PREFERRED APARTMENT COMMUNITIES INC
Form 8-K
February 06, 2017

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

FORM 8-K

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

Date of Report (Date of earliest event reported): February 6, 2017
Preferred Apartment Communities, Inc.
(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

Item 8.01 Other Events.

On October 18, 2016, New Market - Champions, LLC (the "Purchaser"), an indirect, wholly-owned subsidiary of Preferred Apartment Communities Operating Partnership, L.P. ("PAC-OP"), completed the acquisition of a fee simple interest in a grocery-anchored shopping center in Houston, Texas ("Champions Village") from HR Venture Properties I, LLC (the "Seller"). Preferred Apartment Communities, Inc. (the "Company") is the general partner of, and owner of an approximate 96.5% interest in, PAC-OP. Outside of the acquisition of Champions Village, there is no relationship between the Company, PAC-OP or the Purchaser and the Seller.

This Current Report on Form 8-K is filed to provide certain financial information related to its acquisition of Champions Village required by Item 9.01(a) and (b) of Form 8-K.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

(b) Pro Forma Financial Information.

(c) Exhibits

23.1 Consent of Deloitte & Touche LLP

CHAMPIONS VILLAGE
STATEMENTS OF REVENUES AND CERTAIN EXPENSES
WITH INDEPENDENT AUDITORS' REPORT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 (UNAUDITED) AND
THE YEAR ENDED DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

To Preferred Apartment Communities, Inc.:

We have audited the accompanying Statement of Revenues and Certain Expenses of Champions Village, for the year ended December 31, 2015, and the related notes (the "Statement").

Management's Responsibility for the Statement

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

/s/ Deloitte & Touche LLP
Houston, Texas
February 6, 2017

Champions Village Statements of Revenues and Certain Expenses for the nine months ended September 30, 2016 (unaudited) and the year ended December 31, 2015

	Nine Months ended September 30, 2016 (unaudited)	Year ended December 31, 2015
REVENUES:		
Base rent	$3,319,268	$4,475,842
Tenant reimbursements	1,192,942	1,553,626
Other income	17,567	34,939
TOTAL REVENUES	4,529,777	6,064,407
CERTAIN EXPENSES:		
Repairs and maintenance	404,729	517,645
Real estate taxes	881,722	1,162,316
Property management fees	147,655	182,367
Insurance	34,908	48,985
Utilities	143,071	167,109
Bad debt expense	198,125	9,624
Professional fees	78,759	16,725
General and administrative	29,302	46,736
TOTAL CERTAIN EXPENSES	1,918,271	2,151,507
Revenues in excess of certain expenses	$2,611,506	$3,912,900

See accompanying notes to Statements of Revenues and Certain Expenses.

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Champions Village
Notes to Statements of Revenues and Certain Expenses

1. ORGANIZATION

Preferred Apartment Communities, Inc. (the “Company”) was formed as a Maryland corporation on September 18, 2009, and has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, effective with its tax year ended December 31, 2011. The Company was formed to acquire multifamily and retail properties in select targeted markets throughout the United States. The Company is a majority owner in Preferred Apartment Communities Operating Partnership, L.P., which acquired a grocery-anchored shopping center in Houston, Texas (“Champions Village” or the "Property") from an unaffiliated third party (the “Seller”) on October 18, 2016. Prior to October 18, 2016, the Seller was responsible for all accounting and management decisions of the properties. The Property is anchored by a Randalls grocery store and as of September 30, 2016, was 77.3% occupied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying Statements of Revenues and Certain Expenses have been prepared for the purpose of complying with Rule 3-14 of Regulation S-X promulgated under the Securities Act of 1933, as amended, and accordingly, are not representative of the actual results of operations of the properties for the periods presented, due to the exclusion of the following revenue and expenses which may not be comparable to the proposed future operations of the Property:

- Depreciation expense;
- Interest income and expense, including amortization of mortgage loan origination costs;
- Income tax expense;
- Amortization of in-place leases, above/below market lease intangibles, and lease origination costs, and
- Amortization of mortgage discounts and premiums.

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

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

B. Use of Estimates

The preparation of these Statements of Revenues and Certain Expenses in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of revenues and certain expenses. Actual results could differ from those estimates.

C. Revenue Recognition

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

D. Operating expenses

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

E. Subsequent events

The Company has evaluated events through February 6, 2017, the date the Statements of Revenues and Certain Expenses were available to be issued and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the Statements of Revenues and Certain Expenses.

3. OPERATING LEASES

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

2016	$3,708,707
2017	3,150,510
2018	2,362,166
2019	1,447,349
2020	1,187,796
thereafter	2,158,368
Total	$14,014,896

4. COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. There is no material litigation nor to management's knowledge is any material litigation currently threatened against the Property other than routine litigation, claims and administrative proceedings arising in the ordinary course of business.

5. MANAGEMENT AGREEMENT

In connection with the management of the rental operations, a property management fee was paid to an unrelated third party, which was calculated as 3.0% of gross cash receipts plus $1,250 per quarter. Property management fees of $147,655 (unaudited) and $182,367 were recorded for the nine-month period ended September 30, 2016 and the year ended December 31, 2015, respectively.

6. CONCENTRATION OF RISK

The Champions Village property is located in Houston, Texas and is subject to the risks of real property ownership and local and national economic growth trends.

Champions Village earned approximately 10.8% of its base rent revenue from its anchor tenant for the year ended December 31, 2015. The loss of this tenant could have a significant negative impact on operations.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company’s unaudited pro forma condensed consolidated balance sheet at September 30, 2016 illustrates the estimated effects of the purchase of the Champions Village property referred to in Item 8.01 above (the Transaction) as if it had occurred on such date.

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

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

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

	PAC REIT Historical (See Note 1)	Acquired Champions Village (See Note 1)		PAC REIT Pro Forma
Assets				
Real estate				
Land	$260,222,888	$12,812,546	A	$273,035,434
Building and improvements	1,333,186,314	30,647,609	A	1,363,833,923
Tenant improvements	14,132,772	2,751,796	A	16,884,568
Furniture, fixtures, and equipment	125,292,571	—		125,292,571
Construction In progress	2,879,528	—		2,879,528
Gross real estate	1,735,714,073	46,211,951		1,781,926,024
Less: accumulated depreciation	(87,020,014)	—		(87,020,014)
Net real estate	1,648,694,059	46,211,951		1,694,906,010
Real estate loans, net of deferred fee income	195,971,159	—		195,971,159
Real estate loans to related parties, net	109,436,327	—		109,436,327
Total real estate and real estate loans, net	1,954,101,545	46,211,951		2,000,313,496
Cash and cash equivalents	10,462,384	(3,492,808)	B	6,969,576
Restricted cash	32,948,161	1,316,883	A	34,265,044
Notes receivable	14,341,875	—	&#	