

PREFERRED APARTMENT COMMUNITIES INC

Form 10-K

March 01, 2019

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, 2018

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
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Common Stock, par value \$.01 per share NYSE

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

Title of each class

Series A Redeemable Preferred Stock, par value \$0.01 per share

Warrant to Purchase Common Stock, par value \$0.01 per share

Series M Redeemable Preferred Stock, par value \$0.01 per share

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes 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.

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$663,613,344 based on the closing price of the common stock on the NYSE on such date. The number of shares outstanding of the registrant's Common Stock, as of February 22, 2019 was 42,901,894.

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 2019 Annual Meeting of Stockholders is incorporated by reference into PART III of this Annual Report on Form 10-K.

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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 own and operate multifamily properties and, to a lesser extent, own and operate student housing properties, grocery anchored shopping centers and strategically located, well leased class A office buildings, all in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities. 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 a portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, membership or partnership interests in other income-producing property types as determined by our manager as appropriate for us.

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. For the year ended December 31, 2018, the Company held an approximate 97.5% weighted average ownership percentage in the Operating Partnership.

Pursuant to the First Amendment to the Fifth Amended and Restated Management Agreement, which was effective January 1, 2016, we replaced the acquisition fee owed to the Manager in connection with acquiring real property with a loan coordination fee that was 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 Fifth Amended and Restated Management Agreement changes the name of the fee paid on loans originated by the Company from an "acquisition fee" to a "loan coordination fee."

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

As referred to herein, the Sixth Amended and Restated Management Agreement, as it may be amended, effective as of June 3, 2016, among the Company, our Operating Partnership and our Manager is referred to as the Management Agreement. We have no employees of our own; our Manager provides all managerial and administrative personnel to us pursuant to the Management Agreement. We also pay asset management fees, general and administrative expense fees, property management fees, construction management fees, leasing fees related to the management of our real estate portfolio (which may be waived solely at our discretion and recognized at a later date upon certain conditions), and disposition fees on the sale of a real estate 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.

Both our Manager and our Operating Partnership are related parties to us.

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At December 31, 2018, our portfolio of current and potential real estate assets consisted of:

	Owned as of December 31, 2018	Potential additions from real estate loan investment portfolio ⁽¹⁾ ₍₂₎	Potential total
Multifamily communities:			
Properties	32	10	42
Units	9,768	3,047	12,815
Grocery-anchored shopping centers:			
Properties	45	—	45
Gross leasable area (square feet)	4,730,695	—	4,730,695
Student housing properties:			
Properties	7	2	9
Units	1,679	423	2,102
Beds	5,208	1,359	6,567
Office buildings:			
Properties	7	1	8
Rentable square feet	2,578,000	187,000	2,765,000

(1) We evaluate each project individually and we make no assurance that we will acquire any of the underlying properties from our real estate loan investment portfolio.

(2) The Company has terminated various purchase option agreements in exchange for termination fees. These properties are excluded from the potential additions from our real estate loan investment portfolio.

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."

Investment Strategy

We seek to maximize returns for our stockholders by employing 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 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.

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Acquiring grocery-anchored shopping centers, typically anchored by one of the market-dominant grocers in that particular market.

• Acquiring leading Class “A” office properties in high-growth markets across the U.S.

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

Originating real estate investment loans secured by interests in multifamily communities, membership or partnership interests in multifamily communities, other multifamily related assets, student housing properties, grocery-anchored shopping centers and office properties.

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 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.

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 real estate related 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 real estate related 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. Certain of the purchase options we hold may be settled by cash payments to us in the event we elect not to acquire the underlying property.

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 (i) our offering of \$1.5 billion Units, consisting of one share of series A redeemable preferred stock, or Series A Preferred Stock, and one warrant exercisable into 20 shares of Common Stock, or Series A Units, (ii) our offering of up to \$150 million of Common Stock pursuant to our "at the market" offering, or the 2016 ATM Offering, which commenced with the first settlement in August 2016, and (iii) our offering of 500,000 shares of our series m preferred stock, or mShares, pursuant to our mShares Offering. Our mShares Offering was declared effective on December 2, 2016 and our offering of 1,500,000 Series A Units, or our \$1.5 Billion Unit Offering, was declared effective on February 14, 2017. The Series A Preferred Stock and our mShares are collectively referred to as our Preferred Stock.

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 generally 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, 2018, our outstanding debt (both secured and unsecured) was approximately 52.4% of the value of our tangible assets on a portfolio basis based on our estimates of

fair market value at December 31, 2018. 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 properties 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 \$200.0 million revolving credit facility, or the Revolving Line of Credit. Other than with regard to our Credit Facility, as of December 31, 2018, 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 properties. Leverage may be obtained from a variety of sources, including the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Federal National Mortgage Association ("Fannie Mae"), commercial banks, credit companies, the Federal Housing Administration ("FHA"), a unit of the Department of Housing and Urban Development ("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.

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.

Environmental Regulation

We are subject to regulation at the federal, state and municipal levels and are at risk for potential liability should conditions at our properties or our actions or inaction result in damage to the environment or to persons or properties. These conditions could include the potential presence or growth of mold, potential leaks from current or former underground or above-ground storage tanks, breakage or leaks from sewer lines and risks pertaining to the management or disposal of wastes and chemicals. 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 typically engage an independent environmental consulting firm to perform a phase I environmental assessment (and if appropriate, a phase II 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 adverse environmental conditions prior to acquisition. If any potential environmental risks or conditions are discovered during

our due diligence process, the potential costs of remediation are assessed carefully and factored into the cost of acquisition, assuming the identified risks and factors are deemed to be manageable and reasonable. 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, 2018, we have no knowledge of any material claims made or pending against us with regard to environmental matters for which we could 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, pension funds, 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.

We compete with other primarily institutional-quality owners and investors in the business of acquiring, investing to develop, leasing and operating office properties. We leverage relationships, track record, and the high quality of our physical assets and locations to compete successfully. Additional principal factors of competition are the leasing terms (including rental rates and concessions or allowances offered) and the terms of any other investment activity such as real estate loan investments in new development. Additionally, our ability to compete depends upon, among other factors, trends of the national and local economies, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, utilities, governmental regulations, legislation and population trends.

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.pacaps.com. You may obtain information concerning the operation of the SEC's Public Reference Room 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. Unless expressly stated otherwise, the references to our Preferred Stock refer to both our mShares and our Series A 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. At December 31, 2018, we had letters of intent in place to refinance mortgage debt on our Lenox Village Town Center and Retreat at Lenox properties and to renew/extend our Credit Facility. 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 \$1.5 Billion Unit Offering, offerings through our registration statement on Form S-3 (File No. 333-211178), or the Shelf Registration Statement, our 2016 ATM Offering, our mShares Offering, 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.

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 managers' performance in the selection of residents and tenants 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 managers. 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 lease 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 or pay down our Credit Facility, 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.

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 redemptions of Series A Preferred Stock or mShares in shares of our Common Stock. Although the number of redemptions are unknown, the number of shares to be issued in connection with such redemptions will fluctuate based on the price of our Common Stock. Any sales or perceived sales in the public market of shares of our

Common Stock issued upon such redemptions could adversely affect the prevailing market prices of shares of our Common Stock. The issuance of Common Stock upon such redemptions or from the exercise of outstanding Warrants also would have the effect of reducing our net income per share. In addition, the existence of Preferred Stock may encourage short selling by market participants because redemptions could depress the market price of our Common Stock.

Our board of directors is authorized, without stockholder approval, to cause us to issue additional shares of our Preferred 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 subject to the rules of NYSE. Any such issuance could result in dilution of the

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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 our 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 our 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 is effective only at the reasonable assurance level, and undetected errors 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.

Information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks around the world. We collect and retain certain personal information provided by our residents and tenants. In addition, we engage third party service providers that may have access to such personally identifiable information in connection with providing necessary information technology and security and other business services to us. 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, and require significant management attention and resources to remedy the damages and penalties that result.

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 mShares Offering and the \$1.5 Billion Unit Offering if our Common Stock is no longer listed on the NYSE or another national securities exchange.

The classes of Preferred Stock are a "covered security" under the Securities Act and therefore are not subject to registration in the various states in which they may be sold due to their seniority to our Common Stock, which is listed on the NYSE. 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 and mShares in any state in which we subsequently offer the Units and mShares. This would require the termination of the \$1.5 Billion Unit offering and the mShares 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 in our \$1.5 Billion Unit Offering 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, at its sole discretion. 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 are senior securities, and rank senior 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 articles supplementary of the Preferred Stock do 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 Daniel M. DuPree, our Chief Executive Officer,

and Leonard A. Silverstein, our President and Chief Operating Officer. Neither we nor our Manager have an employment agreement with any of our or its key personnel, including Mr. DuPree and Mr. Silverstein, 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 our Manager with proceeds in the event of the death or disability of Mr. Silverstein and Joel T. Murphy, Chief Executive Officer of New Market Properties.

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 may 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 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:

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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 Partnership subsidiary and its subsidiaries for cash flow and we will be structurally subordinated in right of payment to the obligations of such Operating Partnership 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 returns 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 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 independent members of the conflicts committee of our board of 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.

Daniel M. DuPree is our Chief Executive Officer and Chairman of the board of directors and the Chief Executive Officer of our Manager. Leonard A. Silverstein is the Company's President and Chief Operating Officer and Vice Chairman of the board of directors and the President and Chief Operating Officer of our Manager. As a result, Mr. DuPree and Mr. Silverstein have a direct interest in all fees paid to our Manager and are 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, floods and sea rise;
- climate change;
- 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 or tenants;
- 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 complying with applicable environmental requirements and remediation and liabilities associated with environmental conditions affecting real 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 face possible risks associated with the physical effects of climate change.

The physical effects of climate change could have a material adverse effect on our properties, operations and business, particularly our properties along the East Coast and in Texas. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining demand for apartments or our inability to operate the affected properties at all. Climate change may also have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable. There can be no assurance that climate change will not have a material adverse effect on our properties, operations or business.

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 or terrorism which are either uninsurable, not economically insurable, or may be insured subject to material limitations, such as large deductibles or co-payments.

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. 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, 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 can offer no assurance 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 (some of which may be imposed by community developers), may restrict the 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-containing materials abatement or management 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.

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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 their 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 typically perform customary due diligence regarding each property or entity we acquire. We also attempt to obtain appropriate representations and undertakings (including, where appropriate, indemnification) from the sellers of the properties or entities we acquire, although it is possible that the sellers may not have the resources to satisfy any applicable undertakings or 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 property damage and remediation 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 regulations 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 certain federal, state and local laws and regulations relating to environmental protection and human health and safety. Such federal laws might 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 regulation 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, including of off-site third party owned disposal sites. As is the case with community and neighborhood shopping centers, some of our centers had on-site dry cleaning and/or on-site gasoline retail facilities and these prior uses could potentially increase our environmental liability exposure. 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 certain regulated 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.

Indoor air quality issues, including the presence of mold, have been highlighted in the media and the industry is seeing claims from lessees rising. Due to the recent increase in the prevalence of mold claims and given that the law relating to the regulation of 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 activities 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 with which we may be required to comply. 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 regulated substances on, under, in or about such property. The costs of investigation, removal or remediation of such substances could be substantial. Those laws may impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the substances.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and compliance with those 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 mold, asbestos and lead-based paint.

The cost of defending against such claims of liability, of compliance with environmental 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, the 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 returns 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 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 carrying values of which are as follows as of December 31, 2018:

	Carrying value of real estate assets and real estate related loans, in millions:	Percentage	
Florida	\$933.7	25.0	%
Georgia	921.2	24.7	%
North Carolina	514.7	13.8	%
Texas	513.5	13.7	%
Alabama	176.7	4.7	%
Virginia	171.9	4.6	%
Tennessee	157.7	4.2	%
California	94.9	2.5	%
South Carolina	80.0	2.2	%
Arizona	47.8	1.3	%
Kansas	41.3	1.1	%
Pennsylvania	40.8	1.1	%
Kentucky	34.6	0.9	%
Mississippi	6.1	0.2	%
Total	\$3,734.9	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 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.

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 Common 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, 2018, we had outstanding debt of approximately \$2.4 billion. 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 Interim 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. 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 our 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 Common 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.

A lack of volume 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, including:

- the general availability of loan proceeds/originators;
- 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 multifamily 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 multifamily housing more generally may adversely affect interest rates, capital availability, development of multifamily communities and the value of multifamily 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

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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

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 relatively strong performance 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 and 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 deteriorate 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 and other property-level expenses 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 rents, 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 and accessibility 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 Investments in Student Housing Properties

We face significant competition from university-owned collegiate housing and from other private collegiate housing communities located within close proximity to universities.

Many students prefer on-campus housing to off-campus housing because of the closer physical proximity to campus and the integration of on-campus facilities into the academic community. Universities can generally avoid real estate taxes and borrow funds at lower interest rates, while we and other private-sector operators pay full real estate tax rates and incur higher borrowing costs. Consequently, universities often can offer more convenient and/or less expensive collegiate housing than we can, which can adversely affect our occupancy and rental rates.

We also compete with other national and regional owner-operators of off-campus collegiate housing in a number of markets as well as with smaller local owner-operators. There are a number of purpose-built collegiate housing properties that compete directly with us located near or in the same general vicinity of many of our collegiate housing communities. Such competing collegiate housing communities may be newer than our collegiate housing communities, be located closer to campus, charge less rent, possess more attractive amenities, or offer more services, shorter lease terms or more flexible leases. The construction of competing properties or decreases in rents in competing properties could adversely affect our rental income.

We believe that a number of large national companies may be potential entrants in the collegiate housing business. In some cases, these potential competitors possess substantially greater financial and marketing resources than we do. The entry of one or more of these companies into the collegiate housing market could increase competition for residents and for the acquisition, development and management of other collegiate housing communities.

Our results of operations are subject to the following risks inherent in the collegiate housing industry: leasing cycles, concentrated lease-up period, seasonal cash flows and increased risk of student defaults during the summer months.

We generally lease our properties under 12 month leases, but we may also lease for terms of nine months or less. As a result, all of our properties must be entirely re-leased each year, exposing us to increased leasing risk. We may not be able to re-lease our properties on similar terms, if we are able to re-lease our properties at all. The terms of renewal or re-lease (including the cost of required renovations) may be less favorable to us than the prior lease. If we are unable to re-lease all or a substantial portion of our properties, or if the rental rates upon such re-leasing are significantly lower than expected rates, our cash flows from operations and our ability to make distributions to stockholders and service indebtedness could be adversely affected.

In addition, we are subject to increased leasing risk on properties that we acquire that we have not previously managed due to our lack of experience leasing those properties and unfamiliarity with their leasing cycles. Collegiate housing communities are typically leased during a leasing season that begins in October and ends in August of the following year. We are therefore

highly dependent on the effectiveness of our marketing and leasing efforts and personnel during this season. Prior to the commencement of each new lease period, mostly during the first two weeks of August but also during September at some communities and during the summer months for the on-campus properties leased by semester, we prepare the units for new incoming residents. Other than revenue generated by in-place leases for returning residents, we do not generally recognize lease revenue during this period referred to as “Turn” as we have no leases in place. In addition, during Turn, we incur significant expenses preparing our units for occupancy, which we recognize immediately. This lease Turn period results in seasonality in our operating results during the second and third quarter of each year. As a result, we may experience significantly reduced cash flows during the summer months at properties leased for terms shorter than 12 months.

In addition, students may be more likely to default on their rental payments during the summer months. Although we typically require a parent to guarantee the student’s lease, we may have to spend considerable effort and expense in pursuing payment upon a defaulted lease, and our efforts may not be successful.

We rely on our relationships with universities, and changes in university personnel, policies and/or reputation could adversely affect our operating results.

In some cases, we rely on our relationships with universities for referrals of prospective residents or for mailing lists of prospective residents and their parents. The failure to maintain good relationships with personnel at these universities could therefore have a material adverse effect on us. If universities refuse to make their lists of prospective student-residents and their parents available to us or increase the costs of these lists, the increased costs or failure to obtain such lists could also have a material adverse effect on us.

In addition, we may be adversely affected by a change in university admission policies. For example, if a university reduces the number of student admissions, the demand for our properties may be reduced, and our occupancy rates may decline. In addition, universities may institute a policy that a certain class of students, such as freshmen, must live in a university-owned facility, which would also reduce the demand for our properties. While we will engage in marketing efforts to compensate for such policy changes, we may not be able to effect such marketing efforts prior to the commencement of the annual lease-up period or at all.

It is also important that the universities from which our communities draw residents maintain good reputations and are able to attract the desired number of incoming students. Any degradation in a university’s reputation could inhibit its ability to attract students and reduce the demand for our communities.

Risks Related to our Grocery-Anchored Shopping Center 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;
- increased diversification of product offerings by grocery anchors can lead to increased competition, declining same store sales and store closings;
- increase in e-commerce and alternative distribution channels may negatively affect out tenant sales or decrease the square footage our tenants require and could lead to margin pressure on our grocery anchors, which could lead to store closures;

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 leases or re-let spaces as leases expire, which could harm our business and operating results.

We face competition from similar 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 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 tenants and our in-line 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, Wal-Mart, Safeway, Sprouts, BJ's Wholesale Club and The Fresh Market, in addition to our in-line tenants.

Distributions to our stockholders could be adversely affected by the loss of revenues in the event our tenants:

- become bankrupt or insolvent;
- experience a downturn in their business;
- materially default on their leases;
- do not renew their leases as they expire; or
- renew 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. The closing of one or more anchor stores at a center or occupancy falling below a certain percentage could adversely affect the financial performance of the center, adversely affect the operations of other tenants and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit such actions.

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.

Operating expenses may remain constant or increase even if occupancy and income at our centers may decrease, negatively affecting our financial performance.

Costs associated with our operations, such as real estate and personal property taxes, insurance, and mortgage payments, generally are not reduced even as occupancy or rental rates decrease, tenants fail to pay base and additional rent or other circumstances cause a reduction in income from the center. As a result, our financial performance, cash flow from operations from the center and our ability to make distributions to our stockholders may be adversely affected. In addition, inflation could result in increased operating costs for us and our tenants, which may adversely affect our financial performance and ability to make distributions to our stockholders.

Increased competition to traditional grocery chains from new market participants, Amazon, online supermarket retailers and food delivery services could adversely affect our grocery-anchored revenues and cash flow.

As a result of consumers' growing desire to shop online, traditional grocery chains are subject to increasing competition from new market participants and food retailers who have incorporated the Internet as a direct-to-consumer channel and Internet-only retailers that sell grocery products. Additionally, online food delivery services are increasingly competing with traditional grocery chains in the food sales market. Competition from these new market participants and selling channels could negatively impact traditional grocery chains, which could adversely affect our grocery-anchored revenues and cash flow. In addition, changing dynamics in the food sales space could result in increased competition, declining same-store sales and store closings in the retail and grocery sector.

Risks Related to our Office Building Investments

Our performance is subject to risks associated with our office properties and the office property industry.

Our economic performance from our office properties is subject to the risk that if our office properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our stockholders will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
- competition from other office properties;
- local real estate market conditions, such as oversupply or reduction in demand for office space;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let office space;
- changes in space utilization by our office tenants due to technology, economic conditions and business culture;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs; and
- declines in the financial condition of our office tenants and our ability to collect rents from our office tenants.

We face considerable competition in the office leasing market and may be unable to renew existing office leases or re-let office space on terms similar to the existing leases, or we may expend significant capital in our efforts to re-let office space, which may adversely affect our operating results.

Every year, we compete with a number of other developers, owners, and operators of office and office-oriented properties to renew office leases with our existing tenants and to attract new office tenants. To the extent that we are able to renew office leases that are scheduled to expire in the short-term or re-let such office space to new tenants, heightened competition resulting from adverse market conditions may require us to utilize rent concessions and tenant improvements to a greater extent than we historically have. In addition, competition for credit worthy office tenants is intense and we may have difficulty competing with competitors, especially those who have purchased office properties at discounted prices allowing them to offer office space at reduced rental rates.

If our competitors offer office accommodations at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants upon expiration of their existing office leases. Even if our tenants renew their leases or we are able to re-let the office space, the terms and other costs of renewal or re-letting, including the cost of required renovations, increased tenant improvement allowances, leasing commissions, declining rental rates, and other potential concessions, may be less favorable than the terms of our current leases and could require significant capital expenditures. If we are unable to renew office leases or re-let office space in a reasonable time, or if rental rates decline or tenant improvement, leasing commissions, or

other costs increase, our financial condition, cash flows, ability to pay distributions to our stockholders, and ability to satisfy our debt service obligations could be adversely affected.

We face potential adverse effects from major office tenants' bankruptcies or insolvencies.

The bankruptcy or insolvency of a major office tenant may adversely affect the income produced by our office properties. Our office tenants could file for bankruptcy protection or become insolvent in the future. We cannot evict an office tenant solely because of its bankruptcy. On the other hand, a bankrupt office tenant may reject and terminate its lease with us. In such case, our claim against the bankrupt office tenant for unpaid and future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the office lease, and, even so, our claim for unpaid rent would likely not be paid in full. This shortfall could adversely affect our cash flow and results of operations.

In order to maintain and/or increase the quality of our office properties and successfully compete against other office properties, we regularly must spend money to maintain, repair, renovate and improve our office properties, which could negatively impact our financial condition and results of operations.

If our office properties are not as attractive to customers due to physical condition as office properties owned by our competitors, we could lose customers or suffer lower rental rates. As a result, we may from time to time be required to make significant capital expenditures to maintain or enhance the competitiveness of our office properties. There can be no assurances that any such expenditures would result in higher occupancy or higher rental rates or deter existing customers from relocating to office properties owned by our competitors.

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 on our taxable income at the corporate rate 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 effect such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

Certain of our business activities are potentially subject to the prohibited transaction tax.

For so long as we continue to qualify as a REIT, our ability to dispose of property during the first few years following acquisition may be restricted to a substantial extent as a result of our REIT qualification. Under applicable provisions of the Code regarding prohibited transactions by REITs, while we qualify as a REIT and provided we do not satisfy a safe harbor available under the Code, we will be subject to a 100% penalty tax on the net income from the sale or other disposition of any property (other than foreclosure property) that we own, directly or indirectly through any subsidiary entity, including our operating partnership, but generally excluding taxable REIT subsidiaries, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of a trade or business. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. We intend to avoid the 100% prohibited transaction tax by (1) conducting activities that may otherwise be considered prohibited transactions through a taxable REIT subsidiary (but such taxable REIT subsidiary will incur corporate rate income taxes with respect to any income or gain recognized by it), (2) conducting our operations in such a manner so that no sale or other disposition of an asset we own, directly or through any subsidiary, will be treated as a prohibited transaction or (3) structuring certain dispositions of our properties to comply with the requirements of the prohibited transaction safe harbor available under the Code for properties that, among other requirements, have been held for at least two years. Despite our present intention, no assurance can be given that any particular property we own, directly or through any subsidiary entity, including our operating partnership, but generally excluding taxable REIT subsidiaries, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

If the Operating Partnership fails to maintain its status as a partnership for U.S. federal income tax purposes, its income may be subject to taxation and we would cease to qualify as a REIT.

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.

Certain Employee Benefit Plan Risks

If you fail to meet the fiduciary and other standards under ERISA or the Code as a result of an investment in our stock, you could be subject to liability and penalties.

Special considerations apply to the purchase or holding of securities by employee benefit plans subject to the fiduciary rules of Title I of ERISA (“ERISA Plans”), including pension or profit sharing plans and entities that hold assets of such ERISA Plans, and plans and accounts that are not subject to ERISA, but are subject to the prohibited transaction rules of Section 4975 of the Code, including IRAs, Keogh Plans, and medical savings accounts (collectively, we refer to ERISA Plans and plans subject to Section 4975 of the Code as “Benefit Plans”). If you are investing the assets of any Benefit Plan, you should satisfy yourself that:

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- your investment is consistent with your fiduciary obligations under ERISA and the Code;
- your investment is made in accordance with the documents and instruments governing the Benefit Plan, including the Benefit Plan's investment policy;
- your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA, if applicable, and other applicable provisions of ERISA and the Code;
- in making such investment decision, you have considered the effect the investment will have on the liquidity of the Benefit Plan and whether or not the investment will produce UBTI for the Benefit Plan;
- you will be able to value the assets of the Benefit Plan annually in accordance with any applicable ERISA or Code requirements and applicable provisions of the Benefit Plan; and
- your investment will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Fiduciaries may be held personally liable under ERISA for losses as a result of failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA. In addition, if an investment in, or holding of, our securities constitutes a non-exempt prohibited transaction under ERISA or the Code, the fiduciary of the plan who authorized or directed the investment may be subject to imposition of excise taxes with respect to the amount invested and an IRA investing in the stock may lose its tax exempt status.

Plans that are not subject to ERISA or the prohibited transactions of the Code, such as government plans or church plans, may be subject to similar requirements under state law. Such plans should satisfy themselves that the investment satisfies applicable law. We have not, and will not, evaluate whether an investment in, or holding of, our securities is suitable for any particular plan.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Multifamily Communities

At December 31, 2018, we were the owner of the following 32 properties within our multifamily communities segment:

Property	Location	Year constructed	Number of Units	Average Unit Size (sq. ft.)	Average Rent per Unit ⁽¹⁾
Summit Crossing	Atlanta, GA	2007	345	1,034	1,162
Summit Crossing II	Atlanta, GA	2013	140	1,100	1,271
The Reserve at Summit Crossing	Atlanta, GA	2017	172	1,002	1,353
Vineyards	Houston, TX	2003	369	1,122	1,177
Aster at Lely Resort	Naples, FL	2015	308	1,071	1,486
CityPark View Property:					
CityPark View	Charlotte, NC	2014	284	948	1,113
CityPark View South	Charlotte, NC	2017	200	1,005	—
Avenues at Cypress	Houston, TX	2014	240	1,170	1,450
Venue at Lakewood Ranch	Sarasota, FL	2015	237	1,001	1,570
Avenues at Creekside	San Antonio, TX	2014	395	974	1,156
Citi Lakes	Orlando, FL	2014	346	984	1,425
Avenues at Northpointe	Houston, TX	2013	280	1,167	1,380
Lenox Village Property:					
Lenox Village	Nashville, TN	2009	273	906	1,248
Regent at Lenox Village	Nashville, TN	2009	18	1,072	1,264
Retreat at Lenox Village	Nashville, TN	2015	183	773	1,181
Stone Creek	Houston, TX	2009	246	852	1,098
Overton Rise	Atlanta, GA	2015	294	1,018	1,553
Village at Baldwin Park	Orlando, FL	2008	528	1,069	1,677
Crosstown Walk Property:					
Crosstown Walk	Tampa, FL	2014	342	981	1,306
Overlook at Crosstown Walk	Tampa, FL	2016	180	986	1,391
525 Avalon Park	Orlando, FL	2008	487	1,394	1,460
Sorrel	Jacksonville, FL	2015	290	1,048	1,284
Retreat at Greystone	Birmingham, AL	2015	312	1,100	1,248
Broadstone At Citrus Village	Tampa, FL	2011	296	980	1,293
Founders Village	Williamsburg, VA	2014	247	1,070	1,388
Claiborne Crossing	Louisville, KY	2014	242	1,204	1,349
Luxe at Lakewood Ranch	Sarasota, FL	2016	280	1,105	1,498
Adara Overland Park	Kansas City, KS	2016	260	1,116	1,346
Aldridge at Town Village	Atlanta, GA	2016	300	969	1,347
Colony at Centerpointe	Richmond, VA	2016	255	1,149	1,382
City Vista ⁽²⁾	Pittsburgh, PA	2014	272	1,023	1,368
Lux at Sorrel	Jacksonville, FL	2017	265	1,025	1,392
Green Park	Atlanta, GA	2017	310	985	1,467
Lodge at Hidden River	Tampa, FL	2017	300	980	—
Vestavia Reserve	Birmingham, AL	2016	272	1,113	—

9,768

(1) Data is only presented for stabilized properties owned by us for at least three months.

(2) We own approximately 96% of the joint venture that controls the City Vista multifamily community.

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Student Housing Communities

At December 31, 2018, we were the owner of the following seven properties within our student housing communities segment:

Property	Location	University	Year constructed/renovated	Number of Units	Number of beds	Average Unit Size (sq. ft.)	Average Rent per Bed ⁽¹⁾
North by Northwest	Tallahassee, FL	Florida State University	2012	219	679	1,250	\$ 729
SoL	Tempe, AZ	Arizona State University	2010	224	639	1,296	\$ 694
Stadium Village ⁽²⁾	Atlanta, GA	Kennesaw State University	2015	198	792	1,466	\$ 718
Ursa ⁽²⁾	Waco, TX	Baylor University	2017	250	840	1,634	n/a
The Tradition	College Station, TX	Texas A&M University	2017	427	808	549	n/a
The Retreat at Orlando	Orlando, FL	University of Central Florida	2014	221	894	2,036	n/a
The Bloc	Lubbock, TX	Texas Tech University	2017	140	556	1,394	n/a
				1,679	5,208		

⁽¹⁾ Data only presented for stabilized student housing communities.

⁽²⁾ We own approximately 99% of the joint venture that controls the Stadium Village and Ursa student housing properties.

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.

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New Market Properties

At December 31, 2018, we were the sole owner of the following 45 grocery-anchored shopping centers, which comprise our New Market Properties segment:

Property name	Location	Year built	GLA ⁽¹⁾	Percent leased ⁽²⁾	Grocery anchor tenant
Castleberry-Southard	Atlanta, GA	2006	80,018	100.0%	Publix
Cherokee Plaza	Atlanta, GA	1958	102,864	100.0%	Kroger
Governors Towne Square	Atlanta, GA	2004	68,658	95.9 %	Publix
Lakeland Plaza	Atlanta, GA	1990	301,711	95.1 %	Sprouts
Powder Springs	Atlanta, GA	1999	77,853	96.9 %	Publix
Rockbridge Village	Atlanta, GA	2005	102,432	94.2 %	Kroger
Roswell Wieuca Shopping Center	Atlanta, GA	2007	74,370	96.6 %	The Fresh Market
Royal Lakes Marketplace	Atlanta, GA	2008	119,493	88.4 %	Kroger
Sandy Plains Exchange	Atlanta, GA	1997	72,784	93.2 %	Publix
Summit Point	Atlanta, GA	2004	111,970	86.9 %	Publix
Thompson Bridge Commons	Atlanta, GA	2001	92,587	96.1 %	Kroger
Wade Green Village	Atlanta, GA	1993	74,978	93.2 %	Publix
Woodmont Village	Atlanta, GA	2002	85,639	94.6 %	Kroger
Woodstock Crossing	Atlanta, GA	1994	66,122	100.0%	Kroger
East Gate Shopping Center	Augusta, GA	1995	75,716	92.2 %	Publix
Fury's Ferry	Augusta, GA	1996	70,458	98.0 %	Publix
Parkway Centre	Columbus, GA	1999	53,088	100.0%	Publix
Spring Hill Plaza	Nashville, TN	2005	61,570	100.0%	Publix
Parkway Town Centre	Nashville, TN	2005	65,587	100.0%	Publix
The Market at Salem Cove	Nashville, TN	2010	62,356	100.0%	Publix
The Market at Victory Village	Nashville, TN	2007	71,300	98.5 %	Publix
Greensboro Village	Nashville, TN	2005	70,203	98.3 %	Publix
The Overlook at Hamilton Place	Chattanooga, TN	1992	213,095	100.0%	The Fresh Market
Shoppes of Parkland	Miami-Ft. Lauderdale, FL	2000	145,720	98.4 %	BJ's Wholesale Club
Barclay Crossing	Tampa, FL	1998	54,958	100.0%	Publix
Deltona Landings	Orlando, FL	1999	59,966	100.0%	Publix
University Palms	Orlando, FL	1993	99,172	100.0%	Publix
Conway Plaza	Orlando, FL	1966	117,705	98.0 %	Publix
Crossroads Market	Naples, FL	1993	126,895	98.9 %	Publix
Neapolitan Way	Naples, FL	1985	137,580	91.6 %	Publix
Champions Village	Houston, TX	1973	383,346	78.7 %	Randalls
Kingwood Glen	Houston, TX	1998	103,397	97.9 %	Kroger
Independence Square	Dallas, TX	1977	140,218	83.0 %	Tom Thumb
Oak Park Village	San Antonio, TX	1970	64,855	100.0%	H.E.B.
Sweetgrass Corner	Charleston, SC	1999	89,124	96.2 %	Bi-Lo
Irmo Station	Columbia, SC	1980	99,384	95.3 %	Kroger
Anderson Central	Greenville Spartanburg, SC	1999	223,211	96.1 %	Walmart
Fairview Market	Greenville Spartanburg, SC	1998	53,888	73.5 %	Aldi
Rosewood Shopping Center	Columbia, SC	2002	36,887	90.2 %	Publix
Brawley Commons	Charlotte, NC	1997	122,028	97.4 %	Publix
West Town Market	Charlotte, NC	2004	67,883	100.0%	Harris Teeter
Heritage Station	Raleigh, NC	2004	72,946	100.0%	Harris Teeter
Maynard Crossing	Raleigh, NC	1996	122,781	97.4 %	Harris Teeter

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Southgate Village	Birmingham, AL	1988	75,092	98.0 %	Publix
Hollymead Town Center	Charlottesville, VA	2005	158,807	89.8 %	Harris Teeter

Grand total/weighted average 4,730,695 94.3 %

(1) Gross leasable area, or GLA, represents the total amount of property square footage that can be leased to tenants. The total excludes approximately 47,600 square feet of ground floor retail GLA in the Regent at Lenox Village property.

