668
Retail	13,391,716	3,473,823	—
Consolidated revenues	$109,305,512	$56,536,370	$32,133,491
Segment net operating income (Segment NOI)			
Multifamily communities	$36,339,603	$18,209,645	$12,972,052
Financing	30,681,709	21,827,725	9,730,668
Retail	9,499,476	2,526,122	—
Consolidated segment net operating income	76,520,788	42,563,492	22,702,720
Interest and loss on early debt extinguishment:			
Multifamily communities	14,994,054	7,109,292	5,051,166
Retail	3,479,879	854,097	—
Financing	2,841,799	2,224,798	1,041,524
Depreciation and amortization:			
Multifamily communities	30,970,345	14,199,048	15,250,130
Retail	7,125,989	2,129,667	—
Professional fees	1,880,232	1,261,667	705,430
Management fees, net of deferrals	5,235,748	3,214,642	1,983,999
Acquisition costs:			
Multifamily communities	7,496,798	3,109,252	1,476,375
Retail	1,656,965	4,123,365	52,791
Equity compensation to directors and executives	2,362,453	1,784,349	1,191,637
Other	902,515	426,112	155,160
Net income (loss)	$(2,425,989)	$2,127,203	$(4,205,492)

15. 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:

	Year ended December 31,		
	2015	2014	2013
Numerator:			

Net income (loss)	$(2,425,989)	$2,127,203	$(4,205,492)
Net (income) loss attributable to non-controlling interests	25,321	(33,714)	222,404
Net income (loss) attributable to the Company	(2,400,668)	2,093,489	(3,983,088)
Dividends declared to Series A preferred stockholders (A)	(18,751,934)	(7,382,320)	(3,272,670)
Dividends declared to Series B preferred stockholders	—	—	(690,476)
Deemed non-cash dividend to holders of Series B Preferred Stock	—	—	(7,028,557)
Earnings attributable to unvested restricted stock (B)	(19,256)	(24,090)	(18,139)
Net loss attributable to common stockholders	$(21,171,858)	$(5,312,921)	$(14,992,930)
Denominator:			
Weighted average number of shares of Common Stock - basic	22,182,971	17,399,147	9,456,228
Effect of dilutive securities: (C)			
Warrants	—	—	—
Class B Units	—	—	—
Unvested restricted stock	—	—	—
Weighted average number of shares of Common Stock - diluted	22,182,971	17,399,147	9,456,228
Net loss per share of Common Stock attributable to common stockholders, basic and diluted	$(0.95)	$(0.31)	$(1.59)

(A) 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 482,964, 192,846, and 89,313 outstanding shares of Series A Preferred Stock at December 31, 2015, 2014, and 2013, respectively.

(B) The Company's outstanding unvested restricted share awards (15,067, 39,216, and 29,016 shares of Common Stock at December 31, 2015, 2014, and 2013, 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 attributable to common stockholders for the twelve-month periods ended December 31, 2015, 2014 and 2013, 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.

(C) Potential dilution from 150,000 shares of Common Stock that would have been outstanding for the first quarter of 2015 due to the hypothetical exercise of a warrant issued by the Company to International Assets Advisory LLC, or IAA, on March 31, 2011, which expired on March 31, 2015, and warrants outstanding from issuances of Units from our Primary Series A Offering that are potentially exercisable into 9,141,180 shares of Common Stock, 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)
December 31, 2015

16. Selected Quarterly Financial Data (unaudited)

Quarterly financial information was as follows:

	Three months ended:			
	3/31/2015	6/30/2015	9/30/2015	12/31/2015
Revenues	$21,344,515	$24,088,827	$29,955,693	$33,916,477
Operating (loss) income	$3,612,186	$5,109,304	$4,120,993	$6,047,259
Net (loss) income	$(764,929)	$420,836	$(1,697,767)	$(384,129)
Net (loss) income attributable to common stockholders	$(3,934,990)	$(3,679,421)	$(6,800,672)	$(6,756,775)
Net (loss) income per share of Common Stock available to Common Stockholders:				
Basic	$(0.18)	$(0.17)	$(0.31)	$(0.30)
Diluted	$(0.18)	$(0.17)	$(0.31)	$(0.30)
Weighted average shares outstanding:				
Basic	21,813,974	22,215,663	22,292,217	22,402,366
Diluted	21,813,974	22,215,663	22,292,217	22,402,366

