

# Preferred Apartment Communities, Inc. Reports Results for Fourth Quarter 2016

ATLANTA, Feb. 27, 2017 /PRNewswire/ -- Preferred Apartment Communities, Inc. (NYSE: APTS) ("we", "our", the "Company" or "Preferred Apartment Communities") today reported results for the quarter and year ended December 31, 2016. Unless otherwise indicated, all per share results are reported based on the basic weighted average shares of Common Stock and Class A Units of the Company's operating partnership ("Class A Units") outstanding.

"The company had a superb year, with all areas of our business performing extremely well. Our fantastic earnings are a tribute to the hard work of the best management team in the REIT business" said John A. Williams, Preferred Apartment Communities' Chairman and Chief Executive Officer.

## Highlights of the Fourth Quarter 2016

- During the fourth quarter 2016, we acquired a 31-story class A office building located in the central perimeter submarket of Atlanta, Georgia and another 110,000 square foot office building, also located in Atlanta, Georgia, which is situated upon a seven acre site which has been rezoned and is suitable for mixed-use development. We also acquired a grocery-anchored shopping center located in Houston, Texas, comprising approximately 380,000 square feet of gross leasable area.
- During the fourth quarter 2016, we closed on two real estate investment loans, two member loans and a land acquisition bridge loan of up to an approximate aggregate \$49.7 million, in support of a proposed 392-unit multifamily community to be located in Tampa, Florida, a 356-unit multifamily community to be located in suburban Atlanta, Georgia and a 332-unit, 887-bed student housing project to be located in Charlotte, North Carolina.

## Financial Highlights

Our operating results are presented below.

|                          | Three months ended December 31, |               |          | Twelve months ended December 31, |                |          |
|--------------------------|---------------------------------|---------------|----------|----------------------------------|----------------|----------|
|                          | 2016                            | 2015          | % change | 2016                             | 2015           | % change |
| Revenues                 | \$ 58,991,853                   | \$ 33,916,477 | 73.9 %   | \$ 200,118,915                   | \$ 109,305,512 | 83.1 %   |
| Per share data:          |                                 |               |          |                                  |                |          |
| Net loss <sup>(1)</sup>  | \$ (0.66)                       | \$ (0.30)     | —        | \$ (2.11)                        | \$ (0.95)      | —        |
| FFO <sup>(2)</sup>       | \$ 0.24                         | \$ 0.21       | 14.3 %   | \$ 0.90                          | \$ 0.74        | 21.6 %   |
| Core FFO <sup>(2)</sup>  | \$ 0.32                         | \$ 0.34       | (5.9) %  | \$ 1.31                          | \$ 1.16        | 12.9 %   |
| Dividends <sup>(3)</sup> | \$ 0.22                         | \$ 0.1925     | 14.3 %   | \$ 0.8175                        | \$ 0.7275      | 12.4 %   |

Core Funds From Operations Attributable to Common Stockholders and Unitholders ("Core FFO") excludes acquisition costs and certain other costs not representative of our ongoing operations.

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

<sup>(2)</sup> FFO and Core FFO are presented per weighted average share of Common Stock and Class A Unit in our Operating Partnership outstanding for the periods indicated.

<sup>(3)</sup> Per share of Common Stock and Class A Unit outstanding.

## Real Estate Assets

|                                    | Owned as of<br>December 31,<br>2016 | Potential additions<br>from purchase<br>options in real estate<br>loan portfolio <sup>(1)</sup> | Total Potential |
|------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------------|-----------------|
| Multifamily communities:           |                                     |                                                                                                 |                 |
| Properties                         | 24                                  | 15                                                                                              | 39              |
| Units                              | 8,049                               | 4,108                                                                                           | 12,157          |
| Grocery-anchored shopping centers: |                                     |                                                                                                 |                 |
| Properties                         | 31                                  | 1                                                                                               | 32              |
| Gross leasable area (square feet)  | 3,295,491                           | 212,800 <sup>(2)</sup>                                                                          | 3,508,291       |
| Student housing communities:       |                                     |                                                                                                 |                 |
| Properties                         | 1                                   | 8                                                                                               | 9               |
| Units                              | 219                                 | 1,874                                                                                           | 2,093           |
| Beds                               | 679                                 | 5,693                                                                                           | 6,372           |
| Office buildings                   |                                     |                                                                                                 |                 |
| Properties                         | 3                                   | —                                                                                               | 3               |
| Office space (square feet)         | 1,096,834                           | —                                                                                               | 1,096,834       |

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

<sup>(2)</sup> Square footage represents area covered by our purchase options and excludes 123,590 square feet owned by the grocery anchor.