(2) Percent leased represents the percentage of GLA that is leased, including noncancelable lease agreements that have been signed but which have not yet commenced.

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 50.5% of our portfolio GLA at December 31, 2018. Our small in-line tenants generally consist of retail, consumer services, healthcare providers, and restaurants; none of our small in-line tenants individually constitute more than 1.0% of our portfolio GLA as of December 31, 2018. The following table summarizes our grocery anchor tenants by GLA as of December 31, 2018:

Grocery Anchor Tenant	GLA	% of GLA within retail portfolio
Publix	1,039,959	22.0%
Kroger	518,194	11.0%
Harris Teeter	222,523	4.7%
Wal-Mart	183,211	3.9%
BJ's Wholesale Club	108,532	2.3%
Randall's	61,604	1.3%
Bi-Lo	59,824	1.3%
H.E.B	54,844	1.2%
Tom Thumb	43,600	0.9%
The Fresh Market	43,321	0.9%
Sprouts	29,855	0.6%
Aldi	23,622	0.5%
Total	2,389,089	

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

New Market Properties			
Segment			
	Number of Leased of GLA leases	Percent of leased GLA	
Month to month	7	14,638	0.3 %
2019	94	424,978	9.5 %
2020	131	554,319	12.4 %
2021	135	623,682	14.0 %
2022	109	354,688	8.0 %
2023	104	397,395	8.9 %
2024	43	772,547	17.3 %
2025	28	491,917	11.0 %

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2026	12	145,520	3.3	%
2027	19	121,651	2.7	%
2028	19	245,115	5.5	%
2029+	16	311,516	7.1	%
Total	717	4,457,966	100.0	%

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Preferred Office Properties

At December 31, 2018, we were the sole owner of the following seven office properties, which comprise our Preferred Office Properties segment:

Property Name	Location	GLA	Percent leased
Three Ravinia	Atlanta, GA	814,000	91 %
150 Fayetteville	Raleigh, NC	560,000	89 %
Capitol Towers	Charlotte, NC	479,000	95 %
Westridge at La Cantera	San Antonio, TX	258,000	100 %
Armour Yards	Atlanta, GA	187,000	95 %
Brookwood Center	Birmingham, AL	169,000	100 %
Galleria 75	Atlanta, GA	111,000	94 %
		2,578,000	93 %

Our office building leases have original lease terms which generally range from 5 to 15 years and generally contain contractual, annual base rental rate escalations ranging from 2% to 3%. These leases may be structured as “gross” where the tenant’s base rental rate is all inclusive and there is no additional obligation to reimburse building operating expenses, “net” or “NNN” where in addition to base rent the tenant is also responsible for its pro rata share of reimbursable building operating expenses, or “modified gross” where in addition to base rent the tenant is also responsible for its pro rata share of reimbursable building operating expense increases over a base year amount (typically calculated as the actual reimbursable operating expenses in year one of the original lease term).

As of December 31, 2018, our significant tenants within our Preferred Office Properties segment consisted of:

Rentable square footage	Percent of Annual Base Rent	Annual Base Rent (in thousands)
InterContinental Hotels Group	18.9 %	\$ 11,822
Albion State Farm Mutual Automobile Insurance Company	9.1 %	5,706
United Services Automobile Association	5.3 %	3,311
Harland Clarke Corporation	4.9 %	3,042
	4.6 %	2,881
	42.8 %	\$ 26,762

The following table summarizes contractual lease expirations within our Preferred Office Properties segment for the next ten years and thereafter, assuming no tenants exercise their renewal options:

Preferred Office Properties segment

Year of lease expiration	Rented square feet	Percent of rented square feet
2019	83,000	3.5 %
2020	62,000	2.6 %
2021	245,000	10.3 %
2022	65,000	2.7 %
2023	107,000	4.5 %
2024	204,000	8.6 %
2025	137,000	5.8 %
2026	165,000	7.0 %
2027	267,000	11.2 %
2028	213,000	9.0 %
2029+	827,000	34.8 %
Total	2,375,000	100.0%

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.

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

Market Information

Our Common Stock (symbol "APTS") has been listed on the New York Stock Exchange since July 17, 2015.

As of December 31, 2018, there were approximately 26,000 holders of record of our Common Stock. This total excludes an unknown number of holders of 7.2 million 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, grocery-anchored shopping centers and office properties, 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.

Stockholder 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 January 1, 2014 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 500 Index. The total return results assume automatic reinvestment of dividends and no transaction costs.

Value of initial investment on:

	1/1/2014	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
APTS Common Stock	\$ 1,000	\$ 1,223	\$ 1,782	\$ 2,155	\$ 3,099	\$ 2,290
MSCI U. S. REIT Index	\$ 1,000	\$ 1,304	\$ 1,337	\$ 1,452	\$ 1,525	\$ 1,456
S&P 500	\$ 1,000	\$ 1,114	\$ 1,106	\$ 1,211	\$ 1,446	\$ 1,356

Sales of Unregistered Securities

There were no previously unreported sales of unregistered securities by the Company during the fiscal year ended 2018.

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.

(In thousands, except per-share data and preferred stock par values)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Total revenues	\$397,271	\$294,005	\$200,119	\$109,306	\$56,536
Net income (loss)	\$44,538	\$28,667	\$(9,843)	\$(2,426)	\$2,127
Net loss per share of Common Stock available to common stockholders, basic and diluted	\$(1.08)	\$(1.13)	\$(2.11)	\$(0.95)	\$(0.31)
Weighted average number of shares of Common Stock outstanding, basic and diluted	40,032	31,926	23,969	22,183	17,399
Cash dividends declared per share of Common Stock	\$1.02	\$0.94	\$0.8175	\$0.7275	\$0.655
Total assets	\$4,410,958	\$3,252,370	\$2,420,833	\$1,295,529	\$691,383
Long term debt	\$2,339,752	\$1,812,049	\$1,327,878	\$696,945	\$354,419
Revolving credit facility	\$57,000	\$41,800	\$127,500	\$34,500	\$24,500
Total liabilities	\$2,801,573	\$1,971,604	\$1,535,571	\$770,075	\$399,801
Preferred Stock (par value outstanding)	\$16,518	\$12,373	\$9,144	\$4,830	\$1,928
Total equity	\$1,609,385	\$1,280,766	\$885,261	\$525,454	\$291,582
Cash flows provided by (used in):					
Operating activities	\$145,381	\$86,289	\$61,661	\$35,221	\$15,436
Investing activities	\$(881,805)	\$(727,177)	\$(1,126,584)	\$(533,510)	\$(356,424)
Financing activities	\$751,102	\$646,185	\$1,074,804	\$497,615	\$334,921
Funds from operations ("FFO") ⁽¹⁾	\$57,773	\$43,344	\$22,386	\$16,702	\$10,967
Adjusted funds from operations ("AFFO") ⁽¹⁾	\$54,429	\$38,377	\$26,595	\$21,783	\$14,771

(1) See "Reconciliation of FFO Attributable to Common Stockholders and Unitholders and AFFO 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," 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 the year ended December 31, 2018, we acquired five multifamily communities, six grocery-anchored shopping centers, three student housing properties and three office buildings.

During the year ended December 31, 2018, we sold our Lake Cameron, Stone Rise, Stoneridge Farms at the Hunt Club and McNeil Ranch multifamily communities located in Raleigh, North Carolina, Philadelphia, Pennsylvania, Nashville, Tennessee and Austin, Texas respectively, and collected aggregate gross proceeds of \$171.0 million. We realized an aggregate gain on the sale of these properties of approximately \$69.6 million.

During the year ended December 31, 2018, we issued 423,781 units and collected net proceeds of approximately \$381.4 million from our \$1.5 Billion Unit Offering and issued 28,951 shares of Series M Preferred Stock and and collected net proceeds of approximately \$28.1 million from our mShares Offering. Our Preferred Stock offerings and our other equity offerings are discussed in detail in the Liquidity and Capital Resources section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

In addition, during the year ended December 31, 2018, we issued approximately 1.25 million shares of Common Stock upon the exercise of Warrants issued in our offerings of our Series A Redeemable Preferred Stock and collected net proceeds of approximately \$16.1 million from those exercises.

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 Fannie Mae and Freddie Mac;
- financing and advance rates for our target assets;
- our expected leverage;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- changes in our operating costs, including real estate taxes, utilities and insurance costs;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;

- our ability to maintain our qualification as a real estate investment trust, or REIT, for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- the availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- the availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition;
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;
- weakness in the national, regional and local economies, which could adversely impact consumer spending and retail sales and in turn tenant demand for space and could lead to increased store closings;
- changes in market rental rates;

- changes in demographics (including the number of households and average household income) surrounding our shopping centers;
- adverse financial conditions for grocery anchors and other retail, service, medical or restaurant tenants;
- continued consolidation in the grocery-anchored shopping center sector;
- excess amount of retail space in our markets;
- reduction in the demand by tenants to occupy our shopping centers as a result of reduced consumer demand for certain retail formats;
- the growth of super-centers and warehouse club retailers, such as those operated by Wal-Mart and Costco, and their adverse effect on traditional grocery chains;
- the entry of new market participants into the food sales business, such as Amazon's acquisition of Whole Foods, the growth of online food delivery services and online supermarket retailers and their collective adverse effect on traditional grocery chains;
- our ability to aggregate a critical mass of grocery-anchored shopping centers;
- the impact of an increase in energy costs on consumers and its consequential effect on the number of shopping visits to our centers; and
- consequences of any armed conflict involving, or terrorist attack against, the United States.

Forward-looking statements are found throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this 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 Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2018 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.

Industry Outlook

We believe continued, albeit potentially sporadic, improvement in the United States' economy will continue for 2019, given the continued job growth and improvements in consumer confidence. The presidential administration certainly creates more uncertainty in the direction and trajectory of economic growth. We believe a growing economy, improved job market and increased consumer confidence should help create favorable conditions for the multifamily sector. If the economy continues to improve, we expect current occupancy rates generally to remain stable, on an annual basis, as we believe the current level of occupancy nationwide will be difficult to measurably improve upon.

Multifamily Communities

The pipeline of new multifamily construction, although increasing nationwide in recent years, may be showing signs of declining going forward, or at least plateauing. The new supply coming on line to date has been generally in line with demand in most of our markets although we have seen some areas where demand is falling just short of new supply. Nationally, new multifamily construction is currently at or above average historical levels in most markets. Even with the increase in new supply of multifamily properties, recent job growth and demographic

trends have led to reasonable levels of absorption in most of our markets. The absorption rate has led to generally stable occupancy rates with increases in rental rates in most of our markets. We believe the supply of new multifamily construction will not increase dramatically as the constraints in the market (including availability of quality sites and the difficult permitting and entitlement process) will constrain further increases in multifamily supply. We expect that new supply peaks is at or near a peak and these constraints may result in a leveling out or decline in new multifamily “starts” in 2019 and 2020. As an offset, the presidential administration may loosen banking regulation standards, which could cause an increase in available capital for new construction. Any relaxing of these regulations could lead to more capital for new multifamily development and an increase in supply. The cost of private capital, increasing interest rates over the last twelve months, less debt

capital available from traditional commercial banks for real estate loans and a softening of the market in some “Gateway” cities have all put pressure on the pricing dynamic in multifamily transactions. This could lead to an increase in capitalization rates and a softening price environment, and if this were to occur, then our pipeline of candidate multifamily property acquisitions with returns meeting our investment objectives may expand. However, it is important to note that, currently, equity capital for multifamily product remains available and has fueled the demand for the product which has led to the recent cap rate compression. Currently, that availability of capital remains strong and the investment market for multifamily remains popular.

Even with the recent increases in U.S. Treasury yields, competitive lender spreads have maintained a generally favorable borrowing environment for multifamily owners and developers. While the combined impact of higher indexes and lower spreads has led to a net increase in overall rates, demand for multifamily product has not yet been deterred based on debt capital costs. Given the uncertainty around the world's financial markets, fueled in part by the new U.S. President and how his policies may affect domestic and international markets, investors have been wary in their approach to debt markets. Recent US bond market movements have seen rates rise and spreads from the government-sponsored entity, or GSE, lenders have been relatively stable to slightly lower. Other lenders in the market have had generally stable rates as well. During 2019, we may well see spreads remaining at or near current levels as the investment community becomes more comfortable with the direction of the market and the US economy. Even with the recent increase in U.S. Treasury rates, we expect the market to continue to remain favorable for financing multifamily communities, as the equity and debt markets have generally continued to view the U.S. multifamily sector as a desirable investment. Lending by GSEs could be limited by caps on production or capital retention rates imposed by the Federal Housing and Finance Association, which could lead to higher lending costs, although we expect such higher costs to be offset by increased lending activity by other market participants; however, such other market participants may have increased costs and stricter underwriting criteria.

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

Student Housing Properties

Regarding the student housing industry, while we have not seen declining rents nationwide at the start of the 2018-2019 academic year, year over year preleasing numbers are slightly lower nationwide. Industry reports suggest that nationally, effective rent is \$658 per bed, which represents a 1.5% increase from last year. Some university markets are seeing an average increase of 11.4% in off-campus student housing inventory. There were 47,000 student housing beds delivered across the country in the fall of 2018, with a forecast of 45,000 off campus student housing beds for fall of 2019 delivery. This inventory growth remains in line with recent years.

Industry reports estimate that there will be approximately 22.6 million students enrolled at US colleges by 2026. Industry reports also forecast US enrollment to grow by 1.1% annually from 2018 to 2023, while they estimate that undergraduate college enrollment will grow by an annual average of 1.5% over the next six years. We believe that the primary drivers of expanding enrollment will be moderate job growth, positive 18 to 24 year old population growth, and historically high enrollment rates of 68% to 70% over the next four years among high school graduates.

New Market Properties

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

The debt market for our grocery-anchored shopping center assets remains strong. Life insurance companies have continued to demonstrate a specific interest in our strategy and we continue to see new participants in the market. In addition, due to some investor concern over retail in general, that allocation of capital into retail has been largely focused away from other retail product types and into the grocery-anchored sector. The result of this is that increased capital flows moving into the grocery-anchored sector has investors willing to accept lower yields to do so, thus putting upward pressure on prices for attractive acquisition opportunities inside our Sunbelt and Mid-Atlantic grocery-anchored strategy.

Most of the growth in e-commerce around grocers is focused on “the last mile” or getting the goods in the stores to the homes of the customer. Some of our grocers have partnered with third parties (Publix and Kroger with Instacart) or formulated internal solutions (Walmart/in-store pickup and Kroger Pickup) to help advance this segment of their business. We believe that the traditional grocers must be proactive in pursuing on-line solutions in combination with their bricks and mortar physical stores and we have seen our primary grocery store anchors, Publix and Kroger, react quickly and aggressively to bolster their e-commerce and delivery options, an example being Kroger's acquisition of an interest in Ocado, a UK-based company that is the world's largest dedicated online grocery retailer that has developed a proprietary end-to-end operating solution for online grocery retail. We do believe that there will continue to be margin pressure on grocers and this will likely accelerate the difficulties of the weaker grocery chains. Furthermore, this could lead to increased mergers and acquisitions activity in the grocery sector which could also result in store closings or store downsizings due to store trade area overlap.

Preferred Office Properties

The office investment market continues to post healthy fundamentals across our current and target footprint, where we are primarily focused on high growth, non-“Gateway” markets. Due to banking reforms and conservative behavior among market participants, this cycle has been characterized by a historically low level of speculative office construction which is supporting continued good performance. While rising interest rates may challenge competitors over the coming months, we are uniquely insulated in our current portfolio through long-term leases, few vacancies, long-term fixed rate debt and no sale pressure. In the event of continued interest rate hikes we would expect to see a softening cap rate environment as real estate re-prices, and seek to take advantage of that through property acquisitions.

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 50 years for buildings, 5 to 20 years for building and land improvements and 5 to 10 years for computers, furniture, fixtures and equipment. Acquisition costs are generally expensed as incurred for transactions that are deemed to be business combinations. Accounting Standards Update 2017-01 (“ASU 2017-01”), which was released in January 2017, clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We adopted ASU 2017-01 as of January 1, 2017 and believe our future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing communities will generally qualify as asset acquisitions. Pursuant to ASU 2017-01, certain qualifying acquisition costs will be capitalized and amortized rather

than expensed as incurred.

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

Real Estate Acquisition Valuation. We generally recorded the acquisition of income-producing real estate as a business combination. In conjunction with our adoption of ASU 2017-01, future acquisitions will require judgment to properly classify these acquisitions as asset acquisitions or business acquisitions.

All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values. We assess the acquisition-date fair values of all tangible assets, identifiable intangibles and assumed liabilities using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis) and that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends and market and economic conditions. The fair value of tangible assets of an acquired property considers the value of the property as if it were vacant.

We record above-market and below-market in-place lease values for acquired properties based on the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining average non-cancelable term of the leases. We amortize any recorded above-market or below-market lease values as a reduction or increase, respectively, to rental income over the remaining average non-cancelable term of the respective leases. The capitalized above-market leases and in place leases are included in the acquired intangible assets line of the consolidated balance sheets. Both above-market and below-market lease values are amortized as adjustments to rental revenue over the remaining term of the respective leases for office properties. The amortization period for retail shopping center leases is the remaining lease term plus any below market probable renewal options.

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.

The fair values of in-place leases for retail shopping centers and office properties 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 and office properties 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. Acquired in-place lease values for multifamily communities and student housing communities are amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases.

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 acquire land and to provide partial financing for the development of multifamily residential communities, student housing communities, grocery-anchored shopping centers and office properties 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. These characteristics can cause the loans to contain variable interests and the potential of consolidation of the underlying project as a variable interest entity, or VIE. 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.

Loan loss allowances

We evaluate each real estate loan investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record a loan loss allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely via liquidation of the collateral.

Our loans are collateralized by real estate development projects and secured further by guaranties of repayment from one or more of the borrowers. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates and site inspections.

Revenue Recognition

We generally lease apartment units under leases with terms of thirteen months or less. We generally lease retail properties and office building suites 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 and office building 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 based on the difference between the consideration received and the carrying amount of the distinct asset, including the carrying amount of any liabilities relieved or assumed by the purchasing counterparty.

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. Loan origination fees received from borrowers as incentive to extend the real estate loans (excluding the amounts paid to the Manager), are amortized over the life of

the loan as an additive adjustment to interest income using the effective interest method. 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 or as a reduction of principal, depending upon the circumstances, when the payments are received. Interest accrual on real estate loan investments is resumed once interest and principal payments become current.

New Accounting Pronouncements

For a discussion of our adoption of new accounting pronouncements, please see Note 2 of our Consolidated Financial Statements.

Results of Operations

Certain financial highlights of our results of operations for the three-month and twelve-month periods ended December 31, 2018 were:

	Three months ended December 31,			Years ended December 31,		
	2018	2017	% change	2018	2017	% change
Revenues (in thousands)	\$ 106,280	\$ 81,652	30.2 %	\$ 397,271	\$ 294,005	35.1 %
Per share data:						
Net income (loss) ⁽¹⁾	\$0.06	\$(0.60)	—	\$(1.08)	\$(1.13)	—
FFO ⁽²⁾	\$0.38	\$0.31	22.6 %	\$1.41	\$1.32	6.8 %
AFFO ⁽²⁾	\$0.48	\$0.31	54.8 %	\$1.33	\$1.17	13.7 %
Dividends ⁽³⁾	\$0.26	\$0.25	4.0 %	\$1.02	\$0.94	8.5 %

⁽¹⁾ Per weighted average share of Common Stock outstanding for the periods indicated.

⁽²⁾ FFO and AFFO results are presented per weighted average share of Common Stock and Class A Unit in our Operating Partnership outstanding for the periods indicated.

⁽³⁾ Per share of Common Stock and Class A Unit outstanding.

For the year ended December 31, 2018, our FFO payout ratio to Common Stockholders and Unitholders was approximately 73.0% and our FFO payout ratio (before the deduction of preferred dividends) to our preferred stockholders was approximately 60.0%. For the fourth quarter 2018, our FFO payout ratio to Common Stockholders and Unitholders was approximately 68.9% and our FFO payout ratio (before the deduction of preferred dividends) to our preferred stockholders was approximately 59.9%. ^(A)

For the year ended December 31, 2018, our AFFO payout ratio to Common Stockholders and Unitholders was approximately 77.5% and our AFFO payout ratio (before the deduction of preferred dividends) to our preferred stockholders was approximately 61.4%. For the fourth quarter 2018, our AFFO payout ratio to Common Stockholders and Unitholders was approximately 54.4% and our AFFO payout ratio (before the deduction of preferred dividends) to our preferred stockholders was approximately 54.1%. ^(B)

At December 31, 2018, the market value of our common stock was \$14.06 per share. A hypothetical investment in our Common Stock in our initial public offering on April 5, 2011, assuming the reinvestment of all dividends and no transaction costs, would have resulted in an average annual return of approximately 16.7% through December 31, 2018.

As of December 31, 2018, the average age of our multifamily communities was approximately 4.3 years, which is the youngest in the public multifamily REIT industry.

Approximately 90.0% of our permanent property-level mortgage debt has fixed interest rates and approximately 6.0% has variable interest rates which are capped. In addition, we plan to refinance the remaining uncapped variable rate mortgage debt into new fixed rate instruments during 2019. We believe we are well protected against potential increases in market interest rates.

At December 31, 2018, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 54.4 %. Our leverage calculation excludes the gross assets of approximately \$269.9 million and liabilities of approximately \$264.9 million that we consolidated as a result of our investment in the ML-04 pool from the Freddie Mac K program.

As of December 31, 2018, our total assets were approximately \$4.4 billion compared to approximately \$3.3 billion as of December 31, 2017, an increase of approximately \$1.1 billion, or approximately 35.6%. This growth was driven primarily

by the acquisition of 17 real estate properties (partially offset by the sale of 4 properties). In addition, our assets increased due to the consolidation of the ML-04 pool from the Freddie Mac K program. Excluding the assets consolidated from the ML-04 pool, our assets grew approximately \$893.7 million, or 27.5% since December 31, 2017.

Cash flow from operations for the year ended December 31, 2018 was approximately \$145.4 million, an increase of approximately \$59.1 million, or 68.4%, compared to cash flow provided by operations of approximately \$86.3 million for the year ended December 31, 2017. Cash flow from operations for the year 2018 was more than sufficient to fund our aggregate dividends and distributions for the year, which totaled approximately \$128.9 million. Cash flow from operations for the quarter ended December 31, 2018 was approximately \$33.4 million, an increase of approximately \$17.6 million, or 110.9%, compared to cash flow provided by operations of approximately \$15.8 million for the quarter ended December 31, 2017.

On November 30, 2018, we closed on a real estate loan investment of up to approximately \$30.3 million and a senior construction loan of up to approximately \$37.3 million, both in support of the development of a Class A office building with approximately 187,000 rentable square feet in Atlanta, Georgia.

During the fourth quarter 2018, we closed on two real estate loan investments aggregating approximately \$30.3 million, one supporting a multifamily community to be located in Jacksonville, Florida and another supporting a student housing property to be located in Atlanta, Georgia.

On October 23, 2018, we sold our Stoneridge Farms at the Hunt Club multifamily community located in Nashville, Tennessee for a net gain of approximately \$16.8 million, which resulted in an internal rate of return of approximately 21% from September 26, 2014, the date the property was acquired. ^(C)

On December 11, 2018, we sold our McNeil Ranch multifamily community located in Austin, Texas for a net gain of approximately \$13.9 million, which resulted in an internal rate of return of approximately 19% from January 24, 2013, the date the property was acquired. ^(C)

^(A) We calculate the FFO payout ratio to Common Stockholders as the ratio of Common Stock dividends and distributions to FFO Attributable to Common Stockholders and Unitholders. We calculate the FFO payout ratio to preferred stockholders as the ratio of Preferred Stock dividends to the sum of Preferred Stock dividends and FFO. Since our operations resulted in a net loss from continuing operations for the periods presented, a payout ratio based on net loss is not calculable. See Definitions of Non-GAAP Measures.

^(B) We calculate the AFFO payout ratio to Common Stockholders as the ratio of Common Stock dividends and distributions to AFFO. We calculate the AFFO payout ratio to preferred stockholders as the ratio of Preferred Stock dividends to the sum of Preferred Stock dividends and AFFO.

^(C) Our IRR calculations are based on equity invested and are net of fees paid to the Manager and disposition costs.

Real Estate Loan Investments

Certain real estate loan investments include limited purchase options and additional amounts of accrued interest, which becomes due in cash to us 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 us or one of our 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. We hold options, but not obligations, to purchase certain of the properties which are partially financed by our real estate loans, as shown in the table below. The option purchase prices are negotiated at the time of the loan closing and are to be calculated based upon market cap rates at the time of exercise of the purchase option, with discounts ranging from between 10 and 60 basis points, depending on the loan. As of December 31, 2018, our actual and potential purchase option portfolio consisted of:

Project/Property	Location	Total units upon completion ⁽¹⁾	Purchase option window	
			Begin	End
Multifamily communities:				
Palisades	Northern VA	304	5/1/2019	5/31/2019
Fort Myers	Fort Myers, FL	224	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Wiregrass	Tampa, FL	392	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
360 Forsyth	Atlanta, GA	356	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Morosgo	Atlanta, GA	258	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
University City Gateway	Charlotte, NC	338	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
The Anson	Nashville, TN	301	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Cameron Park	Alexandria, VA	302	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Southpoint	Fredericksburg, VA	240	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Duval	Jacksonville, FL	332	S + 90 days ⁽³⁾	S + 150 days ⁽³⁾
Student housing properties:				
Solis Kennesaw	Atlanta, GA	248	(4)	(4)
Solis Kennesaw II	Atlanta, GA	175	(5)	(5)
Office property:				
8West	Atlanta, GA	(6)	(6)	(6)
		3,470		

⁽¹⁾ We evaluate each project individually and we make no assurance that we will acquire any of the underlying properties from our real estate loan investment portfolio. The purchase options held by us on the Bishop Street, Hidden River, and Haven Charlotte projects were terminated, in exchange for an aggregate \$6.7 million in termination fees from the developers.

⁽²⁾ The option period window begins and ends at the number of days indicated beyond the achievement of a 93% physical occupancy rate by the underlying property.

⁽³⁾ The option period window begins on the earlier of June 21, 2024 and the number of days indicated beyond the achievement of a 93% physical occupancy rate by the underlying property.

⁽⁴⁾ The option period begins on October 1 of the second academic year following project completion and ends on the following December 31. The developer may elect to expedite the option period to begin December 1, 2019 and end on December 31, 2019.

⁽⁵⁾ The option period begins on October 1 of the second academic year following project completion and ends on the following December 31. The developer may elect to expedite the

option period to begin December 1, 2020 and end on December 31, 2020.

⁽⁶⁾ The project plans are for the construction of a class A office building consisting of approximately 187,000 rentable square feet; our purchase option window opens 90 days following the achievement of 90% lease commencement and ends on November 30, 2024 (subject to adjustment). Our purchase option is at the to-be-agreed-upon market value. In the event the property is sold to a third party, we would be due a fee based on a minimum multiple of 1.15 times the amount drawn on the real estate loan investment, less the amounts of principal and accrued interest repaid.

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Year Ended December 31, 2018 compared to 2017 and Year Ended December 31, 2017 compared to 2016

The following discussion and tabular presentations highlight the major drivers behind the line item changes in our results of operations for the year ended December 31, 2018 versus 2017 and the year ended December 31, 2017 versus 2016:

Preferred Apartment Communities, Inc.	Year Ended December 31,		Change inc (dec)		
	2018	2017	Amount	Percentage	
Revenues:					
Rental revenues	\$280,079	\$200,462	\$79,617	39.7	%
Other property revenues	51,386	36,641	14,745	40.2	%
Interest income on loans and notes receivable	50,190	35,698	14,492	40.6	%
Interest income from related parties	15,616	21,204	(5,588)	(26.4)	%
Total revenues	397,271	294,005	103,266	35.1	%
Operating expenses:					
Property operating and maintenance	44,065	29,903	14,162	47.4	%
Property salary and benefits	17,766	13,272	4,494	33.9	%
Property management fees	11,681	8,329	3,352	40.2	%
Real estate taxes	42,035	31,281	10,754	34.4	%
General and administrative	8,224	6,490	1,734	26.7	%
Equity compensation to directors and executives	1,703	3,470	(1,767)	(50.9)	%
Depreciation and amortization	171,136	116,777	54,359	46.5	%
Acquisition and pursuit costs	—	14	(14)	—	
Asset management and general and administrative expense fees to related parties	27,541	20,226	7,315	36.2	%
Loan loss allowance	2,533	—	2,533	—	
Insurance, professional fees and other expenses	7,166	6,584	582	8.8	%
Total operating expenses	333,850	236,346	97,504	41.3	%
Waived asset management and general and administrative expense fees	(6,656)	(1,729)	(4,927)	—	
Net operating expenses	327,194	234,617	92,577	39.5	%
Operating income before gains on sales of real estate and trading investments	70,077	59,388	10,689	18.0	%
Gain on sale of real estate and trading investment	69,705	37,635	32,070	85.2	%
Operating income	139,782	97,023	42,759	44.1	%
Interest expense	95,564	67,468	28,096	41.6	%
Change in fair value of net assets of consolidated VIE from mortgage-backed pool	320	—	320	—	
Loss on debt extinguishment	—	888	(888)	—	
Net income	44,538	28,667	15,871	55.4	%
Consolidated net (income) attributable to non-controlling interests	(1,071)	(986)	(85)	8.6	%
Net income attributable to the Company	\$43,467	\$27,681	\$15,786	57.0	%

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Preferred Apartment Communities, Inc.	Year Ended December 31,		Change inc (dec)		
	2017	2016	Amount	Percentage	
Revenues:					
Rental revenues	\$200,462	\$137,331	\$63,131	46.0	%
Other property revenues	36,641	19,302	17,339	89.8	%
Interest income on loans and notes receivable	35,698	28,841	6,857	23.8	%
Interest income from related parties	21,204	14,645	6,559	44.8	%
Total revenues	294,005	200,119	93,886	46.9	%
Operating expenses:					
Property operating and maintenance	29,903	19,982	9,921	49.6	%
Property salary and benefits	13,272	10,399	2,873	27.6	%
Property management fees	8,329	5,981	2,348	39.3	%
Real estate taxes	31,281	21,594	9,687	44.9	%
General and administrative	6,490	4,558	1,932	42.4	%
Equity compensation to directors and executives	3,470	2,524	946	37.5	%
Depreciation and amortization	116,777	78,140	38,637	49.4	%
Acquisition and pursuit costs	14	8,547	(8,533)	(99.8)	%
Asset management and general and administrative expense fees to related parties	20,226	13,637	6,589	48.3	%
Insurance, professional fees and other expenses	6,584	6,173	411	6.7	%
Total operating expenses	236,346	171,535	64,811	37.8	%
Waived asset management and general and administrative expense fees	(1,729)	(1,586)	(143)	—	
Net operating expenses	234,617	169,949	64,668	38.1	%
Operating income before gains on sales of real estate and trading investments	59,388	30,170	29,218	96.8	%
Gain on sale of real estate	37,635	4,271	33,364	781.2	%
Operating income	97,023	34,441	62,582	181.7	%
Interest expense	67,468	44,284	23,184	52.4	%
Loss on extinguishment of debt	888	—	888	—	
Net income (loss)	28,667	(9,843)	38,510	—	
Consolidated net (income) loss attributable to non-controlling interests	(986)	310	(1,296)	—	
Net income (loss) attributable to the Company	\$27,681	\$(9,533)	\$37,214	—	

New Market Properties, LLC

Our New Market Properties, LLC business consists of our portfolio of grocery-anchored shopping centers and our Dawson Marketplace real estate loan supporting a shopping center in the Atlanta, Georgia market. Comparative statements of operations of New Market Properties, LLC for the years ended (i) December 31, 2018 versus 2017 and (ii) December 31, 2017 versus 2016 are presented below. These statements of operations include no allocations of corporate overhead or other expenses.