	Three months ended:			
	3/31/2014	6/30/2014	9/30/2014	12/31/2014
Revenues [(1)]	$11,240,082	$12,065,190	$13,182,660	$20,048,438
Operating (loss) income [(1)]	$4,511,492	$4,208,870	$(1,079,326)	$4,674,354
Net (loss) income	$2,795,841	$2,424,472	$(3,229,373)	$136,263
Net (loss) income attributable to common stockholders	$1,331,765	$797,053	$(5,112,684)	$(2,329,055)
Net (loss) income per share of Common Stock available to Common Stockholders:				
Basic	$0.09	$0.05	$(0.29)	$(0.11)
Diluted	$0.09	$0.05	$(0.29)	$(0.11)
Weighted average shares outstanding:				
Basic	15,316,816	16,287,354	17,564,091	20,364,971
Diluted	15,562,608	16,421,351	17,564,091	20,750,050
Total revenues previously reported in Form 10-K	$10,182,406			
Total revenues subsequently reclassified from discontinued operations	1,057,676			
Total revenues reported in Form 10-K	$11,240,082	$12,065,190	$13,182,660	$20,048,438
Operating (loss) income previously reported in Form 10-K	$3,879,608			
	631,884			

Operating income subsequently reclassified from discontinued operations				
Operating (loss) income reported in Form 10-K	$4,511,492	$4,208,870	$(1,079,326)	$4,674,354
Net (loss) income from continuing operations previously reported in Form 10-K	$2,478,420			
Net income from continuing operations subsequently reclassified from discontinued operations	317,421			
Net (loss) income reported in Form 10-K	$2,795,841	$2,424,472	$(3,229,373)	$136,263

F- 39

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

17. Pro Forma Financial Information (unaudited)

The Company's condensed pro forma financial results assume the following acquisitions were hypothetically completed on January 1 of the previous year, as shown below:

Hypothetical acquisition date	
1/1/2014	1/1/2013
Lenox Portfolio	Dunbar Portfolio
Stone Creek	Salem Cove
Citi Lakes	Sunbelt Portfolio
Avenues at Creekside	Spring Hill Plaza
CityPark View	Parkway Town Centre
Aster at Lely	
Venue at Lakewood Ranch	
Houston Portfolio	
Overlook at Hamilton Place	
Summit Point	
Royal Lakes Marketplace	
Independence Square	

The Company's condensed pro forma financial results were:

	Twelve months ended December 31,		
	2015	2014	2013
Pro forma:			
Revenues	$134,809,496	$106,896,527	$61,938,596
Net income (loss)	$(2,559,642)	$(24,386,460)	$(13,306,938)
Net income (loss) attributable to the Company	$(2,532,673)	$(24,171,219)	$(12,970,994)
Net loss attributable to common stockholders	$(21,303,863)	$(31,577,629)	$(23,980,836)
Net income loss per share of Common Stock attributable to common stockholders, Basic and diluted	$(0.89)	$(1.68)	$(2.20)
Weighted average number of shares of Common Stock outstanding, Basic and diluted	24,020,222	18,850,410	10,906,208

Material nonrecurring pro forma adjustments which were directly attributable to these business combinations included the pro forma issuance at January 1, 2013 of 1,450,000 shares of Common Stock to partially finance certain of these acquisitions, and the removal of all acquisition fees incurred from the actual historical periods of recognition of approximately $(9.1 million), $(2.1 million) and $2.6 million for the twelve-month periods ended December 31, 2015, 2014, and 2013, respectively. Of those acquisition fees removed, the 1% acquisition fees, which are contractually due to PAA, were pushed back to the pro forma acquisition periods. 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.

18. 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 Company's Fusion loan was measured at fair value on a recurring basis as of December 31, 2014; it was converted to a real estate loan on July 1, 2015.

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

loan fee revenue, where applicable. Accrued interest included in the carrying values of the Company's real estate loans was approximately $14.3 million and $8.0 million at December 31, 2015 and 2014, respectively.

	As of December 31, 2015				
			Fair value measurements using fair value hierarchy		
	Carrying value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Real estate loans [1]	$252,296,406	$267,383,427	$—	$—	$267,383,427
Notes receivable and line of credit receivable	37,943,733	37,943,733	—	—	37,943,733
	$290,240,139	$305,327,160	$—	$—	$305,327,160
Financial Liabilities:					
Mortgage notes payable	$696,945,291	$692,008,640	$—	$—	$692,008,640
Revolving Line of Credit	34,500,000	34,500,000	—	—	34,500,000
Loan participation obligations	13,544,160	14,061,190	—	—	14,061,190
	$744,989,451	$740,569,830	$—	$—	$740,569,830