- For the year 2016, our Core FFO payout ratio to our Common Stockholders and Unitholders was approximately 63.6% and our AFFO payout ratio to Common Stockholders and Unitholders was approximately 77.5%. For the fourth quarter 2016, our Core FFO payout ratio to our Common Stockholders and Unitholders was approximately 71.6% and our AFFO payout ratio to Common Stockholders and Unitholders was approximately 128.8%. <sup>(1)</sup>
- For the year 2016, our Core FFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 55.9% and our AFFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 60.7%. For the fourth quarter 2016, our Core FFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was approximately 60.6% and our AFFO payout ratio (before the deduction of preferred dividends) to our Series A Preferred Stockholders was

approximately 73.4%. <sup>(1)</sup>

- As of December 31, 2016, our total assets were approximately \$2.4 billion compared to approximately \$1.3 billion as of December 31, 2015, an increase of approximately \$1.1 billion, or approximately 86.9%. This growth was driven almost entirely by property acquisitions and new real estate loans.
- At December 31, 2016, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 58.9%.
- AFFO was \$26,594,910, or \$1.07 per share for the year ended December 31, 2016, an increase of 10.3% on a per share basis from our AFFO result of \$21,783,083, or \$0.97 per share for the 2015 period. AFFO is calculated after deductions for all preferred dividends.
- Cash flow from operations for the year 2016 was approximately \$61.7 million, an increase of approximately \$26.4 million, or 75.1%, compared to approximately \$35.2 million for the year 2015.

<sup>(1)</sup> We calculate the Core FFO and AFFO payout ratios to Common Stockholders and Unitholders as the ratio of Common Stock dividends and distributions to Unitholders to Core FFO or AFFO, respectively. We calculate the Core FFO and AFFO payout ratios to Series A Preferred Stockholders as the ratio of Preferred Stock dividends to the sum of Preferred Stock dividends and Core FFO or AFFO, respectively. Since our operations resulted in a net loss for the periods presented, a payout ratio based on net loss is not calculable. See Definitions of Non-GAAP Measures on page S-15.

#### Subsequent to Quarter End

- On January 20, 2017, we sold our 364-unit Sandstone Creek multifamily community to an unrelated third party for \$48.1 million, exclusive of disposition-related transaction costs and realized a gain on the sale of approximately \$0.6 million.
- On February 2, 2017, the Company declared a quarterly dividend on its Common Stock of \$0.22 per share, payable on April 14, 2017 to stockholders of record on March 15, 2017.
- On February 14, 2017, we sold the last of the Units authorized for sale under our \$900 million Follow-on Offering. Also on February 14, 2017, our \$1.5 Billion Unit Offering was declared effective by the Securities and Exchange Commission.

#### Same Store Operations

The following table presents the percentage change in same store multifamily gross revenues, operating expenses and net operating income for the year 2016 versus 2015. Our same store property operating results exclude any properties that are not comparable for the periods presented.

|             | Year over year growth<br>Years ended December 31, 2016 versus 2015 |                    |                      |
|-------------|--------------------------------------------------------------------|--------------------|----------------------|
|             | Gross Revenues                                                     | Operating Expenses | Net Operating Income |
| Multifamily | 3.3 %                                                              | 6.8 %              | 0.2 %                |

\* One multifamily community's property tax assessment, which we are appealing, increased approximately 18.5% for 2016 versus 2015. If our property tax expense for all same-store properties for 2016 were the same as 2015, our same-store net operating income would have increased by approximately 4.3% for 2016 over 2015.

#### Capital Markets Activities

During 2016, we issued and sold 438,673 Units, with each Unit consisting of one share of our Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of our Common Stock, under our existing \$900 million Unit offering (the "\$900 Million Follow-on Offering"), resulting in gross proceeds of approximately \$438.1 million. In addition, during 2016, we issued approximately 1.7 million shares of common stock pursuant to the exercise of warrants issued under our \$900 Million Follow-on Offering and our expired \$150 million Unit Offering, resulting in aggregate gross proceeds of approximately \$18.2 million.