New Market Properties, LLC	Year Ended		Change inc (dec)		
	December 31,				
	2018	2017	Amount	Percentage	
Revenues:					
Rental revenues	\$56,654	\$43,168	\$13,486	31.2	%
Other property revenues	18,578	13,724	4,854	35.4	%
Interest income on loans and notes receivable	2,011	1,758	253	14.4	%
Total revenues	77,243	58,650	18,593	31.7	%
Operating expenses:					
Property operating and maintenance	8,571	5,759	2,812	48.8	%
Property management fees	2,741	1,925	816	42.4	%
Real estate taxes	9,296	7,734	1,562	20.2	%
General and administrative	924	688	236	34.3	%
Equity compensation to directors and executives	149	425	(276)	(64.9)	%
Depreciation and amortization	39,269	30,088	9,181	30.5	%
Acquisition and pursuit costs	—	25	(25)	(100.0)	%
Asset management and general and administrative expense fees to related parties	5,743	4,436	1,307	29.5	%
Insurance, professional fees and other expenses	1,126	657	469	71.4	%
Total operating expenses	67,819	51,737	16,082	31.1	%
Waived asset management and general and administrative expense fees	(375)	(108)	(267)	247.2	%
Net operating expenses	67,444	51,629	15,815	30.6	%
Operating income	9,799	7,021	2,778	39.6	%
Interest expense	19,188	14,895	4,293	28.8	%
Net loss	\$(9,389)	\$(7,874)	\$(1,515)	19.2	%

New Market Properties, LLC	Year Ended December 31,		Change inc (dec)		
	2017	2016	Amount	Percentage	
Revenues:					
Rental revenues	\$43,168	\$26,313	\$16,855	64.1	%
Other property revenues	13,724	7,410	6,314	85.2	%
Interest income on loans and notes receivable	1,758	1,768	(10)	(0.6)	%
Total revenues	58,650	35,491	23,159	65.3	%
Operating expenses:					
Property operating and maintenance	5,759	3,547	2,212	62.4	%
Property management fees	1,925	1,159	766	66.1	%
Real estate taxes	7,734	3,725	4,009	107.6	%
General and administrative	688	540	148	27.4	%
Equity compensation to directors and executives	425	82	343	418.3	%
Depreciation and amortization	30,088	19,246	10,842	56.3	%
Acquisition and pursuit costs	25	2,103	(2,078)	(98.8)	%
Asset management and general and administrative expense fees to related parties	4,436	2,666	1,770	66.4	%
Insurance, professional fees and other expenses	657	546	111	20.3	%
Total operating expenses	51,737	33,614	18,123	53.9	%
Waived asset management and general and administrative expense fees	(108)	(273)	165	(60.4)	%
Net operating expenses	51,629	33,341	18,288	54.9	%
Operating income	7,021	2,150	4,871	226.6	%
Interest expense	14,895	8,870	6,025	67.9	%
Net loss	\$(7,874)	\$(6,720)	\$(1,154)	17.2	%

Recent acquisitions

Our acquisitions of the following real estate assets since January 1, 2018 were the primary drivers behind our increases in rental and property revenues and property operating expenses for the year ended December 31, 2018 versus 2017. and December 31, 2017 versus 2016.

Acquisition date	Property	Location	Units	Beds	Leasable square feet
	Multifamily communities:				
1/9/2018	The Lux at Sorrel	Jacksonville, FL	265	n/a	n/a
2/28/2018	Green Park	Atlanta, GA	310	n/a	n/a
9/27/2018	The Lodge at Hidden River	Tampa, FL	300	n/a	n/a
11/9/2018	Vestavia Reserve	Birmingham, AL	272	n/a	n/a
11/15/2018	CityPark View South ⁽¹⁾	Charlotte, NC	200	n/a	n/a
	New Market Properties:				
4/27/2018	Greensboro Village	Nashville, TN	n/a	n/a	70,203
4/27/2018	Governors Towne Square	Atlanta, GA	n/a	n/a	68,658
6/26/2018	Neapolitan Way	Naples, FL	n/a	n/a	137,580
6/29/2018	Conway Plaza	Orlando, FL	n/a	n/a	117,705
7/6/2018	Brawley Commons	Charlotte, NC	n/a	n/a	122,028
12/21/2018	Hollymead Town Center	Charlottesville, VA	n/a	n/a	158,807
	Student housing properties:				
5/10/2018	The Tradition	College Station, TX	427	808	n/a
5/31/2018	The Retreat at Orlando	Orlando, FL	221	894	n/a
6/27/2018	The Bloc	Lubbock, TX	140	556	n/a
	Preferred Office Properties:				
1/29/2018	Armour Yards	Atlanta, GA	n/a	n/a	187,000
7/31/2018	150 Fayetteville	Raleigh, NC	n/a	n/a	560,000
12/20/2018	Capitol Towers	Charlotte, NC	n/a	n/a	479,000
			2,135	2,258	1,900,981

⁽¹⁾ CityPark View South is a second phase of an existing property, and shares a leasing office with the original phase. Therefore, it is not counted as a separate property.

Our acquisitions of the following real estate assets during 2017 were the primary drivers behind our increases in rental and property revenues and property operating expenses for the year ended December 31, 2017 versus 2016.

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Acquisition date	Property	Location	Units	Beds	Leasable square feet
Multifamily communities:					
3/3/2017	Broadstone at Citrus Village	Tampa, FL	296	n/a	n/a
3/24/2017	Retreat at Greystone	Birmingham, AL	312	n/a	n/a
3/31/2017	Founders Village	Williamsburg, VA	247	n/a	n/a
4/26/2017	Claiborne Crossing	Louisville, KY	242	n/a	n/a
7/26/2017	Luxe at Lakewood Ranch	Sarasota, FL	280	n/a	n/a
9/27/2017	Adara Overland Park	Kansas City, KS	260	n/a	n/a
9/29/2017	Aldridge at Town Village	Atlanta, GA	300	n/a	n/a
9/29/2017	The Reserve at Summit Crossing	Atlanta, GA	172	n/a	n/a
11/21/2017	Overlook at Crosstown Walk	Tampa, FL	180	n/a	n/a
12/20/2017	Colony at Centerpointe	Richmond, VA	255	n/a	n/a
New Market Properties:					
4/21/2017	Castleberry-Southard	Atlanta, GA	n/a	n/a	80,018
6/6/2017	Rockbridge Village	Atlanta, GA	n/a	n/a	102,432
7/26/2017	Irmo Station	Columbia, SC	n/a	n/a	99,384
8/25/2017	Maynard Crossing	Raleigh, NC	n/a	n/a	122,781
9/8/2017	Woodmont Village	Atlanta, GA	n/a	n/a	85,639
9/22/2017	West Town Market	Charlotte, NC	n/a	n/a	67,883
11/30/2017	Roswell Wieuca Shopping Center	Atlanta, GA	n/a	n/a	74,370
12/5/2017	Crossroads Market	Naples, FL	n/a	n/a	126,895
Student housing propertie:					
2/28/2017	Sol	Tempe, AZ	224	639	n/a
10/27/2017	Stadium Village ⁽¹⁾	Atlanta, GA	198	792	n/a
12/18/2017	Ursa ⁽¹⁾	Waco, TX	250	840	n/a
Preferred Office Properties:					
11/13/2017	Westridge at La Cantera	San Antonio, TX	n/a	n/a	258,000
			3,216	2,271	1,017,402

⁽¹⁾ The Company acquired and owns an approximate 99% equity interest in a joint venture which owns both Stadium Village and Ursa.

Rental Revenues

Rental revenue increased due primarily to properties acquired during 2018 and 2017, as shown in the following table:

	Year Ended December 31,			
	2018 versus 2017		2017 versus 2016	
	Increase		Increase	
Rental revenues	Amount	Percent	Amount	Percent
	(rounded	of	(rounded	of

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	to 000s): increase		to 000s): increase	
Properties acquired in 2018	\$34,440	43.3 %	\$—	— %
Properties acquired in 2017	46,853	58.8 %	27,076	42.9 %
Properties acquired in 2016	3,240	4.1 %	47,951	76.0 %
Properties acquired in 2011 - 2015	2,423	3.0 %	81	0.1 %
Properties sold	(7,339)	(9.2)%	(11,977)	(19.0)%
Total	\$79,617	100.0 %	\$63,131	100.0 %

Increases in occupancy rates and in percentages of leased space and rent growth are the primary drivers of increases in rental revenue from our owned properties. 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 and tenants for items such as utilities, application fees, lease termination fees, common area maintenance reimbursements and late charges. The increases in other property revenues for the year ended December 31, 2018 versus 2017 were primarily due to the acquisitions listed above.

Interest income from our real estate loan investments decreased for the year ended December 31, 2018 versus 2017 and primarily due to the repayment during 2018 of real estate loans which supported ten projects that had an aggregate drawn amount at December 31, 2017 of approximately \$198.6 million versus the addition of new loans during 2018 with an aggregate drawn amount of approximately \$136.1 million supporting eight projects.

Interest income from our real estate loan investments increased for the year ended December 31, 2017 versus 2016, primarily due to the addition of our Berryessa real estate loan, which had a drawn amount of approximately \$30.6 million at December 31, 2017. Also contributing to the increase 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 amounts outstanding on our portfolio of real estate loans and bridge loans were approximately \$336.3 million, \$388.5 million and \$334.6 million at December 31, 2018, 2017 and 2016, respectively.

We recorded interest income and other revenue from these instruments as presented in Note 5 to the Company's Consolidated Financial Statements.

Property operating and maintenance expense

Expenses to operate and maintain our properties rose primarily due to the incremental costs brought on by property acquisitions during 2018 and 2017, 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.

	Year Ended December 31,					
	2018 versus 2017			2017 versus 2016		
	Increase		Increase			
	Amount	Percent	Amount	Percent		
Property operating and maintenance expense	(rounded to 000s):	of increase	(rounded to 000s):	of increase		
Properties acquired in 2018	\$6,301	44.5 %	\$—	— %		
Properties acquired in 2017	7,142	50.4 %	4,694	47.2 %		
Properties acquired in 2016	882	6.2 %	7,506	75.7 %		
Properties acquired in 2011 - 2015	1,042	7.4 %	(103)	(1.0)%		
Properties sold	(1,205)	(8.5)%	(2,176)	(21.9)%		
Total	\$14,162	100.0 %	\$9,921	100.0 %		

Property salary and benefits

We recorded property salary and benefits expense for individuals who handle the on-site management, operations and maintenance of our properties. These costs increased primarily due to the incremental costs brought on by additional personnel necessary to manage and operate properties acquired during 2018 and 2017, as shown in the following table.

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	Year Ended December 31, 2018 versus 2017		2017 versus 2016	
	Increase Amount (rounded to 000s):	Percent of increase	Increase Amount (rounded to 000s):	Percent of increase
Property salary and benefits				
Properties acquired in 2018	\$2,027	45.1 %	\$—	— %
Properties acquired in 2017	3,232	71.9 %	2,248	78.3 %
Properties acquired in 2016	(73)	(1.6)%	1,830	63.7 %
Properties acquired in 2011 - 2015	122	2.7 %	(11)	(0.4)%
Properties sold	(814)	(18.1)%	(1,194)	(41.6)%
Total	\$4,494	100.0 %	\$2,873	100.0 %

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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 grocery-anchored shopping center assets, property management fees are generally 4% of gross property revenues, of which generally 3.5% is paid to a third party management company. Property management fees for office building assets are within the range of 2.0% to 2.75% of gross property revenues, of which 1.5% to 2.25% is paid to a third party management company. The increases were primarily due to properties acquired during 2018 and 2017, as shown in the following table.

	Year Ended December 31, 2018 versus 2017		2017 versus 2016	
	Increase Amount (rounded to 000s):	Percent of increase	Increase Amount (rounded to 000s):	Percent of increase
Property management fees				
Properties acquired in 2018	\$1,245	37.2 %	\$—	— %
Properties acquired in 2017	2,076	61.9 %	1,135	48.3 %
Properties acquired in 2016	268	8.0 %	1,679	71.5 %
Properties acquired in 2011 - 2015	102	3.0 %	46	2.0 %
Properties sold	(339)	(10.1)%	(512)	(21.8)%
Total	\$3,352	100.0 %	\$2,348	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 properties. Real estate taxes rose primarily due to the incremental costs brought on by properties acquired during 2018 and 2017, as shown in the following table:

	Year Ended December 31, 2018 versus 2017		2017 versus 2016	
	Increase Amount (rounded to 000s):	Percent of increase	Increase Amount (rounded to 000s):	Percent of increase
Real estate taxes				
Properties acquired in 2018	\$4,438	41.2 %	\$—	— %
Properties acquired in 2017	7,663	71.3 %	3,017	31.2 %
Properties acquired in 2016	177	1.6 %	8,281	85.5 %
Properties acquired in 2011 - 2015	(422)	(3.9)%	295	3.0 %
Properties sold	(1,102)	(10.2)%	(1,906)	(19.7)%
Total	\$10,754	100.0 %	\$9,687	100.0 %

We generally expect the assessed values of our properties to rise over time, owing to our expectation of improving market conditions, as well as pressure on municipalities to raise revenues.

General and Administrative

The increase was primarily due to administrative expenses related to the properties acquired during 2018 and 2017, as shown in the following table:

	Year Ended December 31, 2018 versus 2017		2017 versus 2016	
	Increase Amount (rounded to 000s):	Percent of increase	Increase Amount (rounded to 000s):	Percent of increase
General and administrative expense				
Taxes, licenses & fees	\$(219)	(12.7)%	\$(15)	(0.7)%
Properties acquired in 2018	939	54.2 %	—	— %
Properties acquired in 2017	873	50.3 %	746	38.6 %
Properties acquired in 2016	261	15.1 %	1,247	64.5 %
Properties acquired in 2011 - 2015	81	4.7 %	214	11.1 %
Properties sold	(201)	(11.6)%	(260)	(13.5)%
Total	\$1,734	100.0 %	\$1,932	100.0 %

Equity compensation to directors and executives

Expenses recorded for equity compensation awards decreased for the year ended December 31, 2018 versus 2017 due primarily to the voluntary forfeiture by certain of our executives of 128,258 Class B Units awarded in 2018, which had an aggregate fair value of approximately \$2.1 million, as well as additional forfeitures of 66,332 Class B Units with a fair value of approximately \$1.1 million, which were forfeited through involuntary terminations, retirements, and the passing of John A. Williams. Expenses recorded for equity compensation awards for the year ended December 31, 2017 versus 2016 increased primarily due to expansions of Class B Unit awards in 2017, the details of which are presented in Note 9 to the Consolidated Financial Statements.

Depreciation and amortization

The net increases in depreciation and amortization were driven by:

	Year Ended December 31, 2018 versus 2017		2017 versus 2016	
	Increase Amount (rounded to 000s):	Percent of increase	Increase Amount (rounded to 000s):	Percent of increase
Depreciation and amortization				
Properties acquired in 2018	\$31,872	58.7 %	\$—	— %
Properties acquired in 2017	29,753	54.7 %	28,395	73.6 %
Properties acquired in 2016	(3,857)	(7.1)%	18,635	48.2 %
Properties acquired in 2011 - 2015	(805)	(1.5)%	(3,930)	(10.2)%
Properties sold	(2,604)	(4.8)%	(4,463)	(11.6)%
Total	\$54,359	100.0 %	\$38,637	100.0 %

Acquisition and pursuit costs and acquisition fees to related parties

The decrease in acquisition fees during the year ended December 31, 2017 versus 2016 was due to the adoption of ASU 2017-01 on January 1, 2017, pursuant to which we began capitalizing and amortizing asset acquisition costs.

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 acquired office buildings, grocery-anchored shopping centers, student housing properties and multifamily communities listed previously.

Insurance, professional fees and other expenses

The increases consisted of:

	Year Ended December 31,			
	2018 versus 2017		2017 versus 2016	
	Increase		Increase	
	Amount	Percent	Amount	Percent
	(rounded to 000s):	of increase	(rounded to 000s):	of increase
Insurance, professional fees, and other expenses				
Audit and tax fees	\$(76)	(13.1)%	\$(77)	(18.8)%
Insurance premiums	480	82.5%	941	229.0%
Board of directors fees	—	—%	170	41.4%
Software implementation fees	6	1.0%	(216)	(52.6)%
Legal fees	182	31.3%	(591)	(143.8)%
Other professional fees	(10)	(1.7)%	184	44.8%
Total	\$582	100.0%	\$411	100.0%

Contingent asset management and general and administrative expense fees

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

On May 25, 2017, we closed on the sale of our Enclave at Vista Ridge multifamily community to an unrelated third party. At such date, the Manager collected a cumulative total of approximately \$390,000 of waived fees. Similarly, on October 23, 2018, we closed on the sale of the Stoneridge Farms at the Hunt Club multifamily community to an unrelated third party. At such date, the Manager collected a cumulative total of approximately \$465,000 of waived fees as a disposition fee. The sales transactions, and the fact that the Company's capital contributions for the property achieved a greater than 7% annual rate of return, triggered the fees to become immediately due and payable to the Manager at the closing of these sale transactions.

Interest expense

The increases consisted of:

	Year Ended December 31,			
	2018 versus 2017		2017 versus 2016	
	Increase		Increase	
	Amount	Percent	Amount	Percent
	(rounded to 000s):	of increase	(rounded to 000s):	of increase
Interest expense				

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Properties acquired in 2018	\$12,189	43.3	%	\$—	—	%
Properties acquired in 2017	15,955	56.8	%	9,210	39.8	%
Properties acquired in 2016	1,538	5.5	%	15,139	65.3	%
Properties acquired in 2011 - 2015	500	1.8	%	695	3.0	%
Properties sold	(1,715)	(6.1)	%	(3,030)	(13.1)	%
KeyBank operating LOC and Term note	(507)	(1.8)	%	884	3.8	%
Loan participants	136	0.5	%	286	1.2	%
Total	\$28,096	100.0	%	\$23,184	100.0	%

See the sections entitled Contractual Obligations and Item 7A Quantitative and Qualitative Disclosures About Market Risk located elsewhere in this Annual Report on Form 10-K.

Definitions of Non-GAAP Measures

We disclose FFO and AFFO, each of which meet the definition of a “non-GAAP financial measure”, as set forth in Item 10(e) of Regulation S-K promulgated by the SEC. As a result we are required to include in this filing a statement of why the Company believes that presentation of these measures provides useful information to investors. None of FFO and AFFO should be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance, and we believe that to understand our performance further FFO and AFFO should be compared with our reported net income or net loss and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements. FFO and AFFO are not considered measures of liquidity and are not alternatives to measures calculated under GAAP.

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

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 restated in 2018, 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. We have adopted the NAREIT definition for computing FFO as a meaningful supplemental gauge of our operating results, and as is most often presented by other REIT industry participants.

The NAREIT definition of FFO (and the one reported by the Company) is:

Net income/loss, excluding:

- depreciation and amortization related to real estate;
- gains and losses from the sale of certain real estate assets;
- gains and losses from change in control and impairment writedowns of certain real estate assets and investments in entities where the impairment is directly attributable to decreases in the value of depreciable real estate held by the entity.

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. FFO 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 FFO 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:

FFO, plus:

- non-cash equity compensation to directors and executives;
- amortization of loan closing costs;
- losses on debt extinguishments or refinancing costs;
- weather-related property operating losses;
- amortization of loan coordination fees paid to the Manager;
- depreciation and amortization of non-real estate assets;
- net loan fees received;
- accrued interest income received;

- allowances for loan loss reserves;
- cash received for purchase option terminations (net of revenues recorded);
- deemed dividends on preferred stock redemptions;
- non-cash dividends on Series M Preferred Stock; and
- amortization of lease inducements;

Less:

- non-cash loan interest income;
- cash paid for loan closing costs;
- amortization of acquired real estate intangible liabilities;
- amortization of straight line rent adjustments and deferred revenues; and

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- normally-recurring capital expenditures and capitalized second- generation 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 may be 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 and AFFO are not considered measures of liquidity and are not alternatives to measures calculated under GAAP.

Reconciliation of FFO Attributable to Common Stockholders
and Unitholders and AFFO
to Net (Loss) Income Attributable to Common Stockholders
(A)

(In thousands, except per-share figures)	Three months ended December 31,		
	2018	2017	2016
Net income (loss) attributable to common stockholders (See note 1)	\$2,641	\$(22,243)	\$(16,590)
Add: Depreciation of real estate assets	34,309	24,941	16,890
Amortization of acquired real estate intangible assets and deferred leasing costs	9,173	9,386	6,124
Net income (loss) attributable to non-controlling interests (See note 2)	615	(111)	(135)
Less: Gain on sale of real estate	(30,682)	—	—
FFO attributable to common stockholders and unitholders	16,056	11,973	6,289
Add: Acquisition and pursuit costs	—	—	1,662
Loan cost amortization on acquisition term note	20	29	27
Amortization of loan coordination fees paid to the Manager (See note 3) (Insurance recoveries in excess of) weather-related property operating losses (See note 4)	707 (237)	421 681	318 —
Contingent management fees recognized	206	—	—
Payment of costs related to property refinancing	227	684	—
Non-cash equity compensation to directors and executives	(1,178)	863	656
Amortization of loan closing costs (See note 5)	1,234	793	819

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Depreciation/amortization of non-real estate assets	444	263	145
Net loan fees received (See note 6)	707	18	497
Accrued interest income received (See note 7)	12,266	4,697	—
(Decrease in) loan loss allowance (See note 8)	(496)	—	—
Amortization of lease inducements (See note 9)	426	200	—
Non-cash dividends on Preferred Stock	17	30	—
Cash received in excess of amortization of purchase option termination revenues (See note 10)	1,044	—	—
Less: Non-cash loan interest income (See note 7)	(4,611)	(4,557)	(4,228)
Non-cash revenues from mortgage-backed securities	(135)	—	—
Cash paid for loan closing costs	(1,073)	(28)	(215)
Amortization of acquired above and below market lease intangibles			
and straight-line rental revenues (See note 11)	(2,909)	(2,679)	(744)
Amortization of deferred revenues (See note 12)	(901)	(398)	—
Normally recurring capital expenditures and leasing costs (See note 13)	(1,485)	(1,026)	(617)
AFFO	\$20,329	\$11,964	\$4,609
Common Stock dividends and distributions to Unitholders declared:			
Common Stock dividends	\$10,840	\$9,576	\$5,741
Distributions to Unitholders (See note 2)	228	221	195
Total	\$11,068	\$9,797	\$5,936
	\$0.26	\$0.25	\$0.22

Common Stock dividends and
Unitholder distributions per
share

FFO per weighted average basic share of Common Stock and Unit outstanding	\$0.38	\$0.31	\$0.24
AFFO per weighted average basic share of Common Stock and Unit outstanding	\$0.48	\$0.31	\$0.18

Weighted average shares of
Common Stock and Units
outstanding: ^(A)

Basic:

Common Stock	41,320	37,205	25,210
Class A Units	954	895	886
Common Stock and Class A Units	42,274	38,100	26,096

Diluted Common Stock and Class A Units ^(B)	43,000	43,355	27,009
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Actual shares of Common Stock outstanding, including 12, 12 and 15 unvested shares of restricted Common Stock at December 31, 2018, 2017 and 2016, respectively	41,788	38,577	26,514
Actual Class A Units outstanding at December 31, 2018, 2017 and 2016, respectively.	877	885	886
Total	42,665	39,462	27,400

(A) Units and Unitholders refer to Class A Units in our Operating Partnership (as defined in note 2), or Class A Units, and holders of Class A Units, respectively. Unitholders include recipients of 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. Unitholders also include the entity that contributed the Wade Green grocery-anchored shopping center. The Class A Units collectively represent an approximate 2.26% weighted average non-controlling interest in the Operating Partnership for the three-month period ended December 31, 2018.

(B) Since our FFO 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 Series A 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, excluding any gains from sales of real estate assets.

See Notes to Reconciliation of FFO, Core FFO and AFFO to Net Income (Loss) Attributable to Common stockholders.

Reconciliation of FFO Attributable to Common Stockholders
and Unitholders and AFFO

to Net (Loss) Income Attributable to Common Stockholders (A)

Years ended December 31,

(In thousands, except
per-share figures)

2018 2017 2016

Net loss attributable to
common stockholders (See
note 1) \$(43,290) \$(35,985) \$(50,630)

Add:	Depreciation of real estate assets	124,499	85,285	55,896
	Amortization of acquired real estate intangible assets and deferred leasing costs	45,136	30,693	21,701
	Net income (loss) attributable to non-controlling interests (See note 2)	1,071	986	(310)
Less:	Gain on sale of real estate	(69,643)	(37,635)	(4,271)
	FFO attributable to common stockholders and unitholders	57,773	43,344	22,386

Add:	Acquisition and pursuit costs	—	14	8,548
	Loan cost amortization on acquisition term notes	83	128	167
	Amortization of loan coordination fees paid to the Manager (See note 3)	2,487	1,599	870
	Mortgage loan refinancing and extinguishment costs	288	1,742	—
	Costs incurred from extension of management agreement with advisor (Insurance recovery in excess of) weather-related property operating losses (See note 4)	—	—	421
	Contingent management fees recognized	(270)	898	—
	Non-cash equity compensation to directors	206	387	—
		1,703	3,470	2,524

and executives			
Amortization of loan closing costs (See note 5)	4,801	3,550	2,559
Depreciation/amortization of non-real estate assets	1,501	799	543
Net loan fees received (See note 6)	2,166	1,314	1,872
Accrued interest income received (See note 7)	20,676	11,813	6,876
Loan loss allowance (See note 8)	2,533	—	—
Non-cash dividends on Preferred Stock	755	63	—
Amortization of lease inducements (See note 9)	1,381	437	—
Less: Non-cash loan interest income (See note 7)	(19,337)	(18,064)	(14,686)
Cash paid for loan closing costs	(1,489)	(28)	(229)
Amortization of purchase option termination revenues in excess of cash received (See note 10)	(920)	—	—
Non-cash revenues from mortgage-backed securities	(320)	—	—
Amortization of acquired above and below market lease intangibles			
and straight-line rental revenues (See note 11)	(11,956)	(8,176)	(2,458)
Amortization of deferred revenues (See note 12)	(2,666)	(855)	—
Normally recurring capital expenditures and leasing costs (See note 13)	(4,966)	(4,058)	(2,798)
AFFO	\$54,429	\$38,377	\$26,595

Common Stock dividends and distributions to Unitholders declared:

Common Stock dividends	41,129	31,244	19,941
Distributions to Unitholders (See note 2)	1,041	844	671

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Total	42,170	32,088	20,612
Common Stock dividends and Unitholder distributions per share	\$1.02	\$0.94	\$0.8175
FFO per weighted average basic share of Common Stock and Unit outstanding	\$1.41	\$1.32	\$0.90
AFFO per weighted average basic share of Common Stock and Unit outstanding	\$1.33	\$1.17	\$1.07
Weighted average shares of Common Stock and Units outstanding: ^(A)			
Basic:			
Common Stock	40,032	31,927	23,970
Class A Units	1,040	906	819
Common Stock and Class A Units	41,072	32,833	24,789
Diluted Common Stock and Class A Units ^(B)	42,390	36,939	26,502
Actual shares of Common Stock outstanding, including 12, 12 and 15 unvested shares of restricted Common Stock at December 31, 2018, 2017 and 2016, respectively	41,788	38,577	26,514
Actual Class A Units outstanding at December 31, 2018, 2017 and 2016, respectively.	877	885	886
Total	42,665	39,462	27,400

(A) Units and Unitholders refer to Class A Units in our Operating Partnership (as defined in note 2), or Class A Units, and holders of Class A Units, respectively. Unitholders include recipients of 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. Unitholders also include the entity that contributed the Wade Green grocery-anchored shopping center. The Class A Units collectively represent an approximate 2.53% weighted average non-controlling interest in the Operating Partnership for the twelve-month period ended December 31, 2018.

(B) Since our FFO 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 Series A 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, excluding any gains from sales of real estate assets.

See Notes to Reconciliation of FFO and AFFO to Net Income (Loss) Attributable to Common Stockholders.

Notes to Reconciliations of FFO Attributable to Common Stockholders and Unitholders and AFFO to Net Income (Loss) Attributable to Common Stockholders

Rental and other property revenues and property operating expenses for the quarter ended December 31, 2018 include activity for the properties acquired during the quarter only from their respective dates of acquisition and the activity for the properties sold during the period only through the date of the sale. In addition, the fourth quarter 1) 2018 period includes activity for the properties acquired since December 31, 2017. Rental and other property revenues and expenses for the fourth quarter 2017 include activity for the acquisitions made during that period only from their respective dates of acquisition.

Non-controlling interests in Preferred Apartment Communities Operating Partnership, L.P., or our Operating Partnership, consisted of a total of 877,454 Class A Units as of December 31, 2018. Included in this total are 419,228 Class A Units which were granted as partial consideration to the seller in conjunction with the seller's contribution to us on February 29, 2016 of the Wade Green grocery-anchored shopping center. The remaining Class 2) A units 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 2.26% and 2.35% for the three-month periods ended December 31, 2018 and 2017, respectively and 2.53% and 2.76% for the years ended December 31, 2018 and 2017, respectively.

As of January 1, 2016, we pay loan coordination fees to Preferred Apartment Advisors, LLC, our Manager, related to obtaining mortgage financing for acquired properties. Loan coordination fees were introduced to reflect the administrative effort involved in arranging debt financing for acquired properties. The portion of the loan coordination fees paid up until July 1, 2017 attributable to the financing were amortized over the lives of the respective mortgage loans, and this non-cash amortization expense is an addition to FFO in the calculation of 3) AFFO. Beginning effective July 1, 2017, the loan coordination fee was lowered from 1.6% to 0.6% of the amount of any mortgage indebtedness on newly-acquired properties or refinancing. All of the loan coordination fees paid to our Manager subsequent to July 1, 2017 are amortized over the life of the debt. At December 31, 2018, aggregate unamortized loan coordination fees were approximately \$13.6 million, which will be amortized over a weighted average remaining loan life of approximately 10.8 years.

We sustained weather related operating losses due to hurricanes (primarily due to Hurricane Harvey at our Stone Creek multifamily community) during the year ended December 31, 2018; these costs are added back to FFO in our calculation of AFFO. Lost rent and other operating costs incurred during the year ended December 31, 2018 totaled 4) approximately \$563,000. This number is offset by the receipt from our insurance carrier of approximately \$833,000 for recoveries of lost rent, which was recognized in our consolidated statements of operations for the year ended December 31, 2018.

We incur loan closing costs on our existing mortgage loans, which are secured on a property-by-property basis by each of our acquired real estate assets, and also for occasional amendments to our syndicated revolving line of credit with Key Bank National Association, or our Revolving Line of Credit. Effective April 13, 2018, the maximum borrowing capacity on the Revolving Line of Credit was increased from \$150 million to \$200 million. These loan closing costs are also amortized over the lives of the respective loans and the Revolving Line of Credit, and this non-cash amortization expense is an addition to FFO in the calculation of AFFO. Neither we nor the 5) 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, 2018, aggregate unamortized loan costs were approximately \$23.4 million, which will be amortized over a weighted average remaining loan life of approximately 9.1 years.

We receive loan origination fees in conjunction with the origination of certain real estate loan investments. 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 after the payment of loan origination fees to our Manager are additive adjustments in the calculation of AFFO. Correspondingly, the amortized non-cash income is a deduction in the calculation of AFFO. Over the lives of certain loans, we accrue 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. This non-cash interest income is subtracted from FFO in our calculation of AFFO. The amount of additional accrued interest becomes an additive adjustment to FFO once received from the borrower (see note 7).

7) This adjustment reflects the receipt during the periods presented of additional interest income (described in note 6 above) which was earned and accrued prior to those periods presented on various real estate loans.

8) During the year ended December 31, 2018, we recorded a \$2.5 million loss on our real estate loan investment to the developer of Fusion Apartments in Irvine, California which is reflected on our statements of operations. This loss was reduced from the previously reported \$3.0 million for the nine months ended September 30, 2018 because of the application of accounting guidance pertaining to troubled debt restructuring, which requires any cash received to be applied as a reduction in the principal balance of the loan, not as interest revenue. The Company received interest payments during the fourth quarter of 2018, which reduced the allowance for loan loss on our consolidated balance sheet as well as the bad debt charge presented on our consolidated statements of operations.

9) This adjustment removes the non-cash amortization of costs incurred to induce tenants to lease space in our office buildings and grocery-anchored shopping centers.

10) On May 7, 2018, we terminated our existing purchase options on the Encore, Bishop Street and Hidden River multifamily communities and the Haven 46 and Haven Charlotte student housing properties, all of which are partially supported by real estate loan investments held by us. In exchange, we are to receive termination fees aggregating approximately \$10.7 million from the developers, which are recorded as revenue over the period beginning on the date of election until the earlier of (i) the maturity of the real estate loan investment and (ii) the sale of the property. The receipt of the cash termination fees is an additive adjustment in our calculation of AFFO and the removal of non-cash revenue from the recognition of the termination fees is a reduction to FFO in our calculation of AFFO; both of these adjustments are presented in a single net number within this line. As of December 31, 2018, we had recognized termination fee revenues in excess of the cash received by approximately \$920,000. This difference is a reduction to FFO in our calculation of AFFO.