	As of December 31, 2014				
			Fair value measurements using fair value hierarchy		
	Carrying value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Real estate loans [1]	$161,268,255	$166,583,953	$—	$—	$166,583,953
Notes receivable	28,697,560	28,697,560	—	—	28,697,560
Line of credit receivable	—	—	—	—	—
	$189,965,815	$195,281,513	$—	$—	$195,281,513
Financial Liabilities:					
Mortgage notes payable [2]	$354,418,668	360,557,496	$—	$—	$360,557,496
Revolving credit facility	24,500,000	24,500,000	—	—	24,500,000
Loan participation obligations	7,990,798	8,399,069	—	—	8,399,069
	$386,909,466	$393,456,565	$—	$—	$393,456,565

(1) The carrying value of real estate loans includes the Fusion loan of $37,072,235 and 20,313,722 at December 31, 2015 and December 31, 2014, respectively, for which the Company elected to account for utilizing the fair value option on a recurring basis until it was converted to a real estate loan on July 1, 2015. The carrying value of real estate assets also includes the Company's balance of the Palisades, Green Park, Founders' Village and Stadium Village real estate loans, which includes the amounts funded by unrelated participants. The loan participation obligations are the amounts due the participants under these arrangements.

(2) The carrying value of mortgage notes payable consists of the principal amounts due reduced by any unamortized deferred loan issuance costs.

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 exit fee or additional interest payment due the Company at the maturity date of the loan, based on the outstanding loan balances at December 31, 2015, discounted to the reporting date utilizing a discount rate believed to be appropriate for multifamily development projects. At the date of the Fusion loan, the Company elected the fair value

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2015

option as the carrying amount of the loan. The significant unobservable input into this level 3 fair value assessment classification included a remote possibility of realization of the $2,000,000 exit fee at December 31, 2014. Because the interest rate of the loan approximated market rates for similar loans, and due to the short term nature of the loan, the Company determined that the face amount of the loan approximated its fair market value at that date. The Fusion loan was converted from a bridge loan to a real estate loan on July 1, 2015 and the Company ceased the fair value option election as of that date since the exit fee feature is not present in the real estate loan.

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 and seven 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.

19. Subsequent Events

On January 2, 2016, the Company had exceeded the benchmark market capitalization goal set as the vesting hurdle for its Class B Unit grants made to certain members of senior management for service provided during 2015. All of the 285,997 Class B Units granted on January 2, 2015 vested and automatically converted to Class A Units.

On January 4, 2016, the Company awarded 265,931 Class B Units to its executive officers and other key personnel for service to be provided during 2016. The total compensation cost was calculated to be $2,667,288. The 2016 award carries vesting terms and features substantially similar to the Class B Units awarded for previous years, except $893,633 will be recognized in three consecutive equal one year installments ending on the initial valuation dates of January 4, 2017, 2018, and 2019. The remaining compensation cost of $1,773,655 will be recognized on a straight-line basis over the one year period from the grant date to the initial valuation date on January 4, 2017.

On January 4, 2016, the Company extended a$3.8 million revolving line of credit to Mill Green Partners, LLC. The line of credit bears interest of 15.0% per annum and matures on October 15, 2016. On February 22, 2016, the outstanding balance was repaid in full.

On January 5, 2016, the Company acquired a 528-unit multifamily community located in Orlando, Florida and entered into a $35.0 million term loan with Key Bank National Association to partially finance the acquisition. The term loan matures on April 4, 2016, with options to extend the maturity date to October 1, 2016, and accrues interest at a variable rate of 1 Month LIBOR plus 375 basis points, which was an all-in rate of 4.1875% per annum at January 5, 2016. If the loan is extended, the rate increases to 1 Month LIBOR plus 450 basis points.

On January 8, 2016, the Company extended a real estate loan of up to approximately $3.4 million to partially finance the development and construction of a second phase of its CityPark View multifamily community in Charlotte, North Carolina. The loan bears current interest of 8.5% per annum and deferred interest of 5.0% per annum and matures on January 7, 2019, with options to extend the maturity to January 7, 2021.

On January 8, 2016, the Company extended a real estate loan of up to approximately $3.9 million to partially finance the development and construction of a second phase of its CityPark View multifamily community in Charlotte, North Carolina. The loan bears current interest of 8.5% per annum and deferred interest of 5.0% per annum and matures on January 8, 2019, with options to extend the maturity to January 31, 2021.

On January 13, 2016, the Company extended a bridge loan of up to $6.0 million to partially finance the acquisition of land for a proposed multifamily community in Atlanta, Georgia. The loan bears current interest of 9.0% and deferred interest of 3.0% per annum, increasing to current interest of 15.0% per annum on January 13, 2017. The loan matures

on July 13, 2017.
On January 19, 2016, the Company acquired a 342-unit multifamily community located in Tampa, Florida.
On January 27, 2016, the Company increased the maximum lending capacity on the revolving line of credit to its Manager to $15.0 million.