11) 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 our 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 grocery-anchored shopping center assets and office buildings. At December 31, 2018, the balance of unamortized below-market lease intangibles was approximately \$47.1 million, which will be recognized over a weighted average remaining lease period of approximately 9.2 years.

12) This adjustment removes the non-cash amortization of deferred revenue recorded by us in conjunction with Company-owned lessee-funded tenant improvements in our office buildings, as well as non-cash revenue earned from our investment in the collateralized mortgage-backed security in the ML-04 pool from the Freddie Mac K program.

13) We deduct from FFO normally recurring capital expenditures that are necessary to maintain our assets' revenue streams in the calculation of AFFO. This adjustment also deducts from FFO capitalized amounts for third party costs during the period to originate or renew leases in our grocery-anchored shopping centers and office buildings. No adjustment is made in the calculation of AFFO for nonrecurring capital expenditures.

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, student housing properties, grocery-anchored shopping centers and office properties (including regular maintenance items);
- capital expenditures incurred to lease our multifamily communities, student housing properties, grocery-anchored shopping centers and office properties;
- 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 KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), working capital and other general corporate purposes on an as needed basis. On March 23, 2018, the maximum borrowing capacity on the Revolving Line of Credit was increased to \$200 million pursuant to an accordion feature. The accordion feature permits the maximum borrowing capacity to be expanded or

contracted without amending any further terms of the instrument. On December 12, 2018, the Fourth Amended and Restated Credit Agreement, or the Amended and Restated Credit Agreement, was amended to extend the maturity to December 12, 2021, with an option to extend the maturity date to December 12, 2022, subject to certain conditions described therein. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus an applicable margin of 2.75% to 3.50% per annum, depending upon our leverage ratio. The weighted average interest rate for the Revolving Line of Credit was 5.23% for the year ended December 31, 2018. The Amended and Restated Credit Agreement also reduced the commitment fee on the average daily unused portion of the Revolving Line of Credit to 0.25% or 0.30% per annum, depending upon our outstanding Credit Facility balance.

On December 17, 2018, we refinanced the mortgage on its Baldwin Park multifamily community. The mortgage principal balance decreased from approximately \$77.8 million to approximately \$71.5 million under the new financing arrangement, and the existing variable interest rate was replaced with a fixed rate of 4.16% per annum. The new mortgage instrument matures on January 1, 2054. As a result of the refinance, we incurred expenses of approximately \$130,000, which are included within the Interest Expense line of the Consolidated Statements of Operations.

On March 29, 2018, we refinanced the mortgage on its Sol student housing property. A short-term bridge loan was used to replace the mortgage being held on the Acquisition Facility. The mortgage principal balance of approximately \$37.5 million remained the same under the new financing arrangement, and the existing variable interest rate increased 10 basis points, to 210 basis points over LIBOR. As a result of the refinance, we incurred expenses of approximately \$61,000, which are included within the Interest Expense line of the Consolidated Statements of Operations.

On October 31, 2018, we refinanced the mortgage on its Sol student housing property out of the short-term bridge loan. The mortgage principal balance was reduced from approximately \$37.5 million to approximately \$36.2 million, and the existing variable interest rate of 210 basis points over LIBOR was converted to a fixed rate of 4.71%. As a result of the refinance, we incurred expenses of approximately \$97,000, which are included within the Interest Expense line of the Consolidated Statements of Operations.

On May 26, 2016, we utilized proceeds from the Interim Term Loan to partially finance the acquisition of Anderson Central, a grocery-anchored shopping center located in Anderson, South Carolina. The Interim Term Loan accrued interest at a rate of LIBOR plus 2.5% per annum and was repaid and extinguished during the first quarter 2018.

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, 2018, we were in compliance with all covenants related to the Fourth Amended and Restated Credit Agreement. Our results with respect to such compliance are presented in Note 10 to the Company's Consolidated Financial Statements.

On February 28, 2017, we entered into a revolving acquisition credit agreement, or Acquisition Credit Agreement, with KeyBank to obtain an acquisition revolving credit facility, or Acquisition Facility, with a maximum borrowing capacity of \$200 million. The sole purpose of the Acquisition Credit Agreement is to finance our acquisitions of multifamily communities and student housing communities prior to obtaining permanent conventional mortgage financing on the acquired assets. The maximum borrowing capacity on the Acquisition Facility may be increased at our request up to \$300 million at any time prior to March 1, 2021. The Acquisition Facility accrues interest at a variable rate of one month LIBOR plus a margin of between 1.75% per annum and 2.20% per annum, depending on the type of assets acquired and the resulting property debt service coverage ratio. The Acquisition Facility has a maturity date of March 1, 2022 and has two one-year extension options, subject to certain conditions described therein.

Our net cash provided by operating activities for the years ended December 31, 2018, 2017 and 2016 was approximately \$145.4 million, \$86.3 million, and \$61.7 million, respectively. The increases in net cash provided by operating activities was primarily due to the incremental cash generated by property income provided by the real estate assets acquired during 2018 and 2017.

The majority of our revenue is derived from residents and tenants under existing leases at our multifamily communities, student housing properties, grocery-anchored shopping centers and office properties. Therefore, our operating cash flow is principally dependent on: (1) the number of multifamily communities, student housing properties, grocery-anchored shopping centers and office properties in our portfolio; (2) rental rates; (3) occupancy rates; (4) operating expenses associated with these properties; and (5) the ability of our residents and tenants to make their rental payments.

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 \$881.8 million, \$727.2 million and \$1.1 billion for the years ended December 31, 2018, 2017 and 2016, respectively. Disbursements for property acquisitions were approximately \$1.0 billion, \$779.6 million and \$969.4 million for the years ended December 31, 2018, 2017 and 2016, respectively. Net proceeds from our sale of McNeil Ranch and Stoneridge Farms at the Hunt Club were approximately \$164.8 million and from our sale of Ashford Park, Sandstone Creek and Enclave at Vista Ridge during 2017 totaled approximately \$116.8 million. Disbursements for real estate loans and notes receivable, net of repayments, were approximately \$52.4 million, \$55.7 million and \$111.3 million the years ended

December 31, 2018, 2017 and 2016, respectively. For the year ended December 31, 2018, we collected approximately \$52.5 million on real estate loans and notes receivable, net of investments.

Cash used in investing activities is primarily driven by acquisitions and dispositions of multifamily properties, student housing properties, office properties and grocery-anchored 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, student housing properties, office properties and grocery-anchored 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.

For the year ended December 31, 2018, our capital expenditures for our multifamily communities, not including changes in related payables were as follows:

	Capital Expenditures					
	Recurring		Non-recurring		Total	
(in thousands, except per-unit amounts)	Amount	Per Unit	Amount	Per Unit	Amount	Per Unit
Appliances	\$400	\$41.99	\$—	\$—	\$400	\$41.99
Carpets	1,339	140.41	—	—	1,339	140.41
Wood flooring / vinyl	394	41.37	—	—	394	41.37
Blinds and ceiling fans	139	14.57	—	—	139	14.57
Fire safety	13	1.37	198	20.74	211	22.11
Furnace, air (HVAC)	370	38.86	—	—	370	38.86
Computers, equipment, misc.	29	3.01	244	25.62	273	28.63
Elevators	—	—	17	1.78	17	1.78
Exterior painting	—	—	293	30.80	293	30.80
Leasing office / common amenities	123	12.94	2,350	246.49	2,473	259.43
Major structural	—	—	6,746	707.62	6,746	707.62
Cabinets & countertop upgrades	—	—	1,415	148.40	1,415	148.40
Landscaping & fencing	5	0.47	578	60.64	583	61.11
Parking lot	76	7.95	636	66.69	712	74.64
Signage and sanitation	—	—	197	20.63	197	20.63
	\$2,888	\$302.94	\$12,674	\$1,329.41	\$15,562	\$1,632.35

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For the year ended December 31, 2018, our capital expenditures for our student housing properties, not including changes in related payables were as follows:

(in thousands, except per-unit amounts)	Capital Expenditures					
	Recurring		Non-recurring		Total	
	Amount	Per Bed	Amount	Per Bed	Amount	Per Bed
Appliances	\$63	\$14.77	\$—	\$—	\$63	\$14.77
Carpets	81	18.87	—	—	81	18.87
Wood flooring / vinyl	9	1.99	—	—	9	1.99
Blinds and ceiling fans	16	3.77	—	—	16	3.77
Fire safety	—	—	64	15.00	64	15.00
Furnace, air (HVAC)	81	18.90	—	—	81	18.90
Computers, equipment, misc.	16	3.79	102	24.01	118	27.80
Elevators	—	—	—	—	—	—
Exterior painting	—	—	11	2.49	11	2.49
Leasing office / common amenities	86	20.15	263	61.36	349	81.51
Major structural	1	0.34	167	38.97	168	39.31
Cabinets & countertop upgrades	8	1.70	227	53.21	235	54.91
Landscaping & fencing	—	—	61	14.16	61	14.16
Parking lot	—	—	11	2.46	11	2.46
Signage and sanitation	2	0.54	54	12.70	56	13.24
	\$363	\$84.82	\$960	\$224.36	\$1,323	\$309.18

For the year ended December 31, 2017, our capital expenditures for our multifamily communities, not including changes in related payables were as follows:

(in thousands, except per-unit amounts)	Capital Expenditures					
	Recurring		Non-recurring		Total	
	Amount	Per Unit	Amount	Per Unit	Amount	Per Unit
Appliances	\$324	\$32.59	\$—	\$—	\$324	\$32.59
Carpets	1,297	130.47	—	—	1,297	130.47
Wood flooring / vinyl	231	23.25	—	—	231	23.25
Fire safety	—	—	100	10.08	100	10.08
Furnace, air (HVAC)	291	29.24	—	—	291	29.24
Computers, equipment, misc.	72	7.23	239	24.05	311	31.28
Elevators	—	—	19	1.92	19	1.92
Exterior painting	—	—	539	54.16	539	54.16
Leasing office / common amenities	173	17.39	809	81.36	982	98.75
Major structural	—	—	3,191	320.85	3,191	320.85
Cabinets & countertop upgrades	—	—	1,880	189.07	1,880	189.07
Landscaping & fencing	—	—	577	58.05	577	58.05
Parking lot	—	—	133	13.34	133	13.34
Signage and sanitation	—	—	194	19.45	194	19.45
	\$2,388	\$240.17	\$7,681	\$772.33	\$10,069	\$1,012.50

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For the year ended December 31, 2017, our capital expenditures for our student housing properties, not including changes in related payables were as follows:

(in thousands, except per-unit amounts)	Capital Expenditures					
	Recurring		Non-recurring		Total	
	Amount	Per Bed	Amount	Per Bed	Amount	Per Bed
Appliances	\$18	\$13.17	\$—	—	18	13.17
Carpets	34	24.25	—	—	34	24.25
Wood flooring / vinyl	13	9.17	—	—	13	9.17
Fire safety	—	—	—	—	—	—
Furnace, air (HVAC)	3	2.27	—	—	3	2.27
Computers, equipment, misc.	9	6.23	19	13.46	28	19.69
Elevators	—	—	12	8.74	12	8.74
Exterior painting	—	—	—	—	—	—
Leasing office / common amenities	45	32.53	209	151.15	254	183.68
Major structural	—	—	176	126.65	176	126.65
Cabinets & countertop upgrades	—	—	3	2.35	3	2.35
Landscaping & fencing	—	—	109	78.88	109	78.88
Parking lot	—	—	—	—	—	—
Signage and sanitation	—	—	1	0.72	1	0.72
	\$122	\$87.62	\$529	\$381.95	\$651	\$469.57

In addition, second-generation capital expenditures within our grocery-anchored shopping center portfolio for the years ended December 31, 2018, 2017 and 2016 totaled \$1,562,831, \$1,280,444 and \$581,028, respectively. We define second-generation capital expenditures as those that exclude expenditures made in our grocery-anchored shopping center portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our ownership standards, and (iii) for property re-developments and repositioning.

Second-generation capital expenditures within our office properties portfolio for the years ended December 31, 2018, 2017 and 2016 totaled \$152,356 and \$267,549, and \$0 respectively. Second-generation capital expenditures exclude those expenditures made in our office properties portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our Class A ownership standards (and which amounts were underwritten into the total investment at the time of acquisition) and (iii) for property re-developments and repositionings.

At December 31, 2018, we had restricted cash of approximately \$14.7 million that was contractually restricted to fund capital expenditures and other property-level commitments such as tenant improvements and leasing commissions.

Net cash provided by financing activities was approximately \$751.1 million, \$646.2 million and \$1.1 billion for the years ended December 31, 2018, 2017 and 2016, respectively. Our significant financing cash sources were approximately \$602.4 million, \$517.5 million and \$622.4 million of net proceeds from the mortgage financing transactions for the years ended December 31, 2018, 2017 and 2016, respectively and approximately \$408.6 million, \$306.9 million and \$394.6 million of net proceeds from our offerings of our Preferred Stock Units for the years ended December 31, 2018, 2017 and 2016, respectively.

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 Series A Redeemable Preferred Stock and our mShares, through net cash generated from operating results.

Our board of directors reviews the Series A Redeemable Preferred Stock and our mShares dividends monthly to determine whether we have funds legally available for payment of such dividends in cash, and there can be no assurance that the Series A Redeemable Preferred Stock and our mShares 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 Series A Redeemable Preferred Stock and our mShares dividend payments to increase at a rate that approximates the rate at which we issue new Units from our \$1.5 Billion Unit Offering and mShares from our mShares Offering, less those shares redeemed.

Our fourth quarter 2018 Common Stock dividend declaration of \$0.26 per share represented an overall increase of 108% from our initial Common Stock dividend per share of \$0.125 following our IPO, or an average annual dividend growth rate of approximately 14.4% over the same period. 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.

For the year ended December 31, 2018, our aggregate dividends and distributions totaled approximately \$128.9 million and our cash flows from operating activities were approximately \$145.4 million. We expect our cash flow from operations over time to be sufficient to fund our quarterly Common Stock dividends, Class A Unit distributions and our monthly Series A Redeemable Preferred Stock and mShares dividends.

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, student housing properties, grocery-anchored shopping centers and office properties;
- costs associated with current and future capital raising activities;
- costs to acquire additional multifamily communities, student housing properties, grocery-anchored shopping centers, office properties 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 \$1.5 Billion Unit Offering, our mShares Offering (both as defined below), 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 \$1.5 Billion Unit Offering, details of which are described below. 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 October 11, 2013, the SEC declared effective our registration statement on Form S-3 (File No. 333-183355) for our offering of up to 900,000 Units, with each Unit consisting of one share of our Series A Redeemable Preferred Stock, stated value \$1,000 per share and one Warrant to purchase 20 shares of our Common Stock, to be offered from time to time on a “reasonable best efforts” basis. This offering is referred to as the Follow-On Series A Offering. We commenced sales for the Follow-On Series A Offering on January 1, 2014. As of February 14, 2017, we had issued all 900,000 Units from and terminated our Follow-On Series A Offering.

On February 14, 2017, the SEC declared effective our registration statement on Form S-3 (Registration No. 333-211924) for our offering for up to 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock, referred to as our \$1.5 Billion Unit Offering. The price per Unit is \$1,000, subject to adjustment if a participating broker-dealer reduces its commission. We intend to invest substantially all the net proceeds of the \$1.5 Billion Unit Offering in connection with the acquisition of multifamily communities, student housing communities, grocery-anchored shopping centers, office

buildings and other real estate-related investments and general working capital purposes.

Aggregate offering expenses, including selling commissions and dealer manager fees, will be capped at 11.5% of the aggregate gross proceeds of the \$1.5 Billion Unit Offering, of which 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.

On December 2, 2016, the SEC declared effective our registration statement on Form S-3 (Registration No. 333-214531), for our offering of up to 500,000 shares of Series M Redeemable Preferred Stock, or mShares, par value \$0.01 per share, or the mShares Offering. The price per mShare is \$1,000. We intend to invest substantially all the net proceeds of the mShares Offering in connection with the acquisition of multifamily communities, student housing communities, grocery-anchored shopping centers, office buildings and other real estate-related investments and general working capital purposes.

Pursuant to FINRA Rule 2310(b)(5), which became 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 as of December 31, 2018. This estimate is based on dividing (i) the value of our assets less contractual liabilities as of December 31, 2018, by (ii) the number of shares of Preferred Stock outstanding as of that date. We used a direct capitalization appraised value analysis for this purpose. This methodology was prepared with the material assistance and confirmation of a third party valuation expert pursuant to FINRA Rule 2310(b)(5) and NASD Rule 2340(c). We believe this methodology conforms to standard industry practices. Based on the foregoing, we have determined that the estimated value as of December 31, 2018 of our Preferred Stock is \$1,000 per share (unaudited).

Under the direct capitalization appraised value analysis, we determined our potential gross income that could be expected from rents and other income received from the properties that we owned as of December 31, 2018. We then estimated for vacancies and collection losses, which amount we then subtracted from potential gross income to arrive at effective gross income. We subtracted estimated operating expenses from effective gross income to arrive at net operating income, and current market capitalization rates were determined for each of the properties. The capitalization rate of each property was then divided by its net operating income to determine a fair market value for each property. For any property owned for less than 12 months, we used the market value of that property as reflected in the third party appraisal we had received at the time of acquisition of that property. The fair market value of all the properties was then added to the value of our other assets (i.e., the value of our cash on hand and other financial assets as reflected on our audited consolidated financial statements for the year ended December 31, 2018) to determine the aggregate market value of our assets. We then subtracted our contractual liabilities from the aggregate market value of our assets, and divided the difference by the number of shares of our Preferred Stock outstanding as of December 31, 2018 to determine our estimated per share value of our Preferred Stock as of that date.

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

We have filed a prospectus to issue and sell up to \$150 million of Common Stock from time to time in an "at the market" offering, or the 2016 ATM Offering, through the sales agents identified in the prospectus. We intend to use any proceeds from the 2016 ATM Offering (a) to repay outstanding amounts under our Revolving Line of Credit and (b) for other general corporate purposes, which includes making investments in accordance with our investment objectives. For the year ended December 31, 2017, we issued and sold approximately 1.7 million shares of our Common Stock for gross proceeds of approximately \$28.6 million via our 2016 ATM Offering. No sales of Common Stock under the 2016 ATM offering occurred during the year ended December 31, 2018.

For the year ended December 31, 2018, we issued approximately 1.25 million shares of our Common Stock pursuant to exercises of warrants from our Series A offerings and collected gross proceeds of approximately \$16.1 million.

Our ability to raise funds through the issuance of our securities is dependent on, among other things, general market conditions for REITs, 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 Line of Credit. 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, 2018, our outstanding debt (both secured and unsecured) was approximately 52.4% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 2018. 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, 2018, we had long term mortgage indebtedness of approximately \$2.3 billion, all of which was incurred by us in connection with the acquisition or refinancing of our real estate properties.

As of December 31, 2018, we had approximately \$39.0 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, 2018, we had 1,160,263 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 \$19.50 per share for Warrants issued after February 15, 2017. The current market price per share is determined using the closing market price of the Common Stock immediately preceding the 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, 2018, a total of 487,155 Warrants had been exercised into 9,743,100 shares of Common stock. The 1,160,263 Warrants outstanding at December 31, 2018 have exercise prices that range between \$10.87 and \$26.34 per share. If all the Warrants outstanding at December 31, 2018 became exercisable and were exercised, gross proceeds to us would be approximately \$433.1 million and we would as a result issue an additional 23,205,260 shares of Common Stock.

Contractual Obligations

As of December 31, 2018, our contractual obligations consisted of the mortgage notes secured by our acquired properties and the Revolving Credit Facility. Based on a LIBOR rate of 2.52% at December 31, 2018, our estimated future required payments on these instruments were:

(in thousands)	Total	Less than one year	1-3 years	3-5 years	More than five years
Mortgage debt obligations:					
Interest	\$775,213	\$94,753	\$177,454	\$143,970	\$359,036
Principal	2,339,752	123,945	278,580	406,458	1,530,769
Line of Credit:					
Interest	105	105	—	—	—
Principal	57,000	57,000	—	—	—
Total	\$3,172,070	\$275,803	\$456,034	\$550,428	\$1,889,805

In addition, we had unfunded real estate loan balances totaling approximately \$164.9 million at December 31, 2018.

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, 2018, we have variable rate mortgages on the properties listed in following table.

	Balance (in thousands)	Percentage of total mortgage indebtedness	LIBOR Cap	All-in Cap
Avenues at Creekside	\$ 39,697		5.0 %	6.6 %
Citi Lakes	41,582		4.3 %	6.5 %
The Tradition	30,000		3.3 %	7.3 %
The Bloc	28,966		3.3 %	6.8 %
Total capped floating-rate debt	140,245	6.0 %		
Ursa	31,400		n/a	n/a
Royal Lakes	9,544		n/a	n/a
Cherokee Plaza	24,683		n/a	n/a
Champions Village	27,400		n/a	n/a
Total uncapped floating-rate debt	93,027	4.0 %		

Total floating-rate debt \$ 233,272 10.0 %

Our Revolving Line of Credit accrued interest at a spread of 3.25% over LIBOR as of December 31, 2018; this combined rate is uncapped. Because of the short term nature of the Revolving Line of Credit and Acquisition Credit Facility instruments, we believe our interest rate risk is minimal. We have no business operations which subject us to trading risk and no recourse liability or market or interest rate exposure to the consolidated VIE liabilities of the ML-04 mortgage-backed pool.

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

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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, 2018, would increase by approximately \$2.2 million or decrease by approximately \$2.2 million on an annualized basis. At December 31, 2017, our interest costs would increase by approximately \$2.89 million or decrease by approximately \$2.89 million on an annualized basis. Further discussion concerning our outlook regarding yield spreads and other market risks are provided in the Industry Outlook section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

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, 2018 and 2017

Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

Schedule III- Real Estate Investments and Accumulated Depreciation as of December 31, 2018 with reconciliations for the years ended December 31, 2018, 2017 and 2016

Schedule IV- Mortgage Loans on Real Estate as of December 31, 2018

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, 2018. 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, 2018.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 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 Financial 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, 2018, the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial 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 Financial 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 Financial Officer evaluated the Company's internal control over financial reporting to determine whether any change occurred during the quarter ended December 31, 2018 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 2019 Proxy Statement, to be filed with the SEC with regard to our 2019 Annual Meeting of Stockholders.

Item 11. Executive Compensation

Information required by this item regarding our officers is incorporated herein by reference to our 2019 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 is incorporated herein by reference to our 2019 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 2019 Proxy Statement to be filed with the SEC.

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Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated herein by reference to our 2019 Proxy Statement to be filed with the SEC.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(1) Financial Statements

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(2) Financial Statement Schedules

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(3) Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as a part of this report.	142
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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Preferred Apartment Communities, Inc. and its subsidiaries (the "Company") as of December 31, 2018 and December 31, 2017, and the related consolidated statements of operations, of stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, 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 the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ PricewaterhouseCoopers LLP

Atlanta, GA
March 1, 2019

We have served as the Company's auditor since 2010.

Preferred Apartment Communities, Inc.
Consolidated Balance Sheets

(In thousands, except per-share par values)	December 31, 2018	December 31, 2017
Assets		
Real estate		
Land	\$ 519,300	\$ 406,794
Building and improvements	2,738,085	2,043,853
Tenant improvements	128,914	63,425
Furniture, fixtures, and equipment	278,151	210,779
Construction in progress	8,265	10,491
Gross real estate	3,672,715	2,735,342
Less: accumulated depreciation	(272,042)	(172,756)
Net real estate	3,400,673	2,562,586
Real estate loan investments, net of deferred fee income and allowance for loan loss	282,548	255,345
Real estate loan investments to related parties, net	51,663	131,451
Total real estate and real estate loan investments, net	3,734,884	2,949,382
Cash and cash equivalents		
Restricted cash	48,732	51,969
Notes receivable	14,440	17,318
Note receivable and revolving lines of credit due from related parties	32,867	22,739
Accrued interest receivable on real estate loans	23,340	26,865
Acquired intangible assets, net of amortization of \$113,199 and \$73,521	135,961	102,743
Deferred loan costs on Revolving Line of Credit, net of amortization of \$180 and \$1,153	1,916	1,385
Deferred offering costs	6,468	6,544
Tenant lease inducements, net of amortization of \$1,833 and \$452	20,698	14,425
Receivable from sale of mortgage-backed security	41,181	—
Tenant receivables (net of allowance of \$1,662 and \$715) and other assets	41,567	37,957
Variable Interest Entity ("VIE") assets from mortgage-backed pool, at fair value	269,946	—
Total assets	\$ 4,410,958	\$ 3,252,370
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs and mark-to-market adjustment of \$40,127 and \$35,397	\$ 2,299,625	\$ 1,776,652
Revolving line of credit	57,000	41,800
Term note payable, net of deferred loan costs of \$0 and \$6	—	10,994
Real estate loan participation obligation	5,181	13,986
Unearned purchase option termination fees	2,050	—
Deferred revenue	43,484	27,947
Accounts payable and accrued expenses	38,618	31,253
Accrued interest payable	6,711	5,028
Dividends and partnership distributions payable	19,258	15,680
Acquired below market lease intangibles, net of amortization of \$15,254 and \$8,095	47,149	38,857
Security deposits and other liabilities	17,611	9,407
VIE liabilities from mortgage-backed pool, at fair value	264,886	—

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Total liabilities	2,801,573	1,971,604
Commitments and contingencies (Note 12)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, \$0.01 par value per share; 3,050 shares authorized; 1,674 and 1,250 shares issued; 1,608 and 1,222 shares outstanding at December 31, 2018 and 2017, respectively	16	12
Series M Redeemable Preferred Stock, \$0.01 par value per share; 500 shares authorized; 44 and 15 shares issued and outstanding at December 31, 2018 and 2017, respectively	—	—
Common Stock, \$0.01 par value per share; 400,067 shares authorized; 41,776 and 38,565 shares issued and outstanding at December 31, 2018 and 2017, respectively	418	386
Additional paid-in capital	1,607,712	1,271,040
Accumulated (deficit) earnings	—	4,449
Total stockholders' equity	1,608,146	1,275,887
Non-controlling interest	1,239	4,879
Total equity	1,609,385	1,280,766
Total liabilities and equity	\$ 4,410,958	\$ 3,252,370

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Operations

(In thousands, except per-share figures)	Year ended December 31,		
	2018	2017	2016
Revenues:			
Rental revenues	\$280,079	\$200,462	\$137,331
Other property revenues	51,386	36,641	19,302
Interest income on loans and notes receivable	50,190	35,698	28,841
Interest income from related parties	15,616	21,204	14,645
Total revenues	397,271	294,005	200,119
Operating expenses:			
Property operating and maintenance	44,065	29,903	19,982
Property salary and benefits (including reimbursements of \$16,276, \$12,329 and \$10,399 to related party)	17,766	13,272	10,399
Property management fees (including \$8,976, \$6,417 and \$4,978 to related parties)	11,681	8,329	5,981
Real estate taxes	42,035	31,281	21,594
General and administrative	8,224	6,490	4,558
Equity compensation to directors and executives	1,703	3,470	2,524
Depreciation and amortization	171,136	116,777	78,140
Acquisition and pursuit costs	—	14	8,547
Asset management and general and administrative expense fees to related party	27,541	20,226	13,637
Loan loss allowance	2,533	—	—
Insurance, professional fees and other expenses	7,166	6,584	6,173
Total operating expenses	333,850	236,346	171,535
Waived asset management and general and administrative expense fees	(6,656)	(1,729)	(1,586)
Net operating expenses	327,194	234,617	169,949
Operating income before gains on sales of real estate and trading investment	70,077	59,388	30,170
Gains on sales of real estate and trading investment	69,705	37,635	4,271
Operating income	139,782	97,023	34,441
Interest expense	95,564	67,468	44,284
Change in fair value of net assets of consolidated VIE from mortgage-backed pool	320	—	—
Loss on extinguishment of debt	—	888	—
Net income (loss)	44,538	28,667	(9,843)
Consolidated net (income) loss attributable to non-controlling interests	(1,071)	(986)	310
Net income (loss) attributable to the Company	43,467	27,681	(9,533)
Dividends declared to preferred stockholders	(86,741)	(63,651)	(41,081)

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Earnings attributable to unvested restricted stock	(16)	(15)	(16)
Net loss attributable to common stockholders	\$(43,290)	\$(35,985)	\$(50,630)
Net loss per share of Common Stock available to common stockholders, basic and diluted	\$(1.08)	\$(1.13)	\$(2.11)
Weighted average number of shares of Common Stock outstanding, basic and diluted	40,032	31,926	23,969

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2018, 2017 and 2016

(In thousands, except dividend per-share figures)	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2018	\$ 12	\$ 386	\$1,271,040	\$ 4,449	\$1,275,887	\$ 4,879	\$1,280,766
Issuance of Units	4	—	420,389	—	420,393	—	420,393
Issuance of mShares	—	—	28,951	—	28,951	—	28,951
Redemptions of Series A Preferred Stock	—	17	(9,445)	—	(9,428)	—	(9,428)
Exercises of warrants	—	12	16,042	—	16,054	—	16,054
Syndication and offering costs	—	—	(44,681)	—	(44,681)	—	(44,681)
Equity compensation to executives and directors	—	—	537	—	537	—	537
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	3	2,011	—	2,014	(2,014)	—
Current period amortization of Class B Units	—	—	—	—	—	1,166	1,166
Net income	—	—	—	43,467	43,467	1,071	44,538
Reallocation adjustment to non-controlling interests	—	—	2,822	—	2,822	(2,822)	—
Distributions to non-controlling interests	—	—	—	—	—	(1,041)	(1,041)
Dividends to series A preferred stockholders (\$5.00 per share per month)	—	—	(37,975)	(46,867)	(84,842)	—	(84,842)
Dividends to mShares preferred stockholders (\$4.79 - \$6.25 per share per month)	—	—	(850)	(1,049)	(1,899)	—	(1,899)
Dividends to common stockholders (\$1.02 per share)	—	—	(41,129)	—	(41,129)	—	(41,129)
Balance at December 31, 2018	\$ 16	\$ 418	\$1,607,712	\$ —	\$1,608,146	\$ 1,239	\$1,609,385

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

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Preferred Apartment Communities, Inc.
 Consolidated Statements of Stockholders' Equity, continued
 For the years ended December 31, 2018, 2017 and 2016

(In thousands, except dividend per-share figures)	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	\$ 9	\$ 265	\$906,738	\$ (23,232)	\$ 883,780	\$ 1,481	\$ 885,261
Issuance of Units	3	—	339,313	—	339,316	—	339,316
Redemptions of Series A Preferred Stock	—	7	(4,507)	—	(4,500)	—	(4,500)
Issuance of common stock	—	50	76,755	—	76,805	—	76,805
Exercises of Warrants	—	62	84,390	—	84,452	—	84,452
Syndication and offering costs	—	—	(37,507)	—	(37,507)	—	(37,507)
Equity compensation to executives and directors	—	—	467	—	467	—	467
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	2	1,751	—	1,753	(1,753)	—
Current period amortization of Class B Units	—	—	—	—	—	3,003	3,003
Net income	—	—	—	27,681	27,681	986	28,667
Minority interest in joint venture	—	—	—	—	—	540	540
Reallocation adjustment to non-controlling interests	—	—	(1,465)	—	(1,465)	1,465	—
Distributions to non-controlling interests	—	—	—	—	—	(843)	(843)
Dividends to Series A preferred stockholders (\$5.00 per share per month)	—	—	(63,176)	—	(63,176)	—	(63,176)
Dividends to mShares preferred stockholders (\$4.79 - \$6.25 per share per month)	—	—	(475)	—	(475)	—	(475)
Dividends to common stockholders (\$0.94 per share)	—	—	(31,244)	—	(31,244)	—	(31,244)
Balance at December 31, 2017	\$ 12	\$ 386	\$ 1,271,040	\$ 4,449	\$ 1,275,887	\$ 4,879	\$ 1,280,766

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

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Preferred Apartment Communities, Inc.
 Consolidated Statements of Stockholders' Equity, continued
 For the years ended December 31, 2018, 2017 and 2016

	Series A Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity	Non Controlling Interest	Total Equity
Balance at January 1, 2016	\$ 5	\$ 228	\$536,451	\$(13,699)	\$ 522,985	\$ 2,469	\$525,454
Issuance of Units	4	—	438,109	—	438,113	—	438,113
Redemptions of Series A Preferred Stock	—	2	(3,759)	—	(3,757)	—	(3,757)
Issuance of common stock	—	17	23,349	—	23,366	—	23,366
Exercises of warrants	—	17	18,151	—	18,168	—	18,168
Syndication and offering costs	—	—	(52,621)	—	(52,621)	—	(52,621)
Equity compensation to executives and directors	—	—	491	—	491	—	491
Vesting of restricted stock	—	—	—	—	—	—	—
Conversion of Class A Units to Common Stock	—	1	649	—	650	(650)	—
Current period amortization of Class B Units	—	—	—	—	—	2,060	2,060
Net loss	—	—	—	(9,533)	(9,533)	(310)	(9,843)
Class A Units for property acquisition	—	—	—	—	—	5,073	5,073
Minority interest in joint venture	—	—	—	—	—	450	450
Reallocation adjustment to non-controlling interests	—	—	6,940	—	6,940	(6,940)	—
Distributions to non-controlling interests	—	—	—	—	—	(671)	(671)
Dividends to series A preferred stockholders (\$5.00 per share per month)	—	—	(41,081)	—	(41,081)	—	(41,081)
Dividends to common stockholders (\$0.8175 per share)	—	—	(19,941)	—	(19,941)	—	(19,941)
Balance at December 31, 2016	\$ 9	\$ 265	\$906,738	\$(23,232)	\$ 883,780	\$ 1,481	\$885,261

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

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Preferred Apartment Communities, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2018	2017	2016
Operating activities:			
Net income (loss)	\$44,538	\$28,667	\$(9,843)
Reconciliation of net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	171,136	116,777	78,140
Amortization of above and below market leases	(5,905)	(3,335)	(1,653)
Deferred revenues and fee income amortization	(4,325)	(2,347)	(995)
Purchase option termination fee amortization	(8,660)	—	—
Noncash interest income amortization on MBS, net of amortized costs	(320)	—	—
Amortization of market discount on assumed debt and lease incentives	1,644	631	—
Deferred loan cost amortization	7,108	5,084	3,595
Decrease (increase) in accrued interest income on real estate loan investments	3,524	(4,970)	(7,600)
Equity compensation to executives and directors	1,703	3,470	2,524
Gains on sale of real estate and trading investment	(69,703)	(37,635)	(4,272)
Cash received for purchase option terminations	7,740	—	—
Loss on extinguishment of debt	—	888	—
Mortgage interest received from consolidated VIE	6,049	—	—
Mortgage interest paid to other participants of consolidated VIE	(6,049)	—	—
Increase in loan loss allowance	2,533	—	—
Other	—	189	48
Changes in operating assets and liabilities:			
(Increase) in tenant receivables and other assets	(7,631)	(12,105)	(4,331)
(Increase) in tenant lease incentives	(7,607)	(14,260)	—
Increase in accounts payable and accrued expenses	2,876	2,382	3,113
Increase in accrued interest, prepaid rents and other liabilities	6,730	2,853	2,935
Net cash provided by operating activities	145,381	86,289	61,661
Investing activities:			
Investments in real estate loans	(200,806)	(148,346)	(151,028)
Repayments of real estate loans	250,448	94,410	36,672
Notes receivable issued	(9,946)	(7,864)	(9,887)
Notes receivable repaid	12,759	6,100	12,895
Note receivable issued to and draws on line of credit by related parties	(51,789)	(35,281)	(34,207)
Repayments of line of credit by related parties	41,117	34,229	31,097
Origination fees received on real estate loan investments	4,331	2,634	3,704
Origination fees paid to Manager on real estate loan investments	(2,166)	(1,320)	(1,886)
Purchases of mortgage-backed securities	(45,927)	—	—
Mortgage principal received from consolidated VIE	1,255	—	—
Acquisition of properties	(1,007,048)	(779,643)	(969,443)
Disposition of properties, net	164,838	116,813	9,797
Receipt of insurance proceeds for capital improvements	978	4,719	10
Additions to real estate assets - improvements	(44,383)	(11,594)	(10,264)
Deposits refunded (paid) on acquisitions	4,534	(2,034)	(840)
Net cash used in investing activities	(881,805)	(727,177)	(1,083,380)
Financing activities:			

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Proceeds from mortgage notes payable	602,375	517,489	622,394
Repayments of mortgage notes payable	(121,797)	(124,040)	(12,386)
Payments for deposits and other mortgage loan costs	(12,299)	(14,772)	(19,130)
Payments for mortgage prepayment costs	—	(817)	—
Proceeds from real estate loan participants	5	224	6,433
Payments to real estate loan participants	(10,425)	(7,883)	—
Proceeds from lines of credit	550,300	275,000	470,136
Payments on lines of credit	(535,100)	(360,700)	(377,136)
Proceeds from Term Loan	—	—	46,000
Repayment of the Term Loan	(11,000)	—	(35,000)
Mortgage principal paid to other participants of consolidated VIE	(1,255)	—	—
Proceeds from sales of Units, net of offering costs	408,644	306,947	394,556
Proceeds from sales of Common Stock	—	74,213	22,957
Proceeds from exercises of Warrants	20,052	80,970	21,503

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

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

	Years Ended December 31,		
	2018	2017	2016
Payments for redemptions of preferred stock	(9,367)	(4,480)	(3,651)
Common Stock dividends paid	(39,865)	(27,409)	(18,515)
Preferred stock dividends paid	(84,427)	(61,966)	(38,941)
Distributions to non-controlling interests	(1,034)	(817)	(530)
Payments for deferred offering costs	(3,705)	(6,314)	(4,685)
Contribution from non-controlling interests	—	540	450
 Net cash provided by financing activities	 751,102	 646,185	 1,074,455
 Net increase in cash, cash equivalents and restricted cash	 14,678	 5,297	 52,736
Cash, cash equivalents and restricted cash, beginning of year	73,012	67,715	14,979
Cash, cash equivalents and restricted cash, end of year	\$87,690	\$73,012	\$67,715
 Supplemental cash flow information:			
Cash paid for interest	\$86,222	\$59,851	\$38,950
 Supplemental disclosure of non-cash investing and financing activities:			
Accrued capital expenditures	\$2,317	\$2,305	\$353
Writeoff of fully depreciated or amortized assets and liabilities	\$480	\$836	\$149
Writeoff of fully amortized deferred loan costs	\$4,829	\$411	\$826
Writeoff of assets due to hurricane damages	\$—	\$6,879	\$—
Lessee-funded tenant improvements, capitalized as landlord assets	\$18,202	\$28,803	\$—
Consolidation of VIEs (VIE asset / liability additions)	\$264,886	\$—	\$—
Sales of Agency MBS investments, settled after year-end	\$41,181	\$—	\$—
Dividends payable - Common Stock	\$10,840	\$9,576	\$5,741
Dividends payable - Series A Preferred Stock	\$7,920	\$5,971	\$4,419
Dividends payable - mShares Preferred Stock	\$269	\$70	\$—
Dividends declared but not yet due and payable	\$229	\$63	\$—
Partnership distributions payable to non-controlling interests	\$228	\$221	\$195
Accrued and payable deferred offering costs	\$461	\$323	\$684
Offering cost reimbursement to related party	\$1,890	\$1,512	\$453
Reclass of offering costs from deferred asset to equity	\$4,044	\$2,515	\$8,749
Proceeds of like-kind exchange funds for dispositions	\$—	\$31,288	\$—
Use of like-kind exchange funds for acquisitions	\$—	\$31,288	\$—
Fair value of OP units issued for property	\$—	\$—	\$5,073
Extinguishment of land loan for property	\$—	\$—	\$6,250
Fair value issuances of equity compensation	\$4,972	\$4,088	\$3,188
Mortgage loans assumed on acquisitions	\$47,125	\$90,722	\$49,034
Noncash repayment of mortgages through refinance	\$152,770	\$162,945	\$—
Real estate loan investment balance applied to purchase of property	\$—	\$—	\$12,500

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements
December 31, 2018
(unaudited)

1. Organization and Basis of Presentation

Preferred Apartment Communities, Inc. was formed as a Maryland corporation on September 18, 2009, and elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, effective with its tax year ended December 31, 2011. Unless the context otherwise requires, references to the "Company", "we", "us", or "our" refer to Preferred Apartment Communities, Inc., together with its consolidated subsidiaries, including Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. The Company was formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of its business strategy, the Company may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, the Company also may acquire or originate senior mortgage loans, subordinate loans or real estate loan investments secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of its assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loan investments secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by its Manager (as defined below) as appropriate for the Company. The Company is externally managed and advised by Preferred Apartment Advisors, LLC, or its Manager, a Delaware limited liability company and related party (see Note 7).

As of December 31, 2018, the Company had 41,775,855 shares of common stock, par value \$0.01 per share, or Common Stock, issued and outstanding and was the approximate 97.9% owner of the Operating Partnership at that date. The number of partnership units not owned by the Company totaled 877,454 at December 31, 2018 and represented Class A OP Units of the Operating Partnership, or Class A OP Units. The Class A OP Units are convertible at any time at the option of the holder into the Operating Partnership's choice of either cash or Common Stock. In the case of cash, the value is determined based upon the trailing 20-day volume weighted average price of the Company's Common Stock.

The Company controls the Operating Partnership through its sole general partner interest and conducts substantially all of its business through the Operating Partnership. The Company has determined the Operating Partnership is a variable interest entity, or VIE, of which the Company is the primary beneficiary. The Company is involved with other VIEs, such as its investment in the Freddie Mac Series 2018-ML04 mortgage loan pool, as discussed in Note 5. New Market Properties, LLC owns and conducts the business of our portfolio of grocery-anchored shopping centers. Preferred Office Properties, LLC owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities, LLC owns and conducts the business of our portfolio of off-campus student housing communities. Each of these entities are wholly-owned subsidiaries of the Operating Partnership.

Basis of Presentation

These consolidated financial statements include all of the accounts of the Company and the Operating Partnership presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. All significant intercompany transactions have been eliminated in consolidation. Certain adjustments have been made consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of

the Company's financial condition and results of operations. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Amounts are presented in thousands where indicated.

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

When the Company acquires a property, it allocates the aggregate purchase price to tangible assets, consisting of land, building, site improvements and furniture, fixtures and equipment, and identifiable intangible assets, consisting of the value of in-place leases and above-market and below-market leases as described further below, using estimated fair values of each component at the time of purchase. The Company follows the guidance as outlined in ASC 805-10, Business Combinations, as amended by ASU 2017-01. As described below in the section entitled New Accounting Pronouncements, Accounting Standards Update 2017-01 was adopted by the Company effective January 1, 2017, which changed the definition of a business. Under this new guidance,

Preferred Apartment Communities, Inc.

Notes to Consolidated Financial Statements – (continued)

December 31, 2018

most property acquisitions made by the Company will fall within the category of acquired assets rather than acquired businesses. This distinction will cause the Company to capitalize its costs for acquisitions (including, effective July 1, 2017, a 1% acquisition fee), allocate them to the fair value of acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities. Should the Company complete any acquisitions in the future which qualify as acquisitions of businesses, associated acquisition costs would be expensed as incurred.

Tangible assets

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

Identifiable intangible assets

In-place leases

Multifamily communities and student housing properties

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

Grocery-anchored shopping centers and office properties

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

Above-market and below-market lease values

Multifamily communities and student housing properties

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

Grocery-anchored shopping centers and office properties

The values of above-market and below-market leases are developed by comparing the Company's estimate of the average market rents and expense reimbursements to the average contract rent at the property acquisition date. The amount by which contract rent and expense reimbursements exceed estimated market rent are summed for each individual lease and discounted for a singular aggregate above-market lease intangible asset for the property. The amount by which estimated market rent exceeds contract rent and expense reimbursements are summed for each

individual lease and discounted for a singular aggregate below-market lease intangible liability. The above-market or below-market lease values are recorded as a reduction or increase, respectively, to rental revenue over the remaining noncancelable term of the respective leases, plus any below-market probable renewal options.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

Impairment Assessment

The Company evaluates its tangible and identifiable intangible real estate assets for impairment when events such as declines in a property's operating performance, deteriorating market conditions, or environmental or legal concerns bring recoverability of the carrying value of one or more assets into question. When qualitative factors indicate the possibility of impairment, the total undiscounted cash flows of the property, including proceeds from disposition, are compared to the net book value of the property. If this test indicates that impairment exists, an impairment loss is recorded in earnings equal to the shortage of the book value to fair value, calculated as the discounted net cash flows of the property.

Agency Mortgage-Backed Securities

The Company has invested in mortgage-backed securities that represent interests in pools of residential mortgage loans guaranteed by the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae") (collectively, "Agency Mortgage-Backed Securities").

The Company records its investments in Agency Mortgage-Backed Securities at fair value on the accompanying Consolidated Balance Sheet on the trade date. The Company elects to account for Agency Mortgage-Backed Securities as trading securities and in doing so recognizes periodic changes in fair value in earnings on the Company's Consolidated Statements of Operations. Fair values in periods subsequent to the Company's initial investment are estimated utilizing a third-party pricing service.

The Company records interest income from Agency Mortgage-Backed Securities utilizing the effective interest method. Coupon income, which is a component of interest income, is based upon the outstanding principal amounts of the Agency Mortgage-Backed Securities and their contractual terms. In addition, the Company amortizes or accretes premiums or discounts into interest income for its Agency Mortgage-Backed Securities, taking into account estimates of future principal prepayments in the calculation of the effective yield. The Company recalculates the effective yield as differences between anticipated and actual prepayments occur. Using third-party model and market information to project future cash flows and expected remaining lives of securities, the effective interest rate determined for each security is applied as if it had been in place from the date of the security's acquisition. The amortized cost of the security is then adjusted to the amount that would have existed had the new effective yield been applied since the acquisition date, which results in a cumulative premium amortization adjustment in each period. The adjustment to amortized cost is offset with a charge or credit to interest income. Changes in interest rates and other market factors will impact prepayment speed projections and the amount of premium amortization recognized in any given period.

See section entitled "Variable Interest Entities" below.

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.

Variable Interest Entities

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

consolidated VIE from mortgage-backed pool on the Company's Consolidated Statements of Operations. See Note 5 for discussion related to the Company's investment in a subordinate tranche of a collateralized mortgage-backed pool during the second quarter 2018 and Note 17 for fair value disclosures related to a consolidated VIE related to this investment.

Real Estate Loans

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 or its collateral is lower than the carrying amount of the loan, an allowance is recorded to lower the carrying amount to fair value, with a loss recorded in earnings. The balances of real estate loans presented on the consolidated balance sheets consist of drawn amounts on the loans, net of unamortized deferred loan origination fees and allowances for loan loss. 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 obligation amount presented within the liabilities section.

Interest income on real estate loans and notes receivable is recognized on an accrual basis over the lives of the loans or notes. 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 at the date of refinancing. Loan origination fees applicable to real estate loans are amortized over the lives of the loans as adjustments to interest income using the effective interest rate method. The accrual of interest on all these instruments ceases when there is concern as to the ultimate collection of principal or interest. 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.

Evaluations for impairment are performed for each real estate loan investment at least quarterly. Impairment occurs when it is deemed probable that all amounts due will not be collected according to the contractual terms of the loan. Depending upon the circumstances and significance of risk related to the collectability of the loan, management may determine that (i) the loan should be accounted for as a non-accrual loan because recovery of all contractual amounts due are deemed improbable and that any amounts subsequently received will be used to reduce the loan's principal balance, (ii) in the event of a modification to the loan granted by the Company as a concession to the borrower who is experiencing financial difficulty, result in the need to apply troubled debt restructuring ("TDR") accounting guidance, and/or (iii) an allowance for loan loss is required for the loan based upon the value of the underlying collateral and the Company's evaluation of a possible shortfall with regards to the loan's repayment based upon an estimated sales price, additional costs (if necessary), estimated selling costs, and amounts due to all lenders.

In connection with the surveillance review process, the Company's real estate loan investments are assigned an internal risk rating. The internal risk ratings are based on the loan's current status as compared to underwriting for certain metrics such as total expected construction cost if overruns are noted, construction completion timing if there are delays, current cap rates within the MSA, leasing status, rental rates, net operating income, expected free cash flow, and other factors management deems important related to the ultimate collectability of the loan. The final internal risk ratings are influenced by other quantitative and qualitative factors that can result in an adjustment to the ratings. Each loan is given an internal risk rating from "A" to "D". Loans rated an "A" meet all present contractual obligations and there

are no indicators which would cause concern for the borrower's ability to meet all present contractual obligations. Loans rated a "B" meet all present contractual obligations, but exhibited at least one indication of a negative variation from the underwriting for the loan and/or project. Loans rated a "C" exhibit some weakness that deserves management's close attention and if uncorrected, may result in deterioration of repayment prospects. For these loans, management performs analyses to verify the borrower's ability to meet all present contractual obligations, including obtaining an appraisal of the underlying collateral for the loan. Based on the available collateral to satisfy the Company's outstanding principal and interest contractually due, we may provide for an allowance, move the loan to non-accrual status for future interest recognition or continue monitoring the loan. For loans rated a "D", the collection of all contractual principal and interest is improbable and management has determined to account for the loan as a non-accrual loan and, if appropriate under the circumstances record a loan loss allowance.

The Company's real estate loan investments are collateralized by real estate development projects and secured further by guaranties of repayment from one or more of the borrowers. The Company's lines of credit receivable are typically only collateralized by personal guaranties, but occasionally may be cross-collateralized by interests in other real estate projects. As a result, the Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the overall economic environment, real estate sector, and geographic sub market in which the borrower operates are considered. Such impairment analyses are completed and reviewed by management, utilizing various data sources, including periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, capitalization and discount rates and site inspections. See the "Revenue Recognition" section of this Note for other loan-related policy disclosures required by ASC 310-10-50-6.

Purchase Option Terminations

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

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 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 Series A Preferred Stock, and Series M Redeemable Preferred Stock, stated value \$1,000 per share, or mShares, are both 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 Series A Preferred Stock or mShares in either Common Stock or cash at its option. Therefore, the Company records the Series A Preferred Stock and mShares as components of permanent stockholders' equity.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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 1,500,000 Units, consisting of one share of Series A Redeemable 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 \$1.5 Billion Unit Offering, pursuant to our registration statement on Form S-3 (registration number 333-211924), as may be amended from time to time. Deferred offering costs related to the \$1.5 Billion Unit Offering, Shelf Offering and mShares Offering (the latter two 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

Multifamily communities and student housing properties

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

Grocery-anchored shopping centers and office properties

Rental revenue from tenants' operating leases in the Company's grocery-anchored shopping centers and office properties is recognized on a straight-line basis over the term of the lease. Revenue based on "percentage rent" provisions that provide for additional rents that become due upon achievement of specified sales revenue targets (as specified in each lease agreement) is recognized only after the tenant exceeds its specified sales revenue target.

Revenue from reimbursements of the tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized in the period in which the related expenses are incurred. Lease termination revenues are recognized ratably over the revised remaining lease term after giving effect to the termination notice or when tenant vacates and the Company has no further obligations under the lease. Rents and tenant reimbursements collected in advance are recorded as prepaid rent within other liabilities in the accompanying consolidated balance sheets. The Company estimates the collectability of the tenant receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental revenue on a straight-line basis, by taking into consideration the Company's historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms.

The Company may provide grocery-anchored shopping center and office building tenants an allowance for the construction of leasehold improvements. These leasehold improvements are capitalized and depreciated over the shorter of the useful life of the improvements or the remaining lease term. If the allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements, the allowance is considered to be a lease incentive and is recognized over the lease term as a reduction of rental revenue. Determination of the appropriate accounting for the payment of a tenant allowance is made on a lease-by-lease basis, considering the facts and circumstances of the individual tenant lease. When the Company is the owner of the leasehold improvements, recognition of rental revenue commences when the lessee is given possession of the leased space upon completion of tenant improvements. However, when the leasehold improvements are owned

by the tenant, the lease inception date is the date the tenant obtains possession of the leased space for purposes of constructing its leasehold improvements. For our office properties, if the improvement is deemed to be a “landlord asset,” and the tenant funded the tenant improvements, the cost is amortized over the term of the underlying lease with a corresponding recognition of rental revenues. In order to qualify as a landlord asset, the specifics of the tenant’s assets are reviewed, including the Company’s approval of the tenant’s detailed expenditures, whether such assets may be usable by other future tenants, whether the Company has consent to alter or remove the assets from the premises and generally remain the Company’s property at the end of the lease.

Gains on sales of real estate assets

The Company recognizes gains on sales of real estate based on the difference between the consideration received and the carrying amount of the distinct asset, including the carrying amount of any liabilities relieved or assumed by the purchasing counterparty.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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 Class B Unit grants at the date of grant utilizing a Monte Carlo simulation model 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. The compensation expense is accrued on a straight-line basis 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

Through December 31, 2016, the Company expensed property acquisition costs as incurred, which include costs such as due diligence, legal, certain accounting, environmental and consulting, when the acquisitions constituted business combinations. As described below in the section entitled New Accounting Pronouncements, Accounting Standards Update 2017-01 was adopted by the Company effective January 1, 2017, which changed the definition of a business. Under this new guidance, most property acquisitions made by the Company will fall within the category of acquired assets rather than acquired businesses. This distinction will cause the Company to capitalize its costs for acquisitions (including, effective July 1, 2017, a 1% acquisition fee), allocate them to the fair value of acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities. Should the Company complete any acquisitions in the future which qualify as acquisitions of businesses, associated acquisition costs would be expensed as incurred.

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 - 50 years
- Furniture, fixtures & equipment: 5 - 10 years
- Improvements to buildings and land: 5 - 20 years
- Tenant improvements: shorter of economic life or lease term

Operating expenses related to unit turnover costs, such as carpet cleaning 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 the corporate income tax rate 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 have a material adverse affect on 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.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
Recently Adopted Accounting Guidance			
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.	January 1, 2018	The adoption of ASU 2014-09 had no material effect upon the Company's consolidated financial statements.
ASU 2016-01", Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities	ASU 2016-01 eliminated the requirement to disclose the significant inputs and assumptions underlying the fair value calculations of its financial instruments which are carried at amortized cost.	January 1, 2018	The adoption of ASU 2016-01 had no effect upon the Company's consolidated financial statements.
ASU 2016-15, Statement of Cash Flows (Topic 326): Classification of Certain Cash Receipts and Cash Payments	ASU 2016-15 clarifies or establishes guidance for the presentation of various cash transactions on the statement of cash flows. The portion of the guidance applicable to the Company's business activities include the requirement that cash payments for debt prepayment or debt extinguishment costs be presented as cash out flows for financing activities.	January 1, 2018	The adoption of ASU 2016-15 had no effect upon the Company's consolidated financial statements.

ASU 2016-18, Statement of Cash ASU 2016-18 requires restricted cash to be presented January 1, The adoption of
Flows (Topic 230): Restricted with cash and cash equivalents when reconciling the 2018 ASU 2016-18 had
Cash beginning and ending amounts in the statements of cash flows. no material effect
upon the Company's
consolidated
financial statements.

Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 December 31, 2018

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	<p>ASU 2017-05 provides guidance for recognizing gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets. The new standard clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments also clarify that an entity should allocate consideration to each distinct asset by applying the guidance in Topic 606 on allocating the transaction price to performance obligations for sales to customers.</p>	January 1, 2018	The adoption of ASU 2017-05 had no effect upon the Company's consolidated financial statements.
Recently Issued Accounting Guidance Not Yet Adopted			<p>The Company believes that adoption of the practical expedient will result in the reimbursement of property taxes and insurance will be combined with the base rent revenue and presented within rental income instead of other income, but will have no material effect on the timing of revenue recognition.</p>
ASU 2016-02, Leases (ASC 842)	<p>ASU 2016-02 requires a lessor to separate lease components from non-lease components, such as maintenance services or other activities that transfer a good or service to our residents and tenants in a contract. In its March 2018 meeting, the FASB approved a practical expedient for lessors to elect, by class of underlying assets, to not separate lease and non-lease components if both (1) the timing and pattern of revenue recognition are the same for the non-lease component(s) and related lease component and (2) the combined single lease component would be classified as an operating lease.</p>	January 1, 2019	
ASU 2016-13, Financial Instruments - Credit Losses (ASC 326)	<p>ASU 2016-13 requires that financial assets measured at amortized cost basis be presented at the net amount expected to be collected, with the establishment of an allowance for credit losses expected overall, based on relevant information from historical events.</p>	January 1, 2020	The Company has not yet determined whether its adoption of ASU 2016-13 will have a material impact on its financial

ASU 2018-20, Leases (ASC 842), Narrow-Scope Improvements for Lessors

ASU 2018-20 eliminates the requirement to record income and offsetting expense for certain variable costs paid for by lessees on behalf of lessors.

January 1, 2019

statements.
The Company will no longer record income and expense for property taxes paid directly to the taxing authority by a lessee upon adoption of the standard. The effect will be a reduction of other property revenues and of property tax expense, with no effect upon net income /loss.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

3. Real Estate Assets

The Company's real estate assets consisted of:

	As of:	
	December 31, 2018	December 31, 2017
Multifamily communities:		
Properties ⁽¹⁾	32	30
Units	9,768	9,521
New Market Properties: ⁽²⁾		
Properties	45	39
Gross leasable area (square feet) ⁽³⁾	4,730,695	4,055,461
Student housing properties:		
Properties	7	4
Units	1,679	891
Beds	5,208	2,950
Preferred Office Properties:		
Properties	7	4
Rentable square feet	2,578,000	1,352,000

⁽¹⁾ The acquired second phases of CityPark View and Crosstown Walk communities are managed in combination with the initial phases and so together are considered a single property, as are the Lenox Village and Regent at Lenox Village assets within the Lenox Portfolio.

⁽²⁾ See Note 14, Segment information.

⁽³⁾ The Company also owns approximately 47,600 square feet of gross leasable area of ground floor retail space which is embedded within the Lenox Portfolio and not included in the totals above for New Market Properties.

Multifamily communities sold

On December 11, 2018, the Company closed on the sale of its 192-unit multifamily community in Austin, Texas, or McNeil Ranch, to an unrelated third party for a purchase price of \$30.0 million, exclusive of closing costs and resulting in a gain of \$13.9 million. McNeil Ranch contributed approximately \$0.2 million and \$0.1 million of net income to the consolidated operating results of the Company for the years ended December 31, 2018 and 2017, respectively.

On October 23, 2018, the Company closed on the sale of its 364-unit multifamily community in Nashville, Tennessee, or Stoneridge Farms at the Hunt Club, to an unrelated third party for a purchase price of \$55.0 million, exclusive of closing costs and resulting in a gain of \$16.8 million. Stoneridge Farms at the Hunt Club contributed approximately

\$0.6 million and \$0.4 million of net income to the consolidated operating results of the Company for the years ended December 31, 2018 and 2017, respectively.

On September 28, 2018, the Company closed on the sale of its 216-unit multifamily community in Philadelphia, Pennsylvania, or Stone Rise, to an unrelated third party for a purchase price of approximately \$42.5 million, exclusive of closing costs and resulting in a gain of \$18.6 million. Stone Rise contributed approximately \$0.5 million and \$0.8 million of net income to the consolidated operating results of the Company for the years ended December 31, 2018 and 2017, respectively.

On March 20, 2018, the Company closed on the sale of its 328-unit multifamily community in Raleigh, North Carolina, or Lake Cameron, to an unrelated third party for a purchase price of approximately \$43.5 million, exclusive of closing costs and resulting in a gain of \$20.4 million. Lake Cameron contributed approximately \$0.2 million and \$0.4 million of net income to the consolidated operating results of the Company for the years ended December 31, 2018 and 2017, respectively.

On May 25, 2017, the Company closed on the sale of its 300-unit multifamily community in Dallas, Texas, or Enclave at Vista Ridge, to an unrelated third party for a purchase price of \$44.0 million, exclusive of closing costs and resulting in a gain of \$6.9

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

million. Enclave at Vista Ridge contributed approximately \$0.1 million of net loss to the consolidated operating results of the Company for the year ended December 31, 2017.

On March 7, 2017, the Company closed on the sale of its 408-unit multifamily community in Atlanta, Georgia, or Ashford Park, to an unrelated third party for a purchase price of \$65.5 million, exclusive of closing costs and resulting in a gain of \$30.4 million. Ashford Park contributed approximately \$0.4 million of net income to the consolidated operating results of the Company for the year ended December 31, 2017.

On January 20, 2017, the Company closed on the sale of its 364-unit multifamily community in Kansas City, Kansas, or Sandstone Creek, to an unrelated third party for a purchase price of \$48.1 million, exclusive of closing costs and resulting in a gain of \$0.3 million. Sandstone Creek contributed approximately \$0.1 million of net loss to the consolidated operating results of the Company for the year ended December 31, 2017.

Each of the gains recorded for these sales transactions were net of disposition expenses and debt defeasance-related costs and prepayment premiums, as described in Note 10.

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

	McNeil Ranch	Stoneridge Farms at the Hunt Club	Stone Rise	Lake Cameron
(in thousands)	December 11, 2018	October 23, 2018	September 28, 2018	March 20, 2018
Real estate assets:				
Land	\$2,100	\$3,026	\$6,950	\$4,000
Building and improvements	16,300	35,740	18,860	21,519
Furniture, fixtures and equipment	2,096	4,305	3,292	3,687
Accumulated depreciation	(5,252)	(6,601)	(6,722)	(7,220)
Total assets	\$15,244	\$36,470	\$22,380	\$21,986
Liabilities:				
Mortgage note payable	\$13,418	\$25,626	\$23,520	\$19,736
Supplemental mortgage note	—	—	—	—
Total liabilities	\$13,418	\$25,626	\$23,520	\$19,736
	Sandstone Creek	Ashford Park	Enclave at Vista Ridge	
(in thousands)	January 20, 2017	March 7, 2017	May 25, 2017	
Real estate assets:				
Land	\$2,846	\$10,600	\$4,705	
Building and improvements	41,860	24,075	29,916	

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Furniture, fixtures and equipment	5,278	4,223	2,874
Accumulated depreciation	(4,809)	(6,816)	(3,556)
Total assets	\$45,175	\$32,082	\$33,939
Liabilities:			
Mortgage note payable	\$30,840	\$25,626	\$24,862
Supplemental mortgage note	—	6,374	—
Total liabilities	\$30,840	\$32,000	\$24,862

Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 December 31, 2018

Multifamily communities acquired

During the years ended December 31, 2018 and 2017, the Company completed the acquisition of the following multifamily communities:

Acquisition date	Property	Location	Units
1/9/2018	The Lux at Sorrel	Jacksonville, Florida	265
2/28/2018	Green Park	Atlanta, Georgia	310
9/27/2018	The Lodge at Hidden River	Tampa, Florida	300
11/9/2018	Vestavia Reserve	Birmingham, Alabama	272
11/15/2018	CityPark View South	Charlotte, North Carolina	200
			1,347
3/3/2017	Broadstone at Citrus Village	Tampa, Florida	296
3/24/2017	Retreat at Greystone	Birmingham, Alabama	312
3/31/2017	Founders Village	Williamsburg, Virginia	247
4/26/2017	Claiborne Crossing	Louisville, Kentucky	242
7/26/2017	Luxe at Lakewood Ranch	Sarasota, Florida	280
9/27/2017	Adara Overland Park	Kansas City, Kansas	260
9/29/2017	Aldridge at Town Village	Atlanta, Georgia	300
9/29/2017	The Reserve at Summit Crossing	Atlanta, Georgia	172
11/21/2017	Overlook at Crosstown Walk	Tampa, Florida	180
12/20/2017	Colony at Centerpoint	Richmond, Virginia	255
			2,544

The aggregate purchase prices of the multifamily acquisitions for the years ended December 31, 2018 and 2017 were approximately \$258.6 million and \$450.8 million, respectively, exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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

(in thousands, except amortization period data)	Multifamily Communities acquired during the years ended:	
	December 31, 2018	December 31, 2017
Land	\$28,365	\$46,120
Buildings and improvements	181,931	316,770
Furniture, fixtures and equipment	44,474	75,169
Lease intangibles	8,257	13,204
Prepays & other assets	569	1,277
Accrued taxes	(684)	(1,076)
Security deposits, prepaid rents, and other liabilities	(494)	(915)
Net assets acquired	\$262,418	\$450,549
Cash paid	\$87,592	\$146,900
Mortgage debt, net	174,826	303,649
Total consideration	\$262,418	\$450,549
Year ended December 31, 2018:		
Revenue	\$11,533	\$42,586
Net income (loss)	\$(8,704)	\$(18,352)
Year ended December 31, 2017:		
Revenue	\$—	\$18,795
Net income (loss)	\$—	\$(13,483)
Capitalized acquisition costs incurred by the Company	\$4,412	\$5,732
Acquisition costs paid to related party (included above)	\$2,615	\$2,750
Remaining amortization period of intangible assets and liabilities (months)	3.8	0.0

Student housing properties acquired

During the years ended December 31, 2018 and 2017, the Company completed the acquisition of the following student housing properties:

Acquisition date	Property	Location	Units	Beds
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5/10/2018	The Tradition	College Station, Texas	427	808
5/31/2018	The Retreat at Orlando	Orlando, Florida	221	894
6/27/2018	The Bloc	Lubbock, Texas	140	556
			788	2,258
2/28/2017	Sol	Tempe, Arizona	224	639
10/27/2017	Stadium Village	Atlanta, Georgia	198	792
12/18/2017	Ursa	Waco, Texas	250	840
			672	2,271

The aggregate purchase prices of the student housing acquisitions for the years ended December 31, 2018 and 2017 were approximately \$197.0 million and \$184.1 million, respectively, exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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

(in thousands, except amortization period data)	Student housing properties acquired during the years ended:	
	December 31, 2018	December 31, 2017
Land	\$23,149	\$ 22,430
Buildings and improvements	146,856	136,205
Furniture, fixtures and equipment	27,211	16,424
Lease intangibles	2,440	10,954
Prepays & other assets	309	559
Accrued taxes	(942)	(72)
Security deposits, prepaid rents, and other liabilities	(720)	(717)
Net assets acquired	\$ 198,303	\$ 185,783
Cash paid	\$92,212	\$ 69,898
Mortgage debt, net	106,091	115,885
Total consideration	\$ 198,303	\$ 185,783
Year ended December 31, 2018:		
Revenue	\$9,882	\$ 17,230
Net income (loss)	\$(7,797)	\$(12,474)
Year ended December 31, 2017:		
Revenue	\$—	\$ 5,953
Net income (loss)	\$—	\$(5,228)
Capitalized acquisition costs incurred by the Company	\$2,555	\$ 1,888
Acquisition costs paid to related party (included above)	\$1,970	\$ 1,348
Remaining amortization period of intangible assets and liabilities (months)	1.5	0.0

Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 December 31, 2018

New Market Properties assets acquired

During the years ended December 31, 2018 and 2017, the Company completed the acquisition of the following grocery-anchored shopping centers:

Acquisition date	Property	Location	Gross leasable area (square feet)
4/27/2018	Greensboro Village	Nashville, Tennessee	70,203
4/27/2018	Governors Towne Square	Atlanta, Georgia	68,658
6/26/2018	Neapolitan Way	Naples, Florida	137,580
6/29/2018	Conway Plaza	Orlando, Florida	117,705
7/6/2018	Brawley Commons	Charlotte, North Carolina	122,028
12/21/2018	Hollymead Town Center	Charlottesville, Virginia	158,807
			674,981
4/21/2017	Castleberry-Southard	Atlanta, Georgia	80,018
6/6/2017	Rockbridge Village	Atlanta, Georgia	102,432
7/26/2017	Irmo Station	Columbia, South Carolina	99,384
8/25/2017	Maynard Crossing	Raleigh, North Carolina	122,781
9/8/2017	Woodmont Village	Atlanta, Georgia	85,639
9/22/2017	West Town Market	Charlotte, North Carolina	67,883
11/30/2017	Roswell Wieuca Shopping Center	Atlanta, Georgia	74,370
12/5/2017	Crossroads Market	Naples, Florida	126,895
			759,402

The aggregate purchase prices of the New Market Properties acquisitions for the years ended December 31, 2018 and 2017 were approximately \$158.6 million and \$173.4 million, respectively, exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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

	New Market Properties' acquisitions during the years ended:	
(in thousands, except amortization period data)	December 31, 2018	December 31, 2017
Land	\$40,793	\$39,771
Buildings and improvements	99,967	124,627
Tenant improvements	5,862	3,324
In-place leases	11,394	11,110
Above market leases	3,279	533
Leasing costs	3,855	3,688
Below market leases	(4,934)	(8,243)
Other assets	247	179
Security deposits, prepaid rents, and other	(1,024)	(860)
Net assets acquired	\$ 159,439	\$ 174,129
Cash paid	\$83,906	\$49,693
Mortgage debt	75,533	124,436
Total consideration	\$ 159,439	\$ 174,129
Year ended December 31, 2018:		
Revenue	\$5,670	\$16,193
Net income (loss)	\$(1,057)	\$(1,399)
Year ended December 31, 2017:		
Revenue	\$—	\$4,637
Net income (loss)	\$—	\$(674)
Capitalized acquisition costs incurred by the Company	\$2,320	\$2,023
Capitalized acquisition costs paid to related party (included above)	\$1,631	\$1,411
Remaining amortization period of intangible assets and liabilities (years)	6.5	8.4

Preferred Office Properties assets acquired

On December 20, 2018, the Company acquired Capitol Towers, a pair of office buildings comprised of approximately 479,000 square feet of office space in Charlotte, North Carolina.