On February 1, 2016, the Company acquired a 294-unit multifamily community located in Atlanta, Georgia.

On February 4, 2016, the Company declared a dividend on its Common Stock of $0.1925 per share, payable on April 15, 2016 to all stockholders of record on March 15, 2016.
On February 18, 2016, the Company extended a real estate loan of up to approximately $12.7 million to partially finance the development and construction of a 232-unit multifamily community in Atlanta, Georgia. The loan bears current interest of 8.5% per annum and deferred interest of 5.0% per annum and matures on February 18, 2020.
On February 22, 2016, the Company replaced the acquisition fee it pays to its Manager with a loan coordination fee based on the amount of secured debt either financed or assumed in connection with acquisitions, and with a loan origination fee based on funds committed for loan investments. These fees will be amortized over the lives of the underlying loans rather recognized as an expense in full at the time of an acquisition. The effective date of this change was January 1, 2016.

On February 29, 2016, the Company acquired a grocery-anchored shopping center in the Atlanta, Georgia market with approximately 75,000 square feet of gross leasable area. The Company issued 423,351 Class A Units in the Operating Partnership to the seller as partial consideration for the acquisition.

On March 2, 2016, the Company increased the maximum lending capacity on the revolving line of credit to Haven Campus Communities to $8.29 million.

Schedule III
Preferred Apartment Communities, Inc.
Real Estate Investments and Accumulated Depreciation
December 31, 2015

Apartments:			Initial Costs		Costs Capitalized	Gross Amount at Which Carried at Close			
Property name	Location (MSA)	Related Encumbrances	Land	Building and Improvements	Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	To
Stone Rise	Philadelphia, PA	$25,014,250	$6,950,000	$21,456,450	$450,238	$6,950,000	$21,906,688	$—	$2
Summit Crossing	Atlanta, GA	25,511,998	3,450,000	27,704,648	678,811	3,450,000	28,383,459	—	31
Summit Crossing II	Atlanta, GA	13,357,000	3,220,000	15,852,100	119,138	3,220,000	15,971,238	(b)	19
Trail Creek	Hampton, VA	28,109,000	2,652,000	19,099,835	1,001,557	2,652,000	20,101,392	—	22
Trail Creek II	Hampton, VA	(c)	1,548,000	15,354,481	(b)	1,548,000	15,354,481	(b)	16
Ashford Park	Atlanta, GA	32,146,564	10,600,000	26,293,524	1,649,372	10,600,000	27,942,896	—	38
McNeil Ranch	Austin, TX	13,646,000	2,100,000	17,556,219	387,089	2,100,000	17,943,308	—	20
Lake Cameron	Raleigh, NC	19,773,000	4,000,000	24,443,573	590,063	4,000,000	25,033,636	—	29
Stoneridge Farms	Nashville, TN	27,302,546	3,026,393	38,478,205	424,185	3,026,393	38,802,520	99,870	41
Vineyards	Houston, TX	34,775,000	5,455,594	46,201,367	248,745	5,455,594	46,403,132	46,980	51
Enclave at Vista Ridge	Dallas, TX	24,862,000	4,704,917	32,173,328	354,455	4,704,917	32,378,797	148,986	37
Sandstone Creek	Kansas City, KS	31,556,664	2,846,197	45,194,352	1,026,380	2,846,197	46,130,875	89,857	49
Avenues at Cypress	Houston, TX	22,578,863	3,241,595	30,092,664	106,943	3,241,595	30,169,678	29,929	33
Avenues at Northpointe	Houston, TX	27,878,000	3,920,631	37,203,283	128,034	3,920,631	37,307,830	23,487	41
Lakewood Ranch	Sarasota, FL	30,528,618	3,791,050	42,950,081	183,935	3,791,050	43,077,365	56,651	46
Aster at Lely Resort	Naples, FL	33,746,379	7,675,409	43,794,285	29,272	7,675,409	43,823,557	—	51
CityPark View	Charlotte, NC	21,924,060	3,558,793	28,359,912	9,855	3,558,793	28,369,767	—	31
Avenues at Creekside	San Antonio, TX	41,625,000	5,983,724	48,989,119	78,633	5,983,724	49,048,084	19,668	55
Citi Lakes	Orlando, FL	44,282,826	5,558,033	56,827,859	56,143	5,558,033	56,850,939	33,063	62
Stone Creek	Houston, TX	16,792,850	2,210,630	22,915,674	85,832	2,210,630	22,990,751	10,755	25
Regent at Lenox	Nashville, TN	—	301,455	3,492,892	—	301,455	3,492,892	—	3,

Retreat at Lenox	Nashville, TN	18,410,000	2,964,533	24,210,605	—	2,964,533	24,210,605	—	27
Lenox Village	Nashville, TN	31,394,460	4,611,835	39,911,439	—	4,611,835	39,911,439	—	44
		$565,215,078	$94,370,789	$708,555,895	$7,608,680	$94,370,789	$715,605,329	$559,246	$8

Schedule III (continued)
Preferred Apartment Communities, Inc.
Real Estate Investments and Accumulated Depreciation
December 31, 2015

Neighborhood Retail Centers:			Initial Costs		Costs Capitalized	Gross Amount at Which Carried at C		
Property name	Location (MSA)	Related Encumbrances	Land	Building and Improvements	Subsequent to Acquisition	Land	Building and Improvements	Constru in Progres
Woodstock Crossing	Atlanta, GA	$3,090,953	$1,750,576	$3,800,101	$521,899	$1,750,576	$4,322,000	$—
Parkway Town Centre	Nashville, TN	7,176,745	3,053,816	6,694,333	321,521	3,053,816	7,015,854	—
Spring Hill Plaza	Nashville, TN	9,868,025	4,375,940	8,104,053	33,840	4,375,940	8,137,893	—
Barclay Crossing	Tampa, FL	6,655,117	2,855,845	7,571,732	42,591	2,855,845	7,564,170	50,153
Deltona Landings	Orlando, FL	7,074,722	2,255,891	8,344,124	(27,689)	2,255,891	8,316,435	—
Kingwood Glen	Houston, TX	11,836,741	5,021,327	12,929,578	338,732	5,021,327	13,268,310	—
Parkway Centre	Columbus, GA	4,635,162	2,070,712	4,515,541	(8,913)	2,070,712	4,506,628	—
Powder Springs	Atlanta, GA	7,465,051	1,832,455	8,245,595	(4,330)	1,832,455	8,241,265	—
Sweetgrass Corner	Charleston, SC	8,063,653	3,075,699	12,670,136	(7,046)	3,075,699	12,663,090	—
Salem Cove	Nashville, TN	9,600,000	2,427,095	10,272,370	28,570	2,427,095	10,300,940	—
Independence Square	Dallas, TX	12,617,500	4,114,574	13,690,410	1,843	4,114,574	13,692,253	—
Royal Lakes Marketplace	Atlanta, GA	9,800,000	4,874,078	10,438,594	—	4,874,078	10,438,594	—
Summit Point	Atlanta, GA	12,846,544	7,063,874	11,429,954	—	7,063,874	11,429,954	—
The Overlook at Hamilton Place	Chattanooga, TN	21,000,000	6,786,593	25,244,208	—	6,786,593	25,244,208	—
		$131,730,213	$51,558,475	$143,950,729	$1,241,018	$51,558,475	$145,141,594	$50,15
		$696,945,291	$145,929,264	$852,506,624	$8,849,698	$145,929,264	$860,746,923	$609,3

(1) The aggregate cost for Federal Income Tax purposes to the Company was approximately $860.7 million at December 31, 20
(2) Acquisitions during the year are subsequent phases of properties previously purchased by the Company. Presentation for thi
such as additional costs capitalized and depreciation taken is consolidated within original asset.

(3) When the Company acquired Trail Creek II in June of 2013, the original loan on Trail Creek of approximately $15.3 millio
acquisition.

Schedule III (continued)
Preferred Apartment Communities, Inc.
Real Estate Investments and Accumulated Depreciation
December 31, 2015

Real estate investments	2013	2014	2015
Balance at the beginning of the year	$82,110,956	$204,449,160	$496,475,543
Acquisitions	120,967,897	289,947,272	506,207,786
Improvements	1,318,104	2,024,207	4,125,290
Construction in progress	52,203	66,647	542,752
Write-off of assets no longer in service	—	(11,743)	(65,785)
Balance at the end of the year	$204,449,160	$496,475,543	$1,007,285,586

Accumulated depreciation	2013	2014	2015
Balance at the beginning of the year	$(6,288,998)	$(14,133,421)	$(26,388,066)
Depreciation (a)	(7,844,423)	(12,258,812)	(27,672,385)
Write-off of assets no longer in service	—	4,167	65,785
Balance at the end of the year	$(14,133,421)	$(26,388,066)	$(53,994,666)

(a) Represents depreciation expense of real estate assets. Amounts exclude amortization of lease intangible assets.