On July 31, 2018, the Company acquired 150 Fayetteville, an office building comprised of approximately 560,000 square feet of office space in Raleigh, North Carolina.

On January 29, 2018, the Company acquired Armour Yards, a collection of four adaptive re-use office buildings comprised of approximately 187,000 square feet of office space in Atlanta, Georgia.

The aggregate purchase price of the Preferred Office Properties acquisitions for the year ended December 31, 2018 was approximately \$448.3 million, exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

For the year ended December 31, 2017, the Company acquired Westridge, an office building comprised of 258,000 square feet of office space in San Antonio, Texas.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

The Company allocated the purchase price and capitalized acquisition costs to the acquired assets and liabilities based upon their fair values, as shown in the following table. The purchase price allocations were based upon the Company's best estimates of the fair values of the acquired assets and liabilities.

(in thousands, except amortization period data)	Preferred Office Properties' acquisitions during the years ended December 31,	
	2018	2017
Land	\$36,274	\$15,778
Buildings and improvements	336,944	55,631
Tenant improvements	32,085	2,864
In-place leases	25,275	10,023
Above-market leases	4,900	—
Leasing costs	19,817	5,712
Below-market leases	(10,626)	(5,328)
Prepaid and other assets	1,588	799
Accrued taxes	(17)	(99)
Security deposits, prepaid rents, and other liabilities	(12,241)	—
Net assets acquired	\$433,999	\$85,380
Cash paid	\$152,949	\$30,940
Mortgage debt, net	281,050	54,440
Total consideration	\$433,999	\$85,380
Year ended December 31, 2018:		
Revenue	\$12,327	\$10,069
Net income (loss)	\$(2,337)	\$859
Year ended December 31, 2017:		
Revenue	\$—	\$1,294
Net income (loss)	\$—	\$111
Capitalized acquisition costs incurred by the Company	\$6,013	\$943
Acquisition costs paid to related party (included above)	\$4,483	\$843
Remaining amortization period of intangible assets and liabilities (years)	9.3	8.1

The Company recorded aggregate amortization and depreciation expense of:
Year ended December 31,

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(in thousands)	2018	2017	2016
Depreciation:			
Buildings and improvements	\$78,691	\$55,803	\$35,427
Furniture, fixtures, and equipment	47,158	30,215	20,989
	125,849	86,018	56,416
Amortization:			
Acquired intangible assets	44,617	30,492	21,416
Deferred leasing costs	519	201	284
Website development costs	151	66	24
Total depreciation and amortization	\$171,136	\$116,777	\$78,140

At December 31, 2018, the Company had recorded acquired gross intangible assets of \$249.2 million, and accumulated amortization of \$113.2 million, gross intangible liabilities of \$62.4 million and accumulated amortization of \$15.3 million. Net intangible assets and liabilities as of December 31, 2018 will be amortized over weighted average remaining amortization periods of approximately 7.9 years and 9.2 years, respectively.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

At December 31, 2018, the Company had restricted cash of approximately \$14.7 million that was contractually restricted to fund capital expenditures and other property-level commitments such as tenant improvements and leasing commissions.

Purchase Options

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

On May 7, 2018, the Company terminated its existing purchase options on the Encore, Bishop Street and Hidden River multifamily communities and the Haven 46 and Haven Charlotte student housing properties, all of which are partially supported by real estate loan investments held by the Company. In exchange, the Company received net termination fees aggregating approximately \$10.7 million from the developers. These fees are treated as additional interest revenue and are amortized over the period ending with the earlier of (i) the sale of the underlying property and (ii) the maturity of the real estate loans. The Company recorded approximately \$8.7 million of interest revenue related to these transactions for the year ended December 31, 2018.

4. Agency Mortgage-Backed Securities

On December 14, 2018, the Company invested in Agency Mortgage-Backed Securities representing undivided (or “pass-through”) beneficial interests in specified pools of fixed-rate mortgage loans, which are classified as trading securities. The principal balance of the pools with associated premium amounts totaled \$41.1 million. On December 20, 2018, the Company sold its entire position and in doing so, recorded a gain on the sale of these trading investments of approximately \$61,500. Additionally, for the year ended December 31, 2018, the Company recorded approximately \$197,000 in interest income. At December 31, 2018, the Company held a receivable related to this sale transaction of \$41.2 million, which was collected upon the unsettlement of the transaction in January, 2019.

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

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

(Dollars in thousands)	December 31, 2018	December 31, 2017
Number of loans	19	23
Drawn amount	\$ 336,329	\$ 388,506
Deferred loan origination fees	(2,118)	(1,710)
Loan loss allowance	—	—
Carrying value	\$ 334,211	\$ 386,796
Unfunded loan commitments	\$ 164,913	\$ 67,063
Weighted average current interest, per annum (paid monthly)	8.47 %	8.53 %
Weighted average accrued interest, per annum	5.34 %	4.99 %

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(In thousands)	Principal balance	Deferred loan origination fees	Loan loss allowance	Carrying value
Balances as of December 31, 2017	\$388,506	\$ (1,710)	\$ —	\$386,796
Loan fundings	200,806	—	—	200,806
Loan repayments	(145,533)	—	—	(145,533)
Loans settled with property acquisitions	(102,950)	—	—	(102,950)
Loan origination fees collected	—	(1,979)	—	(1,979)
Amortization of loan origination fees	—	1,571	—	1,571
Reduction of principal due to troubled debt restructuring	(1,967)	—	—	(1,967)
Increase in loan loss allowances	—	—	(2,533)	(2,533)
Application of loan loss allowances due to loan repayment	(2,533)	—	2,533	—
Balances as of December 31, 2018	\$336,329	\$ (2,118)	\$ —	\$334,211

Property type	Number of loans	Carrying value	Commitment amount	Percentage of portfolio
(Dollars in thousands)				
Multifamily communities	13	\$264,498	\$ 352,575	79 %
Student housing properties	4	56,856	68,231	17 %
New Market Properties	1	12,857	12,857	4 %
Preferred Office Properties	1	—	67,579	— %
Balances as of December 31, 2018	19	\$334,211	\$ 501,242	

The Company's Palisades real estate loan investment is subject to a loan participation agreement with unaffiliated third party, under which the syndicate is to fund approximately 25% of the loan commitment amount and collectively receive approximately 25% of interest payments, returns of principal and purchase option discount (if applicable). At December 31, 2018, the aggregate amount of the Company's liability under the loan participant agreement was approximately \$5.2 million.

The Company's real estate loan investments are collateralized by 100% of the membership interests of the underlying project entity, and, where considered necessary, by unconditional joint and several repayment guaranties and performance guaranties by the principal(s) of the borrowers. These guaranties generally remain in effect until the receipt of a final certificate of occupancy. All of the guaranties are subject to the rights held by the senior lender pursuant to a standard intercreditor agreement. Prepayment of the real estate loans are permitted in whole, but not in part, without the Company's consent.

Management monitors the credit quality of the obligors under each of the Company's real estate loans by tracking the timeliness of scheduled interest and principal payments relative to the due dates as specified in the loan documents, as well as draw requests on the loans relative to the project budgets. In addition, management monitors the actual progress of development and construction relative to the construction plan, as well as local, regional and national economic conditions that may bear on our current and target markets. The credit quality of the Company's borrowers is primarily based on their payment history on an individual loan basis, and the Company assigns risk ratings to its real estate loans and notes receivable in credit quality categories as described in Note 2.

Effective as of July 1, 2018, the Company ceased accruing interest on its real estate loan investment in partial support of the Fusion Apartments multifamily community project located in Irvine, California. This restructuring of the loan terms reduced the overall interest rate on the loan from 16.0% to 8.5%, necessitating the application of troubled debt restructuring accounting guidance. The loan was placed in a non-accrual status, whereby interest is no longer accrued on the loan and any subsequent payments received are recorded as reductions in loan principal. The total principal reduction of the loan totaled approximately \$2.0 million. In addition, the Company recorded an approximate \$2.5 million allowance for loss on its real estate loan which is reflected on its statements of operations. On November 7, 2018, the principal balance and accrued interest (net of the \$4.5 million reduction) was repaid.

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The Company continues to monitor each loan and note receivable for potential deterioration of risk ratings and can make no assurances that economic or industry conditions or other circumstances will not lead to future loan loss allowances.

Of the principal amount outstanding of the Company's real estate loan investments as of December 31, 2018, approximately \$244.6 million were rated with a credit quality indicator of A, \$57.9 million were rated with a credit quality indicator of B, \$33.8 million were rated with a credit quality indicator of C and \$0.0 million was rated with a credit quality indicator of D.

At December 31, 2018, our portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of:		Interest rate
				December 31, 2018	December 31, 2017	
(Dollars in thousands)						
360 Residential, LLC	3/20/2013	(1)	\$ —	\$—	\$2,000	12 %
Preferred Capital Marketing Services, LLC (3)	1/24/2013	12/31/2019	1,500	763	926	10 %
Preferred Apartment Advisors, LLC (2,3,4)	8/21/2012	12/31/2019	18,000	9,778	14,488	6 % (7)
Haven Campus Communities, LLC (2,3, 9)	6/11/2014	12/31/2018	11,660	11,620	7,325	8 % (5)
Oxford Capital Partners, LLC (2,6)	10/5/2015	6/30/2019	8,000	4,022	6,628	12 %
Newport Development Partners, LLC	6/17/2014	6/30/2019	2,000	—	—	12 %
360 Residential, LLC II	12/30/2015	(1)	—	—	3,255	15 %
Mulberry Development Group, LLC (2)	3/31/2016	6/30/2019	500	465	479	12 %
Mulberry Alexandria Group, LLC	7/31/2017	(1)	—	—	1,921	12 %
360 Capital Company, LLC (2)	5/24/2016	12/31/2019	3,400	3,100	3,041	12 %
360 Capital Company, LLC (2,8)	7/24/2018	12/31/2020	8,000	6,923	—	8.5 %
Haven Campus Communities Charlotte Member, LLC (2,3,11)	8/31/2018	12/22/2019	10,942	10,788	—	15 % (10)
Unamortized loan fees				(152)	(6)	
			\$ 64,002	\$47,307	\$40,057	

(1) The amount payable under the note was repaid in 2018.

(2) The amounts payable under the terms of these revolving credit lines are collateralized by a personal guaranty of repayment by the principals of the borrower.

(3) See related party disclosure in Note 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 Sixth Amended and Restated Management Agreement between the Company and the Manager, or the Management Agreement.

(5) Effective January 1, 2018, the interest rate was lowered from 12.0% per annum to 8.0% per annum.

(6) The amounts payable under the terms of this revolving credit line, up to the lesser of 25% of the loan balance or \$2.0 million, are collateralized by a personal guaranty of repayment by the principals of the borrower.

(7) Effective January 1, 2018, the interest rate was lowered from 8.0% per annum to 6.0% per annum.

(8) The amount payable under the note is collateralized by the developer's interest in the Fort Myers multifamily community project and a personal guaranty of repayment by the principals of the borrower.

(9) The amount payable under this note is collateralized by one of the principals of the borrower's 49.49% interest in an unrelated shopping center located in Atlanta, Georgia and a personal guaranty of repayment by the principals of the borrower.

(10) The interest payable consists of 8.5% payable monthly and an additional 6.5% accrued due at maturity.

(11) The amount payable under this note is collateralized by one of the principals of the borrower's 49.51% interest in an unrelated shopping center located in Atlanta, Georgia and a personal guaranty of repayment by one of the principals of the borrower.

Due to events in the fourth quarter of 2018, two lines of credit were in default. The Haven Campus Communities, LLC line of credit matured on December 31, 2018 and the outstanding principal and interest was not repaid in full before December 31, 2018. The Haven Campus Communities Charlotte Member, LLC line of credit was also in default due to non-payment of a mandatory contractual pay-down. Consistent with the Company's policy, such loans were classified as a "C" as part of the Company's surveillance review process. In addition to existing personal guarantees from both principal holders of the Haven Campus Communities, LLC line of

Preferred Apartment Communities, Inc.
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credit, the Company obtained a pledge of 49.49% interest in an unrelated shopping center located in Atlanta, Georgia as additional collateral. Further, for the Haven Campus Communities Charlotte Member, LLC line of credit, the Company obtained a separate 49.51% interest in the same shopping center, in addition to an existing personal guaranty from one of the principal holders of the note. After an analysis of all collateral, the Company determined that the fair value of the collateral provided the Company sufficient protection to satisfy the obligations and no allowance was required. The Company is pursuing all options in order to protect its interests in the notes. The total exposure for the two notes is approximately \$22.6 million. Management will continue to monitor these notes in the process of collecting on the outstanding principal and interest due under each.

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

Interest income (in thousands)	Year ended December 31,		
	2018	2017	2016
Real estate loans:			
Current interest payments	\$31,368	\$32,570	\$23,633
Additional accrued interest	19,067	18,670	14,860
Origination fee amortization	1,570	1,376	872
Purchase option termination fee amortization	9,820	—	—
Total real estate loan revenue	61,825	52,616	39,365
Interest income on notes and lines of credit	3,784	4,286	4,121
Interest income on loans and notes receivable	\$65,609	\$56,902	\$43,486

The Company extends loans for purposes such as to partially finance the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities, and for other real estate or real estate related projects. Certain of these loans include characteristics such as exclusive options to purchase the project within a specific time window following project completion and stabilization, the sufficiency of the borrowers' investment at risk and the existence of payment and performance guaranties provided by the borrowers, any of which can cause the loans to create variable interests to the Company and require further evaluation as to whether the variable interest creates a VIE, which would necessitate consolidation of the project. The Company considers the facts and circumstances pertinent to each entity borrowing under the loan, including the relative amount of financing the Company is contributing to the overall project cost, decision making rights or control held by the Company, guarantees provided by third parties, and rights to expected residual gains or obligations to absorb expected residual losses that could be significant from the project. If the Company is deemed to be the primary beneficiary of a VIE, consolidation treatment would be required.

The Company has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the senior loans on the projects. The Company has concluded that it is not the primary beneficiary of the borrowing entities and therefore it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of December 31, 2018 of approximately \$336.3 million. The maximum aggregate amount of loans to be funded as of December 31, 2018 was approximately \$501.2 million, which includes approximately \$164.9 million of loan committed amounts not yet funded.

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

The Company is also subject to a geographic concentration of risk that could be considered significant with regard to the Bishop Street, Dawsonville Marketplace, 360 Forsyth, Morosgo, Morosgo Capital, Solis Kennesaw, Solis Kennesaw Capital, Solis Kennesaw II, 8West and 8West construction loans, all of which are partially supporting various real estate projects in or near Atlanta, Georgia. The drawn amount of these loans as of December 31, 2018 totaled approximately \$84.6 million (with a total commitment amount of approximately \$167.8 million) and in the event of a total failure to perform by the borrowers and guarantors, would subject the Company to a total possible loss of the drawn amount.

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Subordinate mortgage pool investment

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

The Company has evaluated the structure of the investment under the VIE rules and has determined that, due to the Company's position as directing certificate holder of 2018-ML04, it is in the position most able to influence the financial performance of the trust. As the subordinate tranche holder, the Company also holds the first loss position of 2018-ML04. As such, the Company is deemed to be the primary beneficiary of the VIE and has consolidated the assets, liabilities, revenues, expenses and cash flows of the entire trust in its consolidated financial statements as of and for the periods ended December 31, 2018. The Company's maximum exposure to loss from 2018-ML04 is approximately \$5.1 million. The Company has no recourse liability to either the creditors or other beneficial interest holders of 2018-ML04.

6. Redeemable Preferred Stock and Equity Offerings

At December 31, 2018, the Company's active equity offerings consisted of:

an offering of a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock (the "\$1.5 Billion Unit Offering");

an offering of up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock ("mShares"), par value \$0.01 per share (the "mShares Offering"); and

an offering of up to \$300 million of equity or debt securities (the "Shelf Offering"), including an offering of up to \$150 million of Common Stock from time to time in an "at the market" offering (the "2016 ATM Offering").

Certain offering costs are not related to specific closing transactions and are recognized as a reduction of stockholders' equity in the proportion of the number of instruments issued to the maximum number of Units anticipated to be issued. Any offering costs not yet reclassified as reductions of stockholders' equity are reflected in the asset section of the consolidated balance sheets as deferred offering costs.

As of December 31, 2018, cumulative gross proceeds and offering costs for our active equity offerings consisted of:

Offering	Total offering	Gross proceeds as of December 31, 2018	Deferred Offering Costs				Specifically identifiable offering costs ⁽²⁾	Total offering costs
			Reclassified as reductions of stockholders' equity	Recorded as deferred	Total			
\$1.5 Billion Unit Offering	\$1,500,000	\$ 684,652	\$3,393,555	55%	\$ 2,802	\$6,195	\$ 64,709	\$70,904
mShares Offering	500,000	44,226	1,274	35%	2,326	3,600	1,964	5,564

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Shelf Offering	300,000	(1) 98,080	683	33%	1,340	2,023	3,001	5,024
Total	\$2,300,000	\$ 826,958	\$5,350		\$ 6,468	\$11,818	\$ 69,674	\$81,492

(1) Included in the \$300 million Shelf Offering is a total of \$150 million allocated for the 2016 ATM Offering, which is not listed separately.

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

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

Preferred Apartment Communities, Inc.
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organization and offering expenses incurred, excluding selling commissions and dealer manager fees for the \$1.5 Billion Unit Offering and excluding dealer manager fees for the mShares Offering; however, upon approval by the conflicts committee of the board of directors, the Company may reimburse its Manager for any such expenses incurred above the 1.5% amount as permitted by the Financial Industry Regulatory Authority, or FINRA.

7. Related Party Transactions

On April 16, 2018, John A. Williams, the Company's Chief Executive Officer and Chairman of the Board, passed away. The Company's Haven 12, and Haven Charlotte real estate loan investments and the Haven Campus Communities' lines of credit are supported in part by guaranties of repayment and performance by John A. Williams, Jr., John A. Williams' son. Because the terms of these loans were negotiated and agreed upon while John A. Williams was the Chief Executive Officer of the Company, these instruments will continue to be reported as related party transactions until the loans are repaid. The Company named Daniel M. DuPree as Chairman of the Board of Directors and Chief Executive Officer of the Company. Leonard A. Silverstein was named Vice Chairman of the Board of Directors and continues as the Company's President and Chief Operating Officer.

As of December 31, 2018, Mr. Silverstein is an executive officer and Messrs. DuPree and Silverstein are also directors of NELL Partners, Inc., which controls the Manager. Mr. DuPree is the Chief Executive Officer and Mr. Silverstein is the President and Chief Operating Officer of the Manager.

The Company's Wiregrass and Wiregrass Capital real estate loan investments are partially financing the development of a multifamily community in Tampa, Florida. Timothy A. Peterson is a member of management of both the Altman Companies as well as Chairman of the Audit Committee of the Company's Board of Directors. The Wiregrass loans therefore qualify as related party transactions.

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

(In thousands)		Year ended December 31,		
Type of Compensation	Basis of Compensation	2018	2017	2016
Acquisition fees	As of July 1, 2017, 1.0% of the gross purchase price of real estate assets	\$ 10,699	\$ 6,131	\$—
Loan origination fees	1.0% of the maximum commitment of any real estate loan, note or line of credit receivable	2,166	1,331	1,886
Loan coordination fees	1.6% of any assumed, new or supplemental debt incurred in connection with an acquired property. Effective July 1, 2017, the fee was reduced to 0.6% of any such debt	3,897	5,560	10,560
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	14,698	12,908	8,603
Property management fees	Monthly fee up to 4% of the monthly gross revenues of the properties managed	8,934	6,382	4,944
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	6,022	5,238	3,483
Construction management fees	Quarterly fee for property renovation and takeover projects	408	332	174
Disposition fees	1% of the sale price of a real estate asset	1,710	—	—
Waived asset management fees / general and administrative fees	Recognized upon disposition of the property when exceeding the 7% IRR hurdle	671	—	—
		\$49,205	\$37,882	\$29,650

The Manager may, in its discretion, waive some or all of the asset management, property management, or general and administrative fees in the current period for properties owned by the Company. The waived fees may become earned by the Manager only in the event of a sales transaction, and whereby the Company's capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle. A cumulative total of approximately \$12.7 million of combined asset management and general and administrative fees related to acquired properties as of December 31, 2018 have been waived by the Manager. A total of \$11.2 million remaining waived fees could possibly be earned by the Manager in the future.

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

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

(in
 thousands)
 Year ended December 31,
 2018 2017 2016
 \$16,276 \$12,329 \$10,399

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 \$477,076, \$429,094 and \$461,294 for the years ended December 31, 2018, 2017 and 2016, respectively and Preferred Capital Securities, LLC, or PCS, was reimbursed \$1,412,522, \$1,083,160 and \$1,019,353 for the years ended December 31, 2018, 2017 and 2016, respectively. These costs are recorded as deferred offering costs until such time as additional closings occur on the \$1.5 Billion Unit Offering, mShares Offering or the Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders' equity.

The Manager also receives leasing commission fees. Retail leasing commission fees (a) for new retail leases are equal to the greater of (i) \$4.00 per square foot, and (ii) 4.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the original lease term; and (b) for lease renewals are equal to the greater of (i) \$2.00 per square foot, and (ii) 2.0% of the aggregate base rental payments to be made by the tenant for the first 10 years of the newly renewed lease term. There are no commissions payable on retail lease renewals thereafter. Office leasing commission fees (a) for new office leases are equal to 50.0% of the first month's gross rent plus 2.0% of the remaining fixed gross rent on the guaranteed lease term, (b) in the event of co-broker participation in a new lease, the leasing commission determined for a new lease are equal to 150.0% of the first month's gross rent plus 6% of the remaining fixed gross rent of the guaranteed lease term, and (c) for lease renewals, are equal to 2% of the fixed gross rent of the guaranteed lease term or, in the event of a co-broker, 6% of the fixed gross rent of the guaranteed lease term. Office leasing commission fees may not exceed market rates for office leasing services.

The Company holds a promissory note in the amount of approximately \$763,000 due from Preferred Capital Marketing Services, LLC, or PCMS, which is a wholly-owned subsidiary of NELL Partners.

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

8. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions on its Series A Preferred Stock in the amount of \$5.00 per share per month and beginning in March 2017, on its Series M Preferred Stock, on an escalating scale of \$4.79 per month in year one, increasing to \$6.25 per month in year eight and beyond. All preferred stock dividends are prorated for partial months at issuance as necessary. The Company declared aggregate quarterly cash dividends on its Common Stock of \$1.02 and \$0.94 per share for the years ended December 31, 2018 and 2017, respectively. The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as the dividends declared on the Common Stock. At December 31, 2018, the Company had 877,454 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.

The Company's dividend and distribution activity consisted of:

	Dividends and distributions declared For the years ended December 31,	
	2018	2017
(in thousands)		
Series A Preferred Stock	\$84,841	\$63,176
mShares	1,900	475
Common Stock	41,129	31,244
Class A OP Units	1,041	843
Total	\$128,911	\$95,738

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

Equity compensation expense by award type for the Company was:

(in thousands)	Year ended December 31,			Unamortized expense as of December 31,
	2018	2017	2016	2018
Quarterly board member committee fee grants	\$—	\$—	\$84	\$—
Class B Unit awards:				
Executive officers	—	—	5	—
- 2015 Executive officers	271	312	2,055	2
- 2016 Executive officers	344	2,691	—	326
- 2017 Executive officers	551	—	—	591
- 2018 Restricted stock				

grants:

2015	—	—	107	—
2016	—	136	273	—
2017	120	240	—	—
2018	241	—	—	120

Restricted
stock

units:

2017	76	91	—	78
2018	100	—	—	205

Total \$1,703 \$3,470 \$2,524 \$ 1,322

Restricted Stock Grants

The following annual grants of restricted stock were made to members of the Company's independent directors, as payment of the annual retainer fees. The restricted stock grants for the 2016, 2017 and 2018 service years vested (or are scheduled to vest) on a pro-rata basis over the four consecutive 90-day periods following the date of grant.

Service year	Shares	Fair value per share	Total compensation cost (in thousands)
2016	30,990	\$13.23	\$ 410
2017	24,408	\$14.75	\$ 360
2018	24,810	\$14.51	\$ 360

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Class B OP Units

On January 4, 2016, the Company caused the Operating Partnership to grant 265,931 Class B Units of the Operating Partnership, or Class B OP units, for service to be rendered during 2016, 2017 and 2018. On January 3, 2017, the Company caused the Operating Partnership to grant 286,392 Class B OP Units, for service to be rendered during 2017, 2018 and 2019. On January 2, 2018, the Company caused the Operating Partnership to grant 256,087 Class B OP Units, for service to be rendered during 2018, 2019 and 2020.

On January 2, 2018, John A. Williams, the late Chief Executive Officer of the Company, was granted 53,746 Class B OP Units. On April 16, 2018, Mr. Williams passed away and his granted Class B OP Units were modified on a pro-rata basis as of the date of his death. Of the 53,746 Class B OP Units granted to Mr. Williams, 38,284 Class B OP Units with a total fair value of approximately \$638,000 were forfeited. The remaining 15,462 Class B OP Units became vested Class B Units on January 2, 2019, and remained subject to the earning provision of all Class B OP Unit grants in order to convert to Class A OP Units. An additional 156,306 Class B OP Units granted to individuals other than Mr. Williams with an aggregate fair value of \$2.6 million were forfeited during the year ended December 31, 2018.

Because of the market condition vesting requirement that determines the transition of the vested Class B OP Units to earned Class B OP Units, a Monte Carlo simulation was utilized to calculate the total fair values, which will be amortized as compensation expense over the periods beginning on the grant dates through the Initial Valuation Dates. On January 3, 2017, all of the 265,931 Class B OP Units granted on January 3, 2016 became earned and 206,534 automatically vested and converted to Class A OP Units. Of the remaining earned Class B OP Units, 29,699 vested and automatically converted to Class A OP Units on January 2, 2018 and the final 29,698 earned Class B OP Units vested and automatically converted to Class A OP Units on January 2, 2019. On January 2, 2018, all of the 286,392 Class B OP Units granted on January 2, 2017 became earned and 227,599 automatically became vested and converted to Class A Units. Of the remaining earned Class B OP Units, 27,131 vested and automatically converted to Class A OP Units on January 2, 2019 and the final 27,122 earned Class B OP Units will vest and automatically convert to Class A OP Units on January 2, 2020, assuming each grantee fulfills the requisite service requirement.

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

Grant dates	1/2/2018	1/3/2017		
Stock price	\$20.19	\$14.79		
Dividend yield	4.95	% 5.95	%	
Expected volatility	25.70	% 26.40	%	
Risk-free interest rate	2.71	% 2.91	%	

Number of Units granted:

One year vesting period	171,988	198,184
Three year vesting period	84,099	88,208
	256,087	286,392

Calculated fair value per Unit	\$16.66	\$11.92
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Total fair value of Units	\$4,266,409	\$3,413,793
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Target market threshold increase \$5,660,580 \$4,598,624

The expected dividend yield assumptions were derived from the Company's closing prices of the Common Stock on the grant dates and the projected future quarterly dividend payments per share of \$0.22 for the 2017 awards and \$0.25 for the 2018 awards.

For the 2017 and 2018 awards, the Company's own stock price history was utilized as the basis for deriving the expected volatility assumption.

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

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

Restricted Stock Units

On January 3, 2017, the Company caused the Operating Partnership to grant 26,900 restricted stock units, or RSUs to certain employees of affiliates of the Company, for service to be rendered during 2017, 2018 and 2019. On January 2, 2018, the Company caused the Operating Partnership to grant 20,720 restricted stock units, or RSUs, for service to be rendered during 2018, 2019 and 2020.