Index to Exhibits

The following exhibits are included, or incorporated by reference, in this Annual Report on Form 10-K (and are numbered in accordance with Item 601 of Regulation S-K):

Exhibit No.	Reference	Description
3.1	(2)	Articles of Amendment and Restatement of Preferred Apartment Communities, Inc.
3.2	(2)	Third Amended and Restated By-laws of Preferred Apartment Communities, Inc.
4.1	(11)	Fifth Amended and Restated Partnership Agreement, effective as of January 1, 2014, among Preferred Apartment Communities, Inc., Preferred Apartment Advisors, LLC and the other limited partners party thereto
4.2	(5)	Articles Supplementary for the Series A Redeemable Preferred Stock
4.3	(7)	Amended and Restated Warrant Agreement dated as of March 14, 2012 between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent
4.5	(5)	Form of Global Warrant Certificate
4.6	(6)	Articles Supplementary for the Series B Preferred Stock
4.7	(12)	Articles Supplementary classifying additional shares of the Series A Redeemable Preferred Stock
4.8	(8)	Second Amended and Restated Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent
4.9	(14)	Form of Subscription Agreement
4.10	(18)	First Amendment to the Fifth Amended and Restated Partnership Agreement, dated as of March 14, 2014, between Preferred Apartment Communities, Inc. and Preferred Apartment Advisors, LLC
4.11	(19)	Articles of Amendment Amending the Holder Redemption Options of the Company's Series A Redeemable Preferred Stock
10.1	(16)	Fifth Amended and Restated Management Agreement, effective as of January 1, 2015, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC
10.2	(26)	First Amendment to the Fifth Amended and Restated Management Agreement, effective as of January 1, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC
10.3	(2)	The Company’s 2011 Stock Incentive Plan
10.4	(3)	Trademark License and Assignment Agreement dated September 17, 2010, between Preferred Apartment Communities, Inc. and Preferred Apartment Advisors, LLC
10.5	(2)	Form of Restricted Stock Agreement pursuant to the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan
10.6	(4)	Form of Indemnification Agreement
10.7	(5)	First Amendment to Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan
10.8	(9)	Form of Preferred Apartment Communities, Inc. 2013 Class B Unit Award Agreement
10.9	(10)	Form of Preferred Apartment Communities, Inc. 2014 Class B Unit Award Agreement
10.10	(17)	Form of Preferred Apartment Communities, Inc. 2015 Class B Unit Award Agreement
10.11	(31)	Form of Preferred Apartment Communities, Inc. 2016 Class B Unit Award Agreement
10.12	(7)	Intellectual Property Assignment and License Agreement dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc.
10.13	(7)	Trademark License Agreement dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc.
10.14	(7)	Trademark Assignment dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc.

10.15	(14)	Subscription Escrow Agreement among International Assets Advisory LLC, Preferred Apartment Communities, Inc. and UMB Bank, N.A.

10.16	(13)	Second Amendment to 2011 Stock Incentive Plan
10.17	(15)	At-the-Market Issuance Sales Agreement, dated February 28, 2014, by and between Preferred Apartment Communities, Inc. and MLV & Co. LLC
10.18	(20)	Agreement of Purchase and Sale between Preferred Apartment Communities Operating Partnership, L.P. and Sandstone Overland Park, LLC, Estancia Dallas, LLC, Stoneridge Nashville, LLC and Vineyards Houston, LLC dated as of July 25, 2014
10.19	(21)	Purchase and Sale Agreement between Preferred Apartment Communities Operating Partnership, L.P. and U.S. Retail Income Fund VI, Limited Partnership dated as of August 1, 2014
10.20	(21)	Purchase and Sale Agreement between Preferred Apartment Communities Operating Partnership, L.P. and U.S. Retail Income Fund VII, Limited Partnership dated as of August 1, 2014
10.21	(22)	First Amendment to Purchase and Sale Agreement between Preferred Apartment Communities Operating Partnership, L.P. and U.S. Retail Income Fund VI, Limited Partnership dated as of September 12, 2014
10.22	(22)	First Amendment to Purchase and Sale Agreement between Preferred Apartment Communities Operating Partnership, L.P. and U.S. Retail Income Fund VII, Limited Partnership dated as of September 12, 2014
10.23	(23)	First Amendment to Agreement of Purchase and Sale between Preferred Apartment Communities Operating Partnership, L.P. and Sandstone Overland Park, LLC, Estancia Dallas, LLC, Stoneridge Nashville, LLC and Vineyards Houston, LLC entered into on September 17, 2014 and effective as of September 15, 2014
10.24	(24)	Purchase and Sale Contract between Preferred Apartment Communities Operating Partnership, L.P., Northpointe Investors, LLC, Villas Fairfield Partners, LLC, Morrow Investors, Inc. and the parties listed on Exhibit A thereto dated as of December 2, 2014
10.25	(24)	First Amendment to Purchase and Sale Contract between Preferred Apartment Communities Operating Partnership, L.P., Northpointe Investors, LLC, Villas Fairfield Partners, LLC, Morrow Investors, Inc. and the parties listed on Exhibit A thereto dated as of January 9, 2015
10.26	(25)	Second Amended and Restated Credit Agreement dated as of February 12, 2015 among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P., the lenders party thereto and KeyBank National Association
10.27	(25)	Second Amended and Restated Pledge and Security Agreement dated as of February 12, 2015 among Preferred Apartment Communities Operating Partnership, L.P., New Market Properties, LLC, Sunbelt Retail, LLC, Iris Crosstown Mezzanine Lending, LLC, City Vista Mezzanine Lending, LLC, City Park Mezzanine Lending, LLC, Aster Lely Mezzanine Lending, LLC, Newport Overton Mezzanine Lending, LLC, Haven West Mezzanine Lending, Starkville Mezzanine Lending, LLC, Irvine Mezzanine Lending, LLC, Summit Crossing III Mezzanine Lending, LLC, Iris Crosstown Mezzanine Lending II, LLC, Lubbock Mezzanine Lending, LLC, Newport Kennesaw Mezzanine Lending and KeyBank National Association
10.28	(25)	

		Amended and Restated Guaranty dated as of February 12, 2015 by each of Preferred Apartment Communities, Inc., New Market Properties, LLC, Sunbelt Retail, LLC, Iris Crosstown Mezzanine Lending, LLC, City Vista Mezzanine Lending, LLC, City Park Mezzanine Lending, LLC, Aster Lely Mezzanine Lending, LLC, Newport Overton Mezzanine Lending, LLC, Haven West Mezzanine Lending, Starkville Mezzanine Lending, LLC, Irvine Mezzanine Lending, LLC, Summit Crossing III Mezzanine Lending, LLC, Iris Crosstown Mezzanine Lending II, LLC, Lubbock Mezzanine Lending, LLC and Newport Kennesaw Mezzanine Lending with KeyBank National Association
10.29	(25)	Form of Buy-Sell Agreement with KeyBank National Association
10.30	(32)	Third Amendment to 2011 Stock Incentive Plan
10.31	(27)	Wholesaling Agreement among International Assets Advisory, LLC, Preferred Capital Securities, LLC and Preferred Apartment Communities, Inc. dated July 17, 2015
10.32	(28)	Third Amended and Restated Credit Agreement dated as of August 28, 2015 among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P., the lenders party thereto and KeyBank National Association

10.33	(28)	Third Amended and Restated Pledge and Security Agreement dated as of August 28, 2015 among Preferred Apartment Communities Operating Partnership, L.P., New Market Properties, LLC, Sunbelt Retail, LLC, Iris Crosstown Mezzanine Lending, LLC, City Vista Mezzanine Lending, LLC, Newport Overton Mezzanine Lending, LLC, Haven West Mezzanine Lending, Starkville Mezzanine Lending, LLC, 360 Irvine Lending, LLC, Summit Crossing III Mezzanine Lending, LLC, Oxford Overture Lending, LLC, Haven Lubbock Lending, LLC, Newport Kennesaw Mezzanine Lending, Haven Waco Lending, LLC, Haven Tampa Lending, LLC, PAC Dawson Lending, LLC and KeyBank National Association
10.34	(28)	Third Amended and Restated Guaranty dated as of August 28, 2015 by each of Preferred Apartment Communities, Inc., New Market Properties, LLC, Sunbelt Retail, LLC, Iris Crosstown Mezzanine Lending, LLC, City Vista Mezzanine Lending, LLC, Newport Overton Mezzanine Lending, LLC, Haven West Mezzanine Lending, Starkville Mezzanine Lending, LLC, 360 Irvine Lending, LLC, Summit Crossing III Mezzanine Lending, LLC, Oxford Overture Lending, LLC, Haven Lubbock Lending, LLC, Newport Kennesaw Mezzanine Lending, LLC, Haven Waco Lending, LLC, Haven Tampa Lending, LLC and PAC Dawson Lending, LLC with KeyBank National Association
10.35	(29)	Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of August 11, 2015
10.36	(29)	First Amendment to Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of September 15, 2015
10.37	(29)	Second Amendment to Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of September 25, 2015
10.38	(29)	Third Amendment to Purchase and Sale Agreement between Lenox Village Properties, LLC, Lenox Village Lifestyle Center, LLC, Lenox Village Lifestyle Center III, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of November 23, 2015
10.39	(30)	Purchase and Sale Agreement by and between Village at Baldwin Park, LLC and Preferred Apartment Communities Operating Partnership, L.P. dated as of December 3, 2015
12.1	(1)	Statement of Computation of Ratios
21	(1)	Subsidiaries of Preferred Apartment Communities, Inc.
23.1	(1)	Consent of PricewaterhouseCoopers LLP
31.1	(1)	Certification of John A. Williams, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	(1)	Certification of Michael J. Cronin, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	(1)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	(1)	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	(1)	Estimated Value Methodology for Preferred Stock at December 31, 2015
101	(1)	XBRL (eXtensible Business Reporting Language). The following materials for the period ended December 31, 2015, formatted in XBRL: (i) Consolidated balance sheets at December 31, 2015 and December 31, 2014, (ii) consolidated statements of operations for the years