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

Because RSUs are valued using the identical market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, the same valuation assumptions and Monte Carlo result of \$16.66 and \$11.92 per RSU were utilized to calculate the total fair values of the RSUs of \$345,195 and \$320,648 for the 2018 and 2017 grants, respectively. The total fair value amounts pertaining to grants of RSUs, net of forfeitures, are amortized as compensation expense over the three one-year periods ending on the three successive anniversaries of the grant dates. As of December 31, 2018, a total of 6,344 RSUs have been forfeited from the 2017 grant and a total of 2,400 RSUs have been forfeited from the 2018 grant.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

10. Indebtedness

Mortgage Notes Payable

Mortgage Financing of Property Acquisitions

The Company partially financed the real estate properties acquired during the year ended December 31, 2018 with mortgage debt as shown in the following table:

Property	Date	Initial principal amount (in thousands)	Fixed/Variable rate	Rate	Maturity date
Lux at Sorrel	1/9/2018	\$ 31,525	Fixed	3.91 %	2/1/2030
Armour Yards	1/29/2018	40,000	Fixed	4.10 %	2/1/2028
Green Park	2/28/2018	39,750	Fixed	4.09 %	3/10/2028
Anderson Central ⁽¹⁾	3/16/2018	12,000	Fixed	4.32 %	4/1/2028
The Tradition	5/10/2018	30,000	400 + LIBOR	6.50 %	6/6/2021
Greensboro Village	5/22/2018	8,550	Fixed	4.20 %	6/1/2028
Governors Towne Square	5/22/2018	11,375	Fixed	4.20 %	6/1/2028
Retreat at Orlando ⁽²⁾	5/31/2018	47,125	Fixed	4.09 %	9/1/2025
The Bloc	6/27/2018	28,966	355 + LIBOR	6.05 %	7/9/2021
Conway Plaza	6/29/2018	9,783	Fixed	4.29 %	7/5/2028
Brawley Commons	7/6/2018	18,525	Fixed	4.36 %	8/1/2028
150 Fayetteville	7/31/2018	114,400	Fixed	4.27 %	8/10/2028
Lodge at Hidden River	9/27/2018	41,685	Fixed	4.32 %	10/1/2028
Vestavia Reserve	11/9/2018	37,726	Fixed	4.40 %	12/1/2030
CityPark View South	11/15/2018	24,140	Fixed	4.51 %	6/1/2029
Capitol Towers	12/20/2018	126,650	Fixed	4.60 %	1/10/2037
Hollymead	12/21/2018	27,300	Fixed	4.64 %	1/1/2029
		\$ 649,500			

⁽¹⁾ Anderson Central was acquired in 2016 and subsequent financing was obtained in March 2018.

⁽²⁾ The mortgage for the Retreat at Orlando was assumed at acquisition.

Repayments and Refinancings

The sale of Stoneridge Farms at the Hunt Club on October 23, 2018 resulted in \$233,000 of debt defeasance related costs, which were netted against the gain on the sale of the property.

The sale of McNeil Ranch on December 11, 2018 resulted in \$147,000 of debt defeasance related costs, which were netted against the gain on the sale of the property.

The sale of Stone Rise on September 28, 2018 resulted in \$71,500 of debt defeasance related costs, which were netted against the gain on the sale of the property.

The sale of Lake Cameron on March 20, 2018 resulted in \$402,000 of debt defeasance related costs, which were netted against the gain on the sale of the property.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

The sale of Sandstone Creek on January 20, 2017, resulted in \$1.4 million of debt defeasance related costs. The sale of Ashford Park on March 7, 2017, resulted in \$1.1 million of debt defeasance related costs plus a prepayment premium of approximately \$0.4 million, which were netted against the gain on the sale of the property.

On March 29, 2018, the Company refinanced the mortgage on its Sol student housing property. A short-term bridge loan was used to replace the mortgage being held on the Acquisition Facility. The mortgage principal balance of approximately \$37.5 million remained the same under the new financing arrangement, and the existing variable interest rate increased 10 basis points, to 210 basis points over LIBOR. As a result of the refinance, the Company incurred expenses of approximately \$41,000, which are included within the Interest Expense line of the Consolidated Statements of Operations.

On October 31, 2018, the Company refinanced the mortgage on its Sol student housing property out of the short-term bridge loan. The mortgage principal balance was reduced from approximately \$37.5 million to approximately \$36.2 million, and the existing variable interest rate of 210 basis points over LIBOR was converted to a fixed rate of 4.71%. As a result of the refinance, the Company incurred expenses of approximately \$97,000, which are included within the Interest Expense line of the Consolidated Statements of Operations.

The following table summarizes our mortgage notes payable at December 31, 2018:
(dollars in thousands)

Fixed rate mortgage debt:	Principal balances due	Weighted-average interest rate	Weighted average remaining life (years)
Multifamily communities	\$1,031,601	3.90 %	9.6
New Market Properties	426,724	3.94 %	7.2
Preferred Office Properties	486,734	4.32 %	15.1
Student housing properties	161,421	4.13 %	6.6
Total fixed rate mortgage debt	2,106,480	4.02 %	10.2
Variable rate mortgage debt:			
Multifamily communities	81,279	4.39 %	4.9
New Market Properties	61,627	4.97 %	2.6
Preferred Office Properties	—	—	0.0
Student housing properties	90,366	6.01 %	2.0
Total variable rate mortgage debt	233,272	5.17 %	3.2
Total mortgage debt:			
Multifamily communities	1,112,880	3.93 %	9.3
New Market Properties	488,351	4.07 %	6.6
Preferred Office Properties	486,734	4.32 %	15.1
Student housing properties	251,787	4.81 %	4.9
Total principal amount	2,339,752	4.14 %	9.5
Deferred loan costs	(35,242)		

Mark to market loan adjustment (4,885)
Mortgage notes payable, net \$2,299,625

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.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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 approximately \$11.1 million. As of December 31, 2018, the Company has an outstanding principal balance of \$9.5 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 4.85% as of December 31, 2018.

The mortgage note secured by our Champions Village property has a maximum commitment of approximately \$34.2 million. As of December 31, 2018, the Company has an outstanding principal balance of \$27.4 million. Additional advances of the mortgage commitment may be drawn as the Company achieves leasing activity, if elected by the Company. Additional advances are available through October 2019. This mortgage note has a variable interest of the greater of (i) 3.25% or (ii) the sum of the 3.00% plus the LIBOR Rate, which was 5.35% as of December 31, 2018.

As of December 31, 2018, the weighted-average remaining life of deferred loan costs related to the Company's mortgage indebtedness was approximately 9.7 years. Our mortgage notes have maturity dates between May 1, 2019 and June 1, 2054.

Credit Facility

The Company has a credit facility, or Credit Facility, with KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), working capital and other general corporate purposes on an as needed basis. On March 23, 2018, the maximum borrowing capacity on the Revolving Line of Credit was increased to \$200 million pursuant to an accordion feature. The accordion feature permits the maximum borrowing capacity to be expanded or contracted without amending any further terms of the instrument. On December 12, 2018, the Fourth Amended and Restated Credit Agreement, or the Amended and Restated Credit Agreement, was amended to extend the maturity to December 12, 2021, with an option to extend the maturity date to December 12, 2022, subject to certain conditions described therein. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus an applicable margin of 2.75% to 3.50% per annum, depending upon the Company's leverage ratio. The weighted average interest rate for the Revolving Line of Credit was 5.23% for the year ended December 31, 2018. The Amended and Restated Credit Agreement also reduced the commitment fee on the average daily unused portion of the Revolving Line of Credit to 0.25% or 0.30% per annum, depending upon the Company's outstanding Credit Facility balance.

On May 26, 2016, the Company entered into a \$11.0 million interim term loan with KeyBank, or the Interim Term Loan, to partially finance the acquisition of Anderson Central, a grocery-anchored shopping center located in Anderson, South Carolina. The Interim Term Loan accrued interest at a rate of LIBOR plus 2.5% per annum until it was repaid and extinguished during the first quarter of 2018.

The Fourth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including negative covenants that limit or restrict secured and unsecured indebtedness, mergers and fundamental changes, investments and acquisitions, liens and encumbrances, dividends, transactions with affiliates, burdensome agreements,

changes in fiscal year and other matters customarily restricted in such agreements. The amount of dividends that may be paid out by the Company is restricted to a maximum of 95% of AFFO for the trailing rolling four quarters without the lender's consent; solely for purposes of this covenant, AFFO is calculated as earnings before interest, taxes, depreciation and amortization expense, plus reserves for capital expenditures, less normally recurring capital expenditures, less consolidated interest expense.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

As of December 31, 2018, the Company was in compliance with all covenants related to the Revolving Line of Credit, as shown in the following table:

Covenant ⁽¹⁾	Requirement	Result
Net worth	Minimum \$1.5 billion ⁽²⁾	\$1.6 billion
Debt yield	Minimum 8.25%	9.66%
Payout ratio	Maximum 95% ⁽³⁾	87.2%
Total leverage ratio	Maximum 65%	59.4%
Debt service coverage ratio	Minimum 1.50x	1.94x

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

⁽²⁾ Minimum of \$686.9 million plus 75% of the net proceeds of any equity offering, which totaled approximately \$822.2 million as of December 31, 2018.

⁽³⁾ Calculated on a trailing four-quarter basis. For the year ended December 31, 2018, the maximum dividends and distributions allowed under this covenant was approximately \$140.4 million.

Loan fees and closing costs for the establishment and subsequent amendments of the Credit Facility are amortized utilizing the straight line method over the life of the Credit Facility. At December 31, 2018, unamortized loan fees and closing costs for the Credit Facility were approximately \$1.7 million, which will be amortized over a remaining loan life of approximately 3.0 years. Loan fees and closing costs for the mortgage debt on the Company's properties are amortized utilizing the effective interest rate method over the lives of the loans.

Acquisition Facility

On February 28, 2017, the Company entered into a credit agreement, or Acquisition Credit Agreement, with Freddie Mac through KeyBank to obtain an acquisition revolving credit facility, or Acquisition Facility, with a maximum borrowing capacity of \$200 million. The purpose of the Acquisition Facility is to finance acquisitions of multifamily communities and student housing communities. The maximum borrowing capacity on the Acquisition Facility may be increased at the Company's request up to \$300 million at any time prior to March 1, 2021. The Acquisition Facility accrues interest at a variable rate of one month LIBOR plus a margin of between 1.75% per annum and 2.20% per annum, depending on the type of assets acquired and the resulting property debt service coverage ratio. The Acquisition Facility has a maturity date of March 1, 2022 and has two one-year extension options, subject to certain conditions described therein. At December 31, 2018, unamortized loan fees and closing costs for the establishment of the Acquisition Facility were approximately \$0.2 million, which will be amortized over a remaining loan life of approximately 3.3 years.

Interest Expense

Interest expense, including amortization of deferred loan costs was:

(in thousands)	Year ended December 31,		
	2018	2017	2016
Multifamily communities	\$45,662	\$35,402	\$28,136
New Market Properties	19,188	14,895	8,870
Preferred Office Properties	12,789	7,006	474
Student housing properties	11,217	3,085	894

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Interest paid to real estate loan participants	2,430	2,295	2,009
Total	91,286	62,683	40,383
Credit Facility and Acquisition Facility	4,278	4,785	3,901
Interest Expense	\$95,564	\$67,468	\$44,284

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Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 December 31, 2018

Future Principal Payments

The Company's estimated future principal payments due on its debt instruments as of December 31, 2018 were:

Period	Future principal payments (in thousands)
2019	\$180,943 ⁽¹⁾
2020	79,556
2021	199,025
2022	215,173
2023	191,286
thereafter	1,530,769
Total	\$2,396,752

⁽¹⁾ Includes the principal amount of \$57.0 million due on the Company's Revolving Line of Credit.

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, 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 stockholders. For the Company's tax years prior to its REIT election year, its operations resulted in a tax loss. As of December 31, 2010, the Company had deferred federal and state tax assets totaling approximately \$298,100, none of which were based upon tax positions deemed to be uncertain. These deferred tax assets will most likely not be used since the Company elected REIT status; therefore, management has determined that a 100% valuation allowance is appropriate as of December 31, 2018 and December 31, 2017.

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

	2018	2017	2016
Preferred Stock:			
Ordinary income	51.4%	64.0 %	88.1 %
Return of capital	— %	27.5 %	10.5 %
Capital gains	48.6%	8.5 %	1.4 %
Common Stock:			
Ordinary income	27.0%	— %	— %
Return of capital	47.4%	100.0%	100.0%
Capital gains	25.6%	— %	— %

12. Commitments and Contingencies

On March 28, 2014, the Company entered into a payment guaranty in support of its Manager's eleven-year office lease, which began on October 9, 2014. As of December 31, 2018, the amount guaranteed by the Company was \$5.6 million and is reduced by \$619,304 per lease year over the term of the lease.

Certain officers and employees of the Manager have been assigned company credit cards. As of December 31, 2018, the Company guaranteed up to \$640,000 on these credit cards.

The Company is otherwise currently subject to neither any known material commitments or contingencies from its business operations, nor any material known or threatened litigation.

A total of approximately \$12.7 million of asset management and general and administrative fees related to acquired properties as of December 31, 2018 have been waived by the Manager. The waived fees are converted at the time of waiver into contingent fees, which are earned by the Manager as an additional disposition fee only in the event of a sales transaction, and whereby the Company's capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle. As of December 31, 2018, a total of \$11.2 million remaining waived fees could possibly be earned by the Manager in the future.

At December 31, 2018, the Company had unfunded balances on its real estate loan portfolio of approximately \$164.9 million.

At December 31, 2018, the Company had unfunded contractual commitments for tenant, leasing, and capital improvements of approximately \$7.3 million.

13. Operating Leases

The Company's grocery-anchored shopping centers and office properties 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, 2018, is presented below, assuming that all leases which expire are not renewed and tenant renewal options are not exercised (excludes rental income due from tenants of multifamily communities, which are of lease terms of twelve months or less):

(in thousands)	Future Minimum Rents		
	New Market Properties	Preferred Office Properties	Total
2019	\$58,143	56,564	114,707
2020	51,949	61,704	113,653
2021	43,152	58,805	101,957
2022	35,218	58,108	93,326
2023	29,562	57,343	86,905
Thereafter	79,747	298,469	378,216
Total	\$297,771	\$590,993	\$888,764

The Company's grocery-anchored shopping centers are geographically concentrated within the Sunbelt and Mid-Atlantic region of the United States. The Company's retail tenant base primarily consists of national and regional supermarkets, consumer services, healthcare providers, and restaurants. Our grocery anchor tenants comprise approximately 50.5% 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.

As of December 31, 2018 the Company's approximately 2.6 million square foot office portfolio was 93% leased to a predominantly investment grade credit (or investment grade equivalent) tenant roster. For non-credit tenants, our leases typically require a security deposit or letter of credit, which limits worst case collection exposure to amounts in excess of those protections. Additionally, some credit tenant leases will include credit enhancement provisions that require a security deposit or letter of credit in the event of a rating downgrade. We conduct thorough credit analyses

not only for leasing activities within our existing portfolio but also for major tenants in properties we are considering acquiring.

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 five distinct segments: multifamily communities, student housing properties, real estate related financing, New Market Properties and Preferred Office Properties.

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

Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 December 31, 2018

Student Housing Properties - consists of the Company's portfolio of owned student housing properties.

Financing - consists of the Company's portfolio of real estate loans, bridge loans, and other instruments deployed by the Company to partially finance the development, construction, and prestabilization carrying costs of new multifamily communities and other real estate and real estate related assets, as well as the Company's investment in the Series 2018-ML04 mortgage-backed pool. Excluded from the financing segment are financial results of the Company's Dawson Marketplace grocery-anchored shopping center real estate loan, which are included in the New Market Properties segment.

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

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

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.

Beginning June 30, 2018, the Company's student housing properties segment is presented separately because the assets of the student housing properties segment exceeded 10% of the Company's consolidated assets. Prior period data has been adjusted from that which was previously reported to reflect this development. In prior periods, student housing properties and multifamily communities were combined.

(in thousands)	December 31, 2018	December 31, 2017
Assets:		
Multifamily communities	\$ 1,503,648	\$ 1,410,187
Student housing properties	411,102	227,198
Financing	393,299	439,824
New Market Properties	883,594	742,492
Preferred Office Properties	884,649	413,666
Other (including \$269,946 and \$0 of consolidated assets of VIE)	334,666	19,003
Consolidated assets	\$ 4,410,958	\$ 3,252,370

Total capitalized expenditures (inclusive of additions to construction in progress, but exclusive of the purchase price of acquisitions) for the years ended December 31, 2018, 2017 and 2016 were as follows:

(in thousands)	Year ended December 31,		
	2018	2017	2016
Capitalized expenditures:			
Multifamily communities	\$16,497	\$10,972	\$7,748
Student housing properties	3,382	799	653
New Market Properties	6,901	3,494	1,640
Total	\$26,780	\$15,265	\$10,041

Preferred Apartment Communities, Inc.
 Notes to Consolidated Financial Statements – (continued)
 December 31, 2018

Second-generation capital expenditures exclude those expenditures made in our office building portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our Class A ownership standards (and which amounts were underwritten into the total investment at the time of acquisition), (iii) for property re-developments and repositionings and (iv) for building improvements that are recoverable from future operating cost savings.

Total revenues by reportable segment of the Company were:

	Year ended December 31,		
(in thousands)	2018	2017	2016
Revenues			
Rental revenues:			
Multifamily communities	\$ 147,073	\$ 118,984	\$ 105,546
Student housing properties	31,334	11,204	3,323
New Market Properties	56,654	43,168	26,313
Preferred Office Properties ⁽¹⁾	45,018	27,106	2,149
Total rental revenues	280,079	200,462	137,331
Other revenues:			
Multifamily communities	15,970	13,078	11,617
Student housing properties	1,695	647	66
New Market Properties	20,589	15,482	9,178
Preferred Office Properties	15,144	9,192	209
Total other revenues	53,398	38,399	21,070
Financing revenues	63,794	55,144	41,718
Consolidated revenues	\$ 397,271	\$ 294,005	\$ 200,119

⁽¹⁾ Included in rental revenues for our Preferred Office Properties segment is the amortization of deferred revenue for tenant-funded leasehold improvements from a major tenant in our Three Ravinia and Westridge office buildings. As of December 31, 2018, the Company has deferred revenue in an aggregate amount of \$47.0 million in connection with such improvements. The remaining balance to be recognized is approximately \$43.5 million which is included in the deferred revenues line on the consolidated balance sheets at December 31, 2018. These total costs will be amortized over the lesser of the useful lives of the improvements or the individual lease terms. The Company recorded non-cash revenue of approximately \$2.7 million and \$0.9 million for the years ended December 31, 2018 and 2017.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

(in thousands)	Year ended December 31,		
	2018	2017	2016
Segment net operating income (Segment NOI)			
Multifamily communities	\$93,084	\$73,439	\$64,767
Student housing properties	16,151	6,100	1,752
Financing	63,795	55,144	41,718
New Market Properties	55,013	42,041	26,298
Preferred Office Properties	41,800	25,987	1,676
Consolidated segment net operating income	269,843	202,711	136,211
Interest expense:			
Multifamily communities	45,661	35,402	28,137
Student housing properties	11,217	3,085	894
New Market Properties	19,188	14,895	8,870
Preferred Office Properties	12,789	7,006	474
Financing	6,709	7,080	5,909
Depreciation and amortization:			
Multifamily communities	80,927	64,869	55,766
Student housing properties	25,179	8,348	1,899
New Market Properties	39,269	30,088	19,246
Preferred Office Properties	25,761	13,472	1,229
Professional fees	2,480	2,568	3,134
Management fees, net of forfeitures	20,885	18,497	12,051
Loan loss allowance	2,533	—	—
Acquisition costs	—	14	8,547
Equity compensation to directors and executives	1,703	3,470	2,524
Gain on sale of real estate	(69,705)	(37,635)	(4,271)
Gain on noncash net assets of consolidated VIEs	(320)	—	—
Loss on extinguishment of debt	—	888	—
Other	1,029	1,997	1,645
Net income (loss)	\$44,538	\$28,667	(9,843)

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

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:

(in thousands, except per-share figures)	Year ended December 31,		
	2018	2017	2016
Numerator:			
Net income (loss)	\$44,538	\$28,667	\$(9,843)
Consolidated net (income) loss attributable to non-controlling interests	(1,071)	(986)	310
Net income (loss) attributable to the Company	43,467	27,681	(9,533)
Dividends declared to preferred stockholders	(86,741)	(63,651)	(41,081)
Earnings attributable to unvested restricted stock	(16)	(15)	(16)
Net loss attributable to common stockholders	\$(43,290)	\$(35,985)	\$(50,630)
Denominator:			
Weighted average number of shares of Common Stock - basic	40,032	31,926	23,969
Effect of dilutive securities: ^(D)	—	—	—
Weighted average number of shares of Common Stock, basic and diluted	40,032	31,926	23,969
Net loss per share of Common Stock attributable to common stockholders, basic and diluted	\$(1.08)	\$(1.13)	\$(2.11)

^(A) The Company's outstanding Class A Units of the Operating Partnership (877 and 885 and 886 Units at December 31, 2018, 2017 and 2016, respectively) contain rights to distributions in the same amount per unit as for dividends declared on the Company's Common Stock. The impact of the Class A Unit distributions on earnings per share has been calculated using the two-class method whereby earnings are allocated to the Class A Units based on dividends declared and the Class A Units' participation rights in undistributed earnings.

^(B) The Company's shares of Series A Preferred Stock outstanding accrue dividends at an annual rate of 6% of the stated value of \$1,000 per share, payable monthly. The Company had 1,608 and 1,222 and 914 outstanding shares of Series A Preferred Stock at December 31, 2018, 2017 and 2016 respectively. The Company's shares of Series M preferred stock, or mShares, accrue dividends at an escalating rate of 5.75% in year one to 7.50% in year eight and thereafter. The Company had 44 and 15 mShares outstanding at December 31, 2018 and 2017, respectively.

^(C) The Company's outstanding unvested restricted share awards (12 and 12 and 15 shares of Common Stock at December 31, 2018, 2017 and 2016, respectively) contain non-forfeitable rights to distributions or distribution equivalents. The impact of the unvested restricted share awards on earnings per share has been calculated using the two-class method whereby earnings are allocated to the unvested restricted share awards based on dividends declared and the unvested restricted shares' participation rights in undistributed earnings. Given the Company's unvested restricted share awards are defined as participating securities, the dividends declared for that period are adjusted in

determining the calculation of loss per share of Common Stock.

^(D) Potential dilution from (i) warrants outstanding from issuances of Units from our Series A Preferred Stock offerings that are potentially exercisable into 23,205 shares of Common Stock; (ii) 150 Class B Units; (iii) 12 shares of unvested restricted common stock; and (iv) 31 outstanding Restricted Stock Units are excluded from the diluted shares calculations because the effect was antidilutive. Class A Units were excluded from the denominator because earnings were allocated to non-controlling interests in the calculation of the numerator.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

16. Selected Quarterly Financial Data (unaudited)

Quarterly financial information was as follows:

(in thousands, except per-share data)

Three months ended:

3/31/2018 6/30/2018 9/30/2018 12/31/2018

Revenues	\$90,370	\$96,389	\$104,232	\$106,280
Operating income	\$14,877	\$17,013	\$15,275	\$22,912
Net (loss) income	\$14,263	\$(5,278)	\$8,354	\$27,199
Net (loss) income attributable to common stockholders	\$(5,636)	\$(26,068)	\$(14,227)	\$2,641

Net (loss) income per share of Common Stock
available to Common stockholders:

Basic \$(0.14)) \$0.66 \$0.35 \$0.06

Diluted \$(0.14)) \$0.66 \$0.35 \$0.06

Weighted average shares outstanding:

Basic 39,098 39,383 40,300 41,320

Diluted 39,098 39,383 40,300 42,046

(in thousands, except per-share data)

Three months ended:

3/31/2017 6/30/2017 9/30/2017 12/31/2017

Revenues	\$66,561	\$70,891	\$74,900	\$81,652
Operating income	\$14,346	\$13,676	\$16,721	\$14,641
Net income (loss)	\$30,061	\$3,304	\$43	\$(4,742)
Net income (loss) attributable to common stockholders	\$14,675	\$(12,033)	\$(16,384)	\$(22,243)

Net income (loss) per share of Common Stock
available to Common stockholders:

Basic \$0.54 \$(0.40)) \$(0.49)) \$(0.60)

Diluted \$0.54 \$(0.40)) \$(0.49)) \$(0.60)

Weighted average shares outstanding:

Basic 26,936 29,894 33,540 37,205

Diluted 26,936 29,894 33,540 37,205

17. Fair Values of Financial Instruments

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

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

		As of December 31, 2018			
		Carrying value	Fair Value	Fair value measurements using fair value hierarchy	
(in thousands)				Level 1	Level 2
Financial Assets:					
Real estate loans ⁽¹⁾	\$334,211	\$366,328	\$—	—	—\$366,328
Notes receivable and line of credit receivable	47,307	47,307	—	—	47,307
	\$381,518	\$413,635	\$—	—	—\$413,635
Financial Liabilities:					
Mortgage notes payable	\$2,339,752	\$2,313,405	\$—	—	—\$2,313,405
Revolving credit facility	57,000	57,000	—	—	57,000
Loan participation obligations	5,181	5,181	—	—	5,181
	\$2,401,933	\$2,375,586	\$—	—	—\$2,375,586
		As of December 31, 2017			
		Carrying value	Fair Value	Fair value measurements using fair value hierarchy	
(in thousands)				Level 1	Level 2
Financial Assets:					
Real estate loans ⁽¹⁾	\$386,796	\$432,982	\$—	—	—\$432,982
Notes receivable and line of credit receivable	40,057	40,057	—	—	40,057
	\$426,853	\$473,039	\$—	—	—\$473,039
Financial Liabilities:					
Mortgage notes payable	\$1,806,901	\$1,806,024	\$—	—	—\$1,806,024
Revolving credit facility	41,800	41,800	—	—	41,800
Term loan	11,000	11,000	—	—	11,000
Loan participation obligations	13,986	14,308	—	—	14,308
	\$1,873,687	\$1,873,132	\$—	—	—\$1,873,132

⁽¹⁾ The carrying value of real estate assets includes the Company's balance of the Palisades real estate loan investment, which includes the amounts funded by unrelated participants. The loan participation obligations are the amounts due to the participants under these arrangements. Accrued interest included in the carrying values of the Company's loan participation obligations was approximately \$0.9 million and \$1.5 million at December 31, 2018 and December 31, 2017, respectively.

The fair value of the real estate loans within the level 3 hierarchy are comprised of estimates of the fair value of the notes, which were developed utilizing a discounted cash flow model over the remaining terms of the notes until their maturity dates and utilizing discount rates believed to approximate the market risk factor for notes of similar type and duration. The fair values also contain a separately-calculated estimate of any applicable additional interest payment due the Company at the maturity date of the loan, based on the outstanding loan balances at December 31, 2018,

discounted to the reporting date utilizing a discount rate believed to be appropriate for multifamily development projects.

The fair values of the fixed rate mortgages on the Company's properties were developed using market quotes of the fixed rate yield index and spread for 4, 5, 6, 7, 10, 15, 25 and 35 year notes as of the reporting date. The present values of the cash flows were calculated using the original interest rate in place on the fixed rate mortgages and again at the current market rate. The difference between the two results was applied as a fair market adjustment to the carrying value of the mortgages.

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Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

The following table presents activity of the ML-04 VIE as of and for the year ended December 31, 2018:

(in thousands)	Assets Multifamily mortgage loans held in VIEs at fair value	Liabilities VIE liabilities, at fair value	Net
Balance as of December 31, 2017	\$—	\$—	\$—
Initial consolidation of ML-04 trust:	267,705	262,965	4,740
Gains (losses) included in net income due to change in fair value of net assets of VIE:	3,496	3,176	320
Repayments of underlying mortgage principal amounts and repayments to Class A holders	(1,255)	(1,255)	—
Balance as of December 31, 2018	\$ 269,946	\$ 264,886	\$ 5,060

The following table presents the level 3 input used to calculate the fair value of the consolidated assets and liabilities of the ML-04 VIE:

	Fair value	Valuation methodology	Unobservable input
Assets:			
Multifamily mortgage loans held in VIEs at fair value	\$269,946	Discounted cash flow	Discount rate 4.7%
Liabilities:			
VIE liabilities, at fair value	\$264,886	Discounted cash flow	Discount rate 4.7%

The following table presents the estimated fair values of the consolidated assets and liabilities from the ML-04 VIE, for which the Company has elected the fair value option.

		As of December 31, 2018				
(in thousands)	Carrying value	Fair Value	Fair value measurements using fair value hierarchy	Level 1	Level 2	Level 3
Financial Assets:						
VIE assets from mortgage-backed pool	\$269,946	\$269,946	\$—			—\$269,946
Financial Liabilities:						
VIE liabilities from mortgage-backed pool	\$264,886	\$264,886	\$—			—\$264,886

Disclosure guidance under GAAP requires the Company to determine whether the fair value of the financial assets or the fair value of the financial liabilities of the ML-04 trust is more observable. The VIE assets within the ML-04 Trust consist of mortgage loans which finance 20 multifamily communities. The fair value of the VIE assets within the level 3 hierarchy are comprised of the fair value of the mortgages as estimated by the Company, which were developed utilizing a discounted cash flow model over the remaining terms of the mortgages until their maturity dates and utilizing discount rates believed to approximate the market risk factor for instruments of similar type and duration. The fair values of the notes are categorized within the level 3 hierarchy of fair value estimation as the discount rate

primary input assumption is unobservable.

18. Subsequent Events

Between January 1, 2019 and February 15, 2019, the Company issued 60,775 Units under its \$1.5 Billion Unit Offering and collected net proceeds of approximately \$54.7 million after commissions and fees and issued 6,155 shares of Series M Preferred Stock under the mShares offering and collected net proceeds of approximately \$6.0 million after commissions and fees.

On January 17, 2019, we acquired Gayton Crossing, a grocery-anchored shopping center consisting of 158,316 square feet of gross leasable area in Richmond, Virginia.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements – (continued)
December 31, 2018

On February 21, 2019, our board of directors declared a quarterly dividend on our Common Stock of \$0.26 per share, payable on April 15, 2019 to stockholders of record on March 15, 2019.

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Item 16. Form 10-K Summary

None.

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Schedule III
 Preferred Apartment Communities, Inc.
 Real Estate Investments and Accumulated Depreciation
 December 31, 2018

Property name	Location (MSA)	Description	Costs		Date Acquired	Depreciable Lives - Years	
			Initial Costs	Gross Amount at Which Carried at Close of Period			
			Building	Land			
			Improvements	Improvements	Related Encumbrances		
			Acquisition	Acquisition	(Deconsolidated/Renovated)		
Summit Crossing	Atlanta, GA	Apartments	\$38,349,571	\$58,295,336	(9,266,767)	4/21/2011 5 - 40	
Summit Crossing II	Atlanta, GA	Apartments	13,357,859	16,019,430	(2,661,571)	12/31/2013 5 - 40	
Vineyards Avenues at Cypress	Houston, TX	Apartments	34,036,023	47,452,937	(13,416,914)	9/26/2014 5 - 35	
Avenues at Northpointe	Houston, TX	Apartments	21,929,493	34,303,628	(12,374,135)	2/13/2015 5 - 40	
Venue at Lakewood Ranch	Sarasota, FL	Apartments	28,729,453	43,447,692	(14,718,239)	5/21/2015 5 - 40	
Aster at Lely Resort	Naples, FL	Apartments	31,796,567	47,562,030	(15,765,463)	6/24/2015 5 - 40	
CityPark View	Charlotte, NC	Apartments	20,578,268	28,937,536	(8,359,268)	6/30/2015 5 - 40	
Avenues at Creekside	San Antonio, TX	Apartments	39,698,489	58,453,995	(18,755,506)	7/31/2015 5 - 40	
Citi Lakes	Orlando, FL	Apartments	41,586,885	57,868,862	(16,281,977)	9/3/2015 5 - 40	
Stone Creek	Houston, TX	Apartments	20,221,976	23,023,600	(2,801,624)	11/12/2015 5 - 40	
Regent at Lenox	Nashville, TN	Mixed use	—	301,428	301,523	(280,099)	12/21/2015 5 - 40
Retreat at Lenox	Nashville, TN	Apartments	17,466,232	26,427,431	(8,961,199)	12/21/2015 5 - 40	
Lenox Village Town Center	Nashville, TN	Mixed use	29,279,212	41,145,576	(11,866,364)	12/21/2015 5 - 40	
Village at Baldwin Park	Orlando, FL	Apartments	71,459,626	107,163,020	(35,703,394)	1/5/2016 5 - 37	
	Tampa, FL	Apartments	30,879,388	39,841,820	(8,962,432)	1/15/2016 5 - 49	

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Crosstown Walk							
Overton Rise	Atlanta, GA	Apartments	39,250,953,511,853,643	5	2/1/2016	5 - 49	
525 Avalon Park	Orlando, FL	Apartments	65,740,247,851,027,320	8	5/31/2016	5 - 45	
City Vista	Pittsburgh, PA	Apartments	34,387,386,408,785,628	14	7/1/2016	5 - 49	
Sorrel	Jacksonville, FL	Apartments	32,137,270,442,918,327	5	8/24/2016	5 - 48	
Citrus Village	Tampa, FL	Apartments	29,390,894,81,976,187	11	03/03/17	5 - 44	

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(Dollars in thousands)			Initial Costs				Gross Amount at Which Carried at Close of Period		
Property name	Location (MSA)	Description	Related Encumbrances	Land	Building and Improvements	Costs		Building and Improvements	Total (1)
						Capitalized	Subsequent Acquisition		
Retreat at Greystone	Birmingham, AL	Apartments	34,644	4,077	44,462	617	4,077	45,078	49,155
Founder's Village	Williamsburg, VA	Apartments	30,748	5,315	38,761	563	5,315	39,324	44,639
Claiborne Crossing	Louisville, KY	Apartments	26,381	2,147	37,579	957	2,147	38,536	40,683
Luxe at Lakewood Ranch	Sarasota, FL	Apartments	38,378	4,852	51,033	351	4,852	51,384	56,236
Adara Overland Park	Kansas City, KS	Apartments	31,203	2,854	42,030	263	2,854	42,293	45,147
Reserve at Summit Crossing	Atlanta, GA	Apartments	19,654	4,375	25,939	147	4,375	26,086	30,461
Aldridge at Town Village	Atlanta, GA	Apartments	37,221	7,122	45,418	215	7,122	45,633	52,755
Overlook at Crosstown Walk	Tampa, FL	Apartments	21,848	3,309	28,014	89	3,309	28,103	31,412
Colony at Centerpointe	Richmond, VA	Apartments	32,770	7,259	38,199	790	7,259	38,988	46,247
Lux at Sorrel	Jacksonville, FL	Apartments	31,057	5,332	42,531	347	5,332	42,878	48,210
Green Park	Atlanta, GA	Apartments	39,236	7,478	49,211	235	7,478	49,446	56,924
Lodge at Hidden River	Tampa, FL	Apartments	41,576	5,600	52,930	14	5,600	52,944	58,544
Vestavia Reserve	Birmingham, AL	Apartments	37,726	4,140	54,206	51	4,140	54,257	58,397
CityPark View South	Charlotte, NC	Apartments	24,140	5,816	27,528	14	5,816	27,543	33,359
			\$1,112,879	\$177,426	\$1,433,672	\$24,323	\$177,426	\$1,457,993	\$1,635,419
Woodstock Crossing	Atlanta, GA	Neighborhood Retail Center	\$2,935	\$1,751	\$3,800	\$610	\$1,751	\$4,410	6,161
Spring Hill Plaza	Nashville, TN	Neighborhood Retail Center	9,261	4,376	8,104	55	4,376	8,159	12,535

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Property name	Location (MSA)	Description	Gross Amount at Which Carried at Close of Period		Date Acquired	Depreciable Lives - Years
			Initial Costs	Costs		
			Related Land Encumbrances	Capitalized Improvements		
			Buildings	Accumulated Depreciation		
			Acquisition	Renovated		
Parkway Town Centre	Nashville, TN	Neighborhood Retail Center	6,730,594	5,724,028	9/5/2014	5 - 40
Barclay Crossing	Tampa, FL	Neighborhood Retail Center	6,228,562	7,351,679	9/30/2014	5 - 30
Deltona Landings	Orlando, FL	Neighborhood Retail Center	6,622,543	8,560,739	9/30/2014	5 - 30
Kingwood Glen	Houston, TX	Neighborhood Retail Center	11,612,440	13,172,998	9/30/2014	5 - 30
Parkway Centre	Columbus, GA	Neighborhood Retail Center	4,338,716	4,854,987	9/30/2014	5 - 30
Powder Springs	Atlanta, GA	Neighborhood Retail Center	6,988,228	7,843,246	9/30/2014	5 - 30
Sweetgrass Corner	Charleston, SC	Neighborhood Retail Center	7,530,670	10,865,349	9/30/2014	5 - 30
The Market at Salem Cove	Nashville, TN	Neighborhood Retail Center	9,234,052	10,237,405	10/6/2014	5 - 40
Independence Square	Dallas, TX	Neighborhood Retail Center	11,716,598	15,192,897	7/1/2015	5 - 30
Royal Lakes Marketplace	Atlanta, GA	Neighborhood Retail Center	9,548,259	10,445,808	9/4/2015	5 - 30
Summit Point	Atlanta, GA	Neighborhood Retail Center	11,816,480	10,648,804	10/30/2015	5 - 30
The Overlook at Hamilton Place	Chattanooga, TN	Neighborhood Retail Center	19,078,278	28,725,092	12/22/2015	5 - 30
Wade Green Village	Atlanta, GA	Neighborhood Retail Center	7,818,401	8,800,609	2/29/2016	5 - 35
Anderson Central	Greenville Spartanburg, SC	Neighborhood Retail Center	11,815,273	10,598,599	4/29/2016	5 - 30
East Gate Shopping Center	Augusta, GA	Neighborhood Retail Center	5,415,596	7,497,809	4/29/2016	5 - 30
Fairview Market	Greenville Spartanburg, SC	Neighborhood Retail Center	— 1,517,985	5,597,659	4/29/2016	5 - 30

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Property name	Location (MSA)	Description	Costs		Date Acquired	Depreciable Lives - Years
			Initial Costs	Gross Amount at Which Carried at Close of Period		
			Building	Land		
			Improvements	Improvements	Acquisition	
			Related Encumbrances	Buildings	Accumulated Depreciation	
			Renovated	Renovated	Renovated	
Fury's Ferry	Augusta, GA	Neighborhood Retail Center	6,223,840	5,528,840	4/29/2016	5 - 35
Rosewood Shopping Center	Columbia, SC	Neighborhood Retail Center	4,215,797	1,574,449	4/29/2016	5 - 40
Southgate Village	Birmingham, AL	Neighborhood Retail Center	7,421,629	2,062,147	4/29/2016	5 - 35
The Market at Victory Village	Nashville, TN	Neighborhood Retail Center	9,062,272	2,271,406	5/16/2016	5 - 40
Lakeland Plaza	Atlanta, GA	Neighborhood Retail Center	28,737,087	3,283,400	7/15/2016	5 - 35
Cherokee Plaza	Atlanta, GA	Neighborhood Retail Center	24,832,249	3,362,073	8/8/2016	5 - 35
Heritage Station	Raleigh, NC	Neighborhood Retail Center	8,843,885	5,584,780	8/8/2016	5 - 40
Oak Park Village	San Antonio, TX	Neighborhood Retail Center	9,137,573	1,916,627	8/8/2016	5 - 40
Sandy Plains Exchange	Atlanta, GA	Neighborhood Retail Center	8,947,880	3,482,280	8/8/2016	5 - 32
Shoppes of Parkland	Miami, FL	Neighborhood Retail Center	15,975,241	6,757,000	8/8/2016	5 - 35
Thompson Bridge Commons	Atlanta, GA	Neighborhood Retail Center	11,956,847	1,675,200	8/8/2016	5 - 40
University Palms	Orlando, FL	Neighborhood Retail Center	12,485,506	852,310	8/8/2016	5 - 37
Champions Village	Houston, TX	Neighborhood Retail Center	27,408,136	3,053,467	10/18/2016	5 - 40
Castleberry - Southard	Atlanta, GA	Neighborhood Retail Center	11,752,433	1,217,800	4/21/2017	5 - 39
Rockbridge Village	Atlanta, GA	Neighborhood Retail Center	13,875,989	1,137,720	6/6/2017	5 - 40
Irmo Station	Columbia, SC	Neighborhood Retail Center	10,360,359	6,023,526	7/26/2017	5 - 33

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(Dollars in thousands)			Initial Costs	Gross Amount at Which Carried at Close of Period	Costs	Buildings Acquired	Depreciable Lives - Years
Property name	Location (MSA)	Description	Related Land Encumbrances	Capitalized Improvements	Accumulated Depreciation	Date Acquired	
Maynard Crossing	Raleigh, NC	Neighborhood Retail Center	17,620	56,204	(8,329)	8/25/2017	5 - 30
Woodmont Village	Atlanta, GA	Neighborhood Retail Center	8,537	29,071	(3,302)	9/8/2017	5 - 30
West Town Market	Charlotte, NC	Neighborhood Retail Center	8,737	27,982	(2,198)	9/22/2017	5 - 37
Crossroads Market	Naples, FL	Neighborhood Retail Center	18,302	51,722	(6,489)	12/5/2017	5 - 40
Roswell Wieuca Shopping Center	Atlanta, GA	Neighborhood Retail Center	—	12,065	(1,866)	11/30/2017	5 - 40
Greensboro Village	Nashville, TN	Neighborhood Retail Center	8,431	27,710	(4,706)	4/27/2018	5 - 40
Governors Towne Square	Atlanta, GA	Neighborhood Retail Center	11,245	32,176	(6,234)	4/27/2018	5 - 40
Neopolitan Way	Naples, FL	Neighborhood Retail Center	—	14,028	(2,635)	6/26/2018	5 - 35
Conway Plaza	Orlando, FL	Neighborhood Retail Center	9,740	28,242	(3,695)	6/29/2018	5 - 30
Brawley Commons	Charlotte, NC	Neighborhood Retail Center	18,878	46,786	(7,626)	7/6/2018	5 - 40
Hollymead Town Center	Charlottesville, VA	Neighborhood Retail Center	27,300	99,530	(9,202)	12/21/2018	5 - 40
				\$48,369	(8,585)		
Brookwood Office Center	Birmingham, AL	Office building	\$31,471	58,474	(2,997)	8/29/2016	5 - 50
Galleria 75	Atlanta, GA	Office building	5,546	15,215	(1,998)	11/4/2016	5 - 25
	Atlanta, GA		119,585	422,684	(61,991)	12/30/2016	7 - 39

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Three Ravinia		Office building			
Westridge	San Antonio, TX	Office building	53,158,789	57,789,870	11/13/2017 13 - 50
Armour Yards	Atlanta, GA	Office building	40,631,506	54,633,800	1/29/2018 9 - 50

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(Dollars in thousands)			Initial Costs				Gross Amount at Which Carried at Close of Period		
Property name	Location (MSA)	Description	Related Encumbrances	Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Total (1)
150 Fayetteville	Raleigh, NC	Office building	114,400	16,072	140,467	1,628	16,072	142,095	158,167
Capitol Towers	Charlotte, NC	Office building	126,650	13,445	174,029	669	13,445	174,698	188,143
			\$486,735	\$78,737	\$625,722	\$63,156	\$80,035	\$687,578	\$767,613
North by Northwest	Tallahassee, FL	Student housing	\$32,004	\$8,281	\$36,980	\$1,102	\$8,281	\$38,082	\$46,363
SoL	Tempe, AZ	Student housing	36,197	7,441	43,830	892	7,441	44,722	52,163
Stadium Village	Atlanta, GA	Student housing	46,095	7,930	60,793	397	7,930	61,190	69,120
Ursa	Waco, TX	Student housing	31,400	7,060	48,006	779	7,060	48,784	55,844
The Tradition	College Station, TX	Student housing	30,000	7,061	67,749	491	7,061	68,240	75,301
The Retreat at Orlando	Orlando, FL	Student housing	47,125	12,317	68,977	1,040	12,317	70,017	82,334
The Bloc	Lubbock, TX	Student housing	28,966	3,771	37,219	264	3,771	37,483	41,254
			\$251,787	\$53,861	\$363,554	\$4,965	\$53,861	\$368,518	\$422,379
			\$2,339,752	\$517,952	\$3,048,958	\$105,509	\$519,300	\$3,153,114	\$3,672,411

- (1) The aggregate cost for federal income tax purposes to the Company was approximately \$3.5 billion at December 31, 2018.
(2) The costs capitalized subsequent to acquisition amount includes approximately \$6.9 million of assets which were written off

(in thousands)	For the years ended December 31,		
	2018	2017	2016
Real estate investments			
Balance at the beginning of the year	\$2,735,342	\$1,965,487	\$1,007,286
Acquisitions	1,003,791	855,115	988,071
Improvements	56,007	39,908	7,972
Construction in progress	(123)	8,388	2,102
Write-off of assets no longer in service	(438)	(7,719)	(560)
Disposal of assets	(121,864)	(125,837)	(39,384)
Balance at the end of the year	\$3,672,715	\$2,735,342	\$1,965,487
Accumulated depreciation			
Balance at the beginning of the year	\$(172,756)	\$(103,815)	\$(53,995)
Depreciation (a)	(125,849)	(86,018)	(56,340)

Write-off of assets no longer in service	438	2,185	560
Disposal of assets	26,125	14,892	5,960
Balance at the end of the year	\$(272,042)	\$(172,756)	\$(103,815)

(a) Represents depreciation expense of real estate assets. Amounts exclude amortization of lease intangible assets.

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Schedule IV
 Preferred Apartment Communities, Inc.
 Mortgage Loans on Real Estate
 December 31, 2018

Description	Property Name	Location (MSA)	Interest Rate	Maturity Date	Periodic Payment Terms	Face Amount of Liens (in thousands)	Carrying Amount of Mortgages (in thousands)	Principal Amount of Mortgages Subject to Delinquent Principal or Interest
Real Estate Construction Loan on Multifamily Community	Palisades	Northern VA	13.0 %	5/17/2019	(2) 8.0 / 5.0	\$ — \$ 17,270	\$ 17,132	\$ —
Real Estate Construction Loan on Multifamily Community	Bishop Street	Atlanta, GA	15.0 %	6/30/2019	(7) 8.5 / 6.5	— 12,693	12,693	—
Real Estate Construction Loan on Multifamily Community	Park 35 on Clairmont	Birmingham, AL	10.5 %	6/26/2019	(3) 8.5 / 2.0	— 21,060	21,060	—
Real Estate Construction Loan on Multifamily Community	Wiregrass	Tampa, FL	15.0 %	5/15/2020	(7) 8.5 / 6.5	— 14,976	14,136	—
Real Estate Construction Loan on Multifamily Community	Wiregrass Capital	Tampa, FL	15.0 %	5/15/2020	(7) 8.5 / 6.5	— 4,244	3,891	—
Real Estate Construction Loan on Multifamily Community	Berryessa	San Jose, CA	14.5 %	2/13/2021	(8) 8.5 / 6.0	— 137,616	95,349	—
Real Estate Construction Loan on Multifamily Community	The Anson	Nashville, TN	13.0 %	11/24/2021	(10) 8.5 / 4.5	— 6,240	—	—

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Real Estate Construction Loan on Multifamily Community	The Anson	Nashville, TN	13.0 %	11/24/2021	(10)	8.5 / 4.5	—	5,659	3,160	—
Real Estate Construction Loan on Multifamily Community	Fort Myers	Fort Myers, FL	14.0 %	2/3/2021	(5)	8.5 / 5.5	—	9,416	8,118	—
Real Estate Construction Loan on Multifamily Community	Fort Myers Capital	Fort Myers, FL	14.0 %	2/3/2021	(5)	8.5 / 5.5	—	6,193	5,442	—
Real Estate Construction Loan on Multifamily Community	360 Forsyth	Atlanta, GA	14.0 %	7/11/2020	(5)	8.5 / 5.5	—	22,412	19,742	—
Real Estate Construction Loan on Multifamily Community	Morosgo	Atlanta, GA	14.0 %	1/31/2021	(5)	8.5 / 5.5	—	11,749	10,736	—
Real Estate Construction Loan on Multifamily Community	Morosgo Capital	Atlanta, GA	14.0 %	1/31/2021	(5)	8.5 / 5.5	—	6,176	5,188	—
Real Estate Construction Loan on Multifamily Community	University City Gateway	Charlotte, NC	13.5 %	8/15/2021	(4)	8.5 / 5.0	—	10,336	10,335	—
Real Estate Construction Loan on Multifamily Community	University City Gateway Capital	Charlotte, NC	13.5 %	8/18/2021	(4)	8.5 / 5.0	—	7,338	6,030	—

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Description	Property Name	Location (MSA)	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages (in thousands)	Carrying Amount of Mortgages (in thousands)	Principal Amount of Mortgages Subject to Delinquent Principal or Interest
Real Estate Construction Loan on Multifamily Community	Cameron Park	Alexandria, VA	11.5 %	10/11/2021	(1) / 8.5 3.0	—	21,340	17,050	—
Real Estate Construction Loan on Multifamily Community	Cameron Park	Alexandria, VA	11.5 %	10/11/2021	(1) / 8.5 3.0	—	8,850	7,557	—
Real Estate Construction Loan on Multifamily Community	Southpoint	Fredericksburg, VA	12.5 %	2/28/2022	(9) / 8.5 4.0	—	7,348	896	—
Real Estate Construction Loan on Multifamily Community	Southpoint	Fredericksburg, VA	12.5 %	2/28/2022	(9) / 8.5 4.0	—	4,962	3,895	—
Real Estate Construction Loan on Multifamily Community	Duval	Jacksonville, FL	12.0 %	6/14/2022	(6) / 8.5 3.5	—	16,697	3,886	—
Real Estate Construction Loan on Student Housing Community	Haven 12	Starkville, MS	8.5 %	11/30/2020	(11) / 8.5 0.0	—	6,116	6,116	—
Real Estate Construction Loan on Student Housing Community	Haven Charlotte	Charlotte, NC	15.0 %	12/22/2019	(7) / 8.5 6.5	—	19,582	19,462	—
Real Estate Construction Loan	Haven Charlotte	Charlotte, NC	15.0 %	12/22/2019	(7) / 8.5	—	8,201	8,201	—

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on Student Housing Community	Member					6.5				
Real Estate Construction Loan on Student Housing Community	Solis Kennesaw	Atlanta, GA	14.0 %	9/26/2020	(5)	8.5 / 5.5	—	12,359	11,343	—
Real Estate Construction Loan on Student Housing Community	Solis Kennesaw Capital	Atlanta, GA	14.0 %	10/1/2020	(5)	8.5 / 5.5	—	8,360	7,786	—
Real Estate Construction Loan on Student Housing Community	Solis Kennesaw II	Atlanta, GA	12.5 %	5/5/2022	(9)	8.5 / 4.0	—	13,613	4,268	—
Real Estate Construction Loan on Office Property	8 West Construction Loan	Atlanta, GA	6.5 %	11/29/2022	(12)	6.5 / 0.0	—	37,250	—	—
Real Estate Construction Loan on Office Property	8 West	Atlanta, GA	13.5 %	11/29/2022	(4)	8.5 / 5.0	—	30,329	—	—
Real Estate Construction Loan on Grocery Anchored Shopping	Dawson Marketplace	Atlanta, GA	15.4 %	9/24/2020	(13)	8.5 / 6.9	—	12,857	12,857	—
Total							—	501,242	336,329	—
Unamortized loan origination fees							—	—	(2,118)	—
Carrying amount							\$	-\$501,242	\$334,211	\$ —

(1) Fixed rate, interest only, 8.5% payable monthly and 3.0% accrued

(2) Fixed rate, interest only, 8.0% payable monthly and 5.0% accrued

(3) Fixed rate, interest only, 8.5% payable monthly and 2.0% accrued

(4) Fixed rate, interest only, 8.5% payable monthly and 5.0% accrued

(5) Fixed rate, interest only, 8.5% payable monthly and 5.5% accrued

(6) Fixed rate, interest only, 8.5% payable monthly and 3.5% accrued

(7) Fixed rate, interest only, 8.5% payable monthly and 6.5% accrued

(8) Fixed rate, interest only, 8.5% payable monthly and 6.0% accrued

(9) Fixed rate, interest only, 8.5% payable monthly and 4.0% accrued

(10) Fixed rate, interest only, 8.5% payable monthly and 4.5% accrued

(11) Fixed rate, interest only, 8.5% payable monthly and 0.0% accrued

(12) Variable rate - LIBOR + 4.0%, interest only, 6.5% payable monthly and 0.0% accrued

(13) Fixed rate, interest only, 8.5% payable monthly and 6.9% accrued.

Effective January 1, 2018, the deferred interest rate increased to 6.9% per annum until the accumulated accrued interest balance reached \$250, at which point the deferred interest rate reverts to 5.0%.

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)	<u>Articles of Amendment and Restatement of Preferred Apartment</u>

		<u>Communities,</u>
		<u>Inc.</u>
		<u>Fourth</u>
		<u>Amended and</u>
		<u>Restated</u>
3.2	(33)	<u>By-laws of</u>
		<u>Preferred</u>
		<u>Apartment</u>
		<u>Communities,</u>
		<u>Inc.</u>
		<u>Sixth Amended</u>
		<u>and Restated</u>
		<u>Partnership</u>
		<u>Agreement,</u>
		<u>dated June 3,</u>
		<u>2016, among</u>
		<u>Preferred</u>
		<u>Apartment</u>
4.1	(10)	<u>Communities,</u>
		<u>Inc., Preferred</u>
		<u>Apartment</u>
		<u>Advisors, LLC</u>
		<u>and the other</u>
		<u>limited partners</u>
		<u>party thereto</u>
		<u>Articles</u>
		<u>Supplementary</u>
4.2	(5)	<u>for the Series A</u>
		<u>Redeemable</u>
		<u>Preferred Stock</u>
		<u>Articles</u>
		<u>Supplementary</u>
4.3	(6)	<u>for the Series</u>
		<u>M Redeemable</u>
		<u>Preferred Stock</u>
		<u>Articles</u>
		<u>Supplementary</u>
		<u>classifying an</u>
4.4	(11)	<u>additional</u>
		<u>900,000 shares</u>
		<u>of the Series A</u>
		<u>Redeemable</u>
		<u>Preferred Stock</u>
4.5	(8)	<u>Articles</u>
		<u>Supplementary</u>
		<u>classifying an</u>
		<u>additional</u>
		<u>2,000,000</u>
		<u>shares of the</u>
		<u>Series A</u>

4.6	(6)	<u>Redeemable Preferred Stock Form of mShares Subscription Agreement</u>
4.7	(13)	<u>Form of Series A Subscription Agreement First Amendment to the Sixth Amended and Restated Partnership Agreement, dated as of January 25, 2017, entered into by Preferred Apartment Communities, Inc.</u>
4.8	(15)	<u>Articles of Amendment Amending the Holder Redemption Options of the Company's Series A Redeemable Preferred Stock 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</u>
4.9	(16)	
4.10	(24)	
4.11	(5)	

4.12	(25)	<u>Form of Global Warrant Certificate Second Amended and Restated Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent dated as of October 11, 2013</u>
4.13	(26)	<u>Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent dated as of February 23, 2017</u>
10.1	(10)	<u>Sixth Amended and Restated Management Agreement, dated June 3, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership.</u>

- 10.2 (19) L.P. and Preferred Apartment Advisors, LLC First Amendment to the Sixth Amended and Restated Management Agreement, entered into as of October 5, 2016, effective as of August 29, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC
- 10.3 (29) Amendment No. 2 to the Sixth Amended and Restated Management Agreement, effective as of July 1, 2017 and entered into as of August 31, 2017, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred

- 10.4 (34) Apartment
Advisors, LLC
Amendment
No. 3 to the
Sixth Amended
and Restated
Management
Agreement,
effective as of
July 1, 2017
and entered into
as of August
31, 2017,
among
Preferred
Apartment
Communities,
Inc., Preferred
Apartment
Communities
Operating
Partnership,
L.P. and
Preferred
Apartment
Advisors, LLC
The Company's
- 10.5 (2) *2011 Stock
Incentive Plan
Trademark
License and
Assignment
Agreement
dated
September 17,
2010, but
effective as of
July 29, 2010,
- 10.6 (3) between
Preferred
Apartment
Communities,
Inc. and
Preferred
Apartment
Advisors, LLC

- Form of
Restricted Stock
Agreement
pursuant to the
- 10.7 (2) *Preferred
Apartment
Communities,
Inc. 2011 Stock
Incentive Plan
- 10.8 (4) Form of
Indemnification
Agreement
First
Amendment to
Preferred
- 10.9 (5) *Apartment
Communities,
Inc. 2011 Stock
Incentive Plan
Form of
Preferred
Apartment
- 10.10 (20) *Communities,
Inc. 2016 Class
B Unit Award
Agreement (3
year)
Form of
Preferred
Apartment
- 10.11 (22) *Communities,
Inc. 2017 Class
B Unit Award
Agreement (1
year)
Form of
Preferred
Apartment
- 10.12 (22) *Communities,
Inc. 2017 Class
B Unit Award
Agreement (3
year)
- 10.13 (28) *Form of
Preferred
Apartment
Communities,
Inc. 2018 Class
B Unit Award
Agreement (1

- year)
Form of
Preferred
Apartment
Communities,
10.14 (28)* Inc. 2018 Class
B Unit Award
Agreement (3
year)
Intellectual
Property
Assignment and
License
Agreement
dated March 14,
10.15 (7) 2012 between
Preferred
Apartment
Advisors, LLC
and Preferred
Apartment
Communities,
Inc.
Trademark
License
Agreement
dated March 14,
10.16 (7) 2012 between
Preferred
Apartment
Advisors, LLC
and Preferred
Apartment
Communities,
Inc.
Trademark
Assignment
dated March 14,
10.17 (7) 2012 between
Preferred
Apartment
Advisors, LLC
and Preferred
Apartment
Communities,
Inc.
Second
10.18 (12)* Amendment to
2011 Stock
Incentive Plan
10.19 (14)

Capital On
Demand Sales
AgreementTM
dated May 4,
2016 between
Preferred
Apartment
Communities,
Inc. and
JonesTrading
Institutional
Services, LLC

10.20 (14) Capital On
Demand Sales
AgreementTM
dated May 4,
2016 between
Preferred
Apartment
Communities,
Inc. and FBR
Capital Markets
& Co.

10.21 (14) Capital On
Demand Sales
AgreementTM
dated May 4,
2016 between
Preferred
Apartment
Communities,
Inc. and
Canaccord
Genuity Inc

10.22 (29) Form of
Amendment No.
1, dated July 10,
2017, to Capital
On Demand
Sales
AgreementTM,
dated May 4,
2016 between
Preferred
Apartment
Communities,
Inc., and each of

JonesTrading
Institutional
Services, LLC,
FBR Capital
Markets & Co.,
and Canaccord
Genuity, Inc.

10.23 (29) Capital On
Demand Sales
AgreementTM
dated July 10,
2017 between
Preferred
Apartment
Communities,
Inc. and
National
Securities
Corporation

10.24 (29) Capital On
Demand Sales
AgreementTM
dated July 10,
2017 between
Preferred
Apartment
Communities,
Inc. and D.A.
Davidson & Co.

10.25 (29) Capital On
Demand Sales
AgreementTM
dated July 10,
2017 between
Preferred
Apartment
Communities,
Inc. and JMP
Securities LLC

10.26 (17) Fourth
Amended and
Restated Credit
Agreement
dated as of
August 5, 2016
among Preferred
Apartment

- Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P., the lenders party thereto and KeyBank National Association Fourth Amended and Restated Pledge and Security Agreement dated as of August 5, 2016 among Preferred Apartment Communities Operating Partnership, L.P., (the "Borrower"), each of the subsidiaries of the Borrower party thereto and KeyBank National Association
- 10.27 (17) Fourth Amended and Restated Guaranty dated as of August 5, 2016 by and among Preferred Apartment Communities, Inc., each of the guarantors party thereto and KeyBank National Association
- 10.28 (17) Form of Buy-Sell
- 10.29 (18)

- Agreement with
KeyBank
National
Association
Third
10.30 (21)* Amendment to
2011 Stock
Incentive Plan
Soliciting
Dealer
Agreement,
dated April 5,
10.31 (30) 2017 between
Preferred
Capital
Securities, LLC
and Investacorp,
Inc.

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- 10.32 (31) Form of Credit Agreement among Preferred Apartment Communities, Inc., Borrower and Federal Home Loan Mortgage Corporation
- 10.33 (32) Credit Agreement dated as of February 28, 2017 among Preferred Apartment Communities, Inc., PCC Tempe, LLC and KeyBank National Association
- 21 (1) Subsidiaries of Preferred Apartment Communities, Inc.
- 23.1 (1) Consent of PricewaterhouseCoopers LLP
- 31.1 (1) Certification of Daniel M. DuPree, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 (1) Certification of John A. Isakson, 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
- 101 (1) XBRL (eXtensible Business Reporting Language). The following materials for the period ended December 31, 2017, formatted in XBRL: (i) Consolidated balance sheets at December 31, 2017 and December 31,

- 2016, (ii) consolidated statements of operations for the years ended December 31, 2017, December 31, 2016 and December 31, 2015, (iii) consolidated statements of equity and accumulated deficit, (iv) consolidated statements of cash flows and (v) notes to consolidated financial statements.
- Management contract or
- * compensatory plan, contract or arrangement.
- (1) Filed herewith
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
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
Previously filed with the Current Report on Form 8-K filed by the
- (2) Registrant with the Securities and Exchange Commission on April 7, 2011
- (3) 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
Previously filed with the
Form S-3 Registration
Statement (Registration
No.: 333-214531) filed
(6) by the Registrant with
the Securities and
Exchange Commission
on November 9, 2016
Previously filed with the
Current Report on Form
8-K filed by the
(7) Registrant with the
Securities and Exchange
Commission on March
15, 2012
Previously filed with the
Form S-3 Registration
Statement (Registration
No.: 333-211924) filed
(8) by the Registrant with
the Securities and
Exchange Commission
on June 9, 2016
Previously filed with the
Current Report on Form
8-K filed by the
(9) Registrant with the
Securities and Exchange
Commission on January
7, 2014
Previously filed with the
Current Report on Form
8-K filed by the
(10) Registrant with the
Securities and Exchange
Commission on June 6,
2016
Previously filed with the
Current Report on Form
8-K filed by the
(11) Registrant with the
Securities and Exchange
Commission on August
28, 2013
(12) 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
Previously filed with the Pre-effective Amendment No. 2 to Form S-3 Registration Statement (Registration No. 333-211924) filed by the Registrant with the Securities and Exchange Commission on November 8, 2016
Previously filed with the Current Report on Form 8-K filed by the
- (13) Registrant with the Securities and Exchange Commission on May 5, 2016
Previously filed with the Current Report on Form 8-K filed by the
- (14) Registrant with the Securities and Exchange Commission on January 26, 2017
Previously filed with the Current Report on Form 8-K filed by the
- (15) Registrant with the Securities and Exchange Commission on June 26, 2014
Previously filed with the Current Report on Form 8-K filed by the
- (16) Registrant with the Securities and Exchange Commission on August 10, 2016
- (17) Registrant with the Securities and Exchange Commission on August 10, 2016

- (18) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 17, 2015
- (19) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 5, 2016
- (20) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 8, 2016
- (21) 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

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant

(22) with the
Securities
and
Exchange
Commission
on January 9,
2017

Previously
filed form of
with the
Pre-effective
Amendment
No. 2 to
Form S-3
Registration
Statement
(Registration

(23) No.
333-211924)
filed by the
Registrant
with the
Securities
and
Exchange
Commission
on November
8, 2016

(24) Previously
filed with the
Annual
Report on
Form 10-K

filed by the
Registrant
with the
Securities
and
Exchange
Commission
on March 15,
2012

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(25) with the
Securities
and
Exchange
Commission
on October
15, 2013

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(26) with the
Securities
and
Exchange
Commission
on February
24, 2017

(27) Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
with the
Securities
and
Exchange

Commission
on August
31, 2017

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(28) with the
Securities
and
Exchange
Commission
on January
29, 2018

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(29) with the
Securities
and
Exchange
Commission
on July 10,
2017

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(30) with the
Securities
and
Exchange
Commission
on April 11,
2017

(31) Previously
filed with the

Current
Report on
Form 8-K
filed by the
Registrant
with the
Securities
and
Exchange
Commission
on March 29,
2017

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(32)with the
Securities
and
Exchange
Commission
on March 6,
2017

Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
(33)with the
Securities
and
Exchange
Commission
on December
21, 2018

(34)Previously
filed with the
Current
Report on
Form 8-K
filed by the
Registrant
with the

Securities
and
Exchange
Commission
on May 5,
2018

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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
1, 2019

By:

/s/ Daniel M. DuPree

Daniel M. DuPree
Chief Executive Officer
(Principal Executive
Officer)

Date: March
1, 2019

By:

/s/ John A. Isakson

John A. Isakson
Chief Financial Officer
(Principal Financial
Officer)

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/ Daniel M. DuPree Daniel M. DuPree	Chief Executive Officer (Principal Executive Officer)	March 1, 2019
/s/ Leonard A. Silverstein Leonard A. Silverstein	President, Chief Operating Officer and Director	March 1, 2019
/s/ John A. Isakson John A. Isakson	Chief Financial Officer (Principal Financial Officer)	March 1, 2019

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/s/ Executive Vice President,
 Michael J. Chief Accounting Officer and March 1,
 Cronin Treasurer 2019
 Michael J. (Principal Accounting Officer)
 Cronin

/s/ Steve Director March 1,
 Bartkowski 2019
 Steve
 Bartkowski

/s/ Gary Director March 1,
 B. 2019
 Coursey
 Gary B.
 Coursey

/s/ Daniel Director March 1,
 M. 2019
 DuPree
 Daniel M.
 DuPree

/s/ William J. Director March 1,
 Gresham, 2019
 Jr.
 William J.
 Gresham,
 Jr.

/s/ Howard Director March 1,
 A. 2019
 McLure
 Howard
 A.
 McLure

/s/ Timothy Director March 1,
 A. 2019
 Peterson
 Timothy
 A.
 Peterson

/s/ John Director March 1,
 Wiens 2019
 John
 Wiens