ended December 31, 2015, December 31, 2014 and December 31, 2013, (iii) consolidated statements of equity and accumulated deficit, (iv) consolidated statements of cash flows and (v) notes to consolidated financial statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

(1) Filed herewith

(2) Previously filed with the Pre-effective Amendment No. 6 to Form S-11 Registration Statement (Registration No. 333-168407) filed by the Registrant with the Securities and Exchange Commission on March 4, 2011

(3) Previously filed with the Pre-effective Amendment No. 1 to Form S-11 Registration Statement (Registration No. 333-168407) filed by the Registrant with the Securities and Exchange Commission on October 4, 2010

(4) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on April 7, 2011

(5) Previously filed with the Pre-effective Amendment No. 1 to Form S-11 Registration Statement (Registration No.: 333-176604) filed by the Registrant with the Securities and Exchange Commission on November 2, 2011
(6) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 23, 2013
(7) Previously filed with the Annual Report on Form 10-K filed by the Registrant with the Securities and Exchange Commission on March 15, 2012
(8) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 15, 2013
(9) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 4, 2013
(10) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 7, 2014
(11) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 10, 2014
(12) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 28, 2013
(13) Previously filed as Annex B to the Definitive Proxy Statement on Schedule 14A filed by the Registrant with the Securities and Exchange Commission on March 21, 2013
(14) Previously filed with the Pre-effective Amendment No. 2 to Form S-3 Registration Statement (Registration No. 333-183355) filed by the Registrant with the Securities and Exchange Commission on October 4, 2013
(15) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 28, 2014
(16) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 2, 2015 reporting events on or after December 31, 2014
(17) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 2, 2015 reporting events on or after January 2, 2015
(18) Previously filed with the Annual Report on Form 10-K filed by the Registrant with the Securities and Exchange Commission on March 17, 2014
(19) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 26, 2014
(20) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on July 28, 2014
(21) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 4, 2014
(22) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on September 15, 2014
(23) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on September 18, 2014
(24) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 12, 2015
(25) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 17, 2015
(26) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 22, 2016
(27) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on July 22, 2015

(28) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 31, 2015

(29) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 4, 2015

(30) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 11, 2015

(31) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 8, 2016

(32) Previously filed as Annex A to the Definitive Proxy Statement on Schedule 14A filed by the Registrant with the Securities and Exchange Commission on March 19, 2015

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PREFERRED APARTMENT COMMUNITIES, INC.

Date: March 14, 2016	By:	/s/ John A. Williams John A. Williams Chief Executive Officer
Date: March 14, 2016	By:	/s/ Michael J. Cronin Michael J. Cronin Executive Vice President, Chief Accounting Officer and Treasurer

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John A. Williams John A. Williams	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 14, 2016
/s/ Leonard A. Silverstein Leonard A. Silverstein	President, Chief Operating Officer and Director	March 14, 2016
/s/ Michael J. Cronin Michael J. Cronin	Executive Vice President, Chief Accounting Officer and Treasurer (Principal Accounting Officer and Principal Financial Officer)	March 14, 2016
/s/ Steve Bartkowski Steve Bartkowski	Director	March 14, 2016
/s/ Gary B. Coursey Gary B. Coursey	Director	March 14, 2016
/s/ Daniel M. DuPree Daniel M. DuPree	Director	March 14, 2016
/s/ William J. Gresham, Jr. William J. Gresham, Jr.	Director	March 14, 2016
/s/ Howard A. McLure Howard A. McLure	Director	March 14, 2016
/s/ Timothy A. Peterson Timothy A. Peterson	Director	March 14, 2016

/s/ Joel T. Murphy Joel T. Murphy	Director	March 14, 2016