On February 14, 2017, we closed the \$900 Million Follow-on Offering after a successful capital raise of \$900 million and on the same day, our registration statement on Form S-3 (Registration No. 333-211924) (the "\$1.5 Billion Follow-On Registration Statement") was declared effective by the Securities and Exchange Commission (the "SEC"). This \$1.5 Billion Follow-On Registration Statement allows us to offer up to a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock (the "\$1.5 Billion Unit Offering"). The price per Unit is \$1,000. The Units are being offered by our affiliate, Preferred Capital Securities, LLC ("PCS") on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the \$1.5 Billion Unit Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes.

On December 2, 2016, the Company's registration statement on Form S-3 (Registration No. 333-214531) (the "mShares Registration Statement") was declared effective by the SEC. The mShares Registration Statement allows us to offer up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock ("mShares"), par value \$0.01 per share (the "mShares Offering"). During 2016, we issued and sold no mShares. The mShares are being offered by PCS on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the mShares Offering in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes.

On July 18, 2016, the Company filed a prospectus for its registration statement on Form S-3 (Registration No. 333-211178) to issue and sell up to \$150 million of Common Stock from time to time in an "at the market" offering (the "ATM Offering") through JonesTrading Institutional Services LLC, FBR Capital Markets & Co, and Canaccord Genuity Inc, as its sales agents. The Company intends to use any proceeds from the ATM Offering to (a) repay outstanding amounts under our existing senior secured revolving credit facility and (b) for other general corporate purposes, which includes making investments in accordance with the Company's investment objectives. During 2016, we issued and sold approximately 1.7 million shares of our Common Stock through the ATM Offering for gross proceeds of approximately \$23.4 million.

#### Dividends

##### Quarterly Dividends on Common Stock and Class A OP Units

On November 3, 2016, we declared a quarterly dividend on our Common Stock of \$0.22 per share for fourth quarter 2016. This represents a 14.3% increase in our common stock dividend from our fourth quarter 2015 common stock dividend of \$0.1925 per share, and an annualized dividend growth rate of 13.9% since June 30, 2011, the first quarter end following our initial public offering in April 2011. The fourth quarter dividend was paid on January 17, 2017 to all stockholders of record on December 15, 2016. In conjunction with the Common Stock dividend, the Company's operating partnership declared a distribution on its Class A Units of \$0.22 per unit for fourth quarter 2016, which was paid on or around January 17, 2017 to all Class A Unit holders of record as of December 15, 2016.

##### Monthly Dividends on Series A Redeemable Preferred Stock

We declared and paid monthly dividends of \$5.00 per share on our Series A Redeemable Preferred Stock, which totaled approximately \$12.7 million for the fourth quarter ended December 31, 2016 and represents a 6% annual yield.

### **Conference Call and Supplemental Data**

Preferred Apartment Communities will hold its quarterly conference call on Tuesday, February 28, 2017 at 11:00 a.m. Eastern Time to discuss its fourth quarter 2016 results. To participate in the conference call, please dial in to the following:

#### ***Live Conference Call Details***

Domestic Dial-in Number: 1-(844) 890-1791  
International Dial-in Number: 1-(412) 380-7408  
Company: Preferred Apartment Communities, Inc.  
Date: Tuesday, February 28, 2017  
Time: 11:00 a.m. Eastern Time (8:00 a.m. Pacific Time)

The live broadcast of Preferred Apartment Communities' fourth quarter conference call will be available online, on a listen-only basis, at the company's website, [www.pacapts.com](http://www.pacapts.com), under "Investors" and then click on the "Upcoming Events" link. A replay of the call will be archived on Preferred Apartment Communities' website under Investors/Audio Archive.

### **2017 Guidance:**

**Net income (loss) per share** - We are actively adding properties and real estate loans to our real estate portfolio and the specific timing of the closing of acquisitions is difficult to predict. Effective January 1, 2017, we adopted Accounting Standard Update 2017-01 ("ASU 2017-01"), which requires acquisition costs for qualifying asset acquisitions (which we believe our contemplated future acquisitions will be) to be capitalized and amortized rather than expensed as incurred, as was the case under previous guidance. Such activity by nature can cause material variation in our reported depreciation and amortization expense and interest revenue. Since net income (loss) per share is calculated net of depreciation and amortization expense, our net income (loss) results can fluctuate widely. For this reason, we are unable to reasonably forecast this measure or provide a reconciliation of our projected core FFO per share to this measure.

**Core FFO per share** - We currently project Core FFO to be in the range of \$1.40 - \$1.48 per share for the full year 2017.

**Revenue** - We currently project total revenues to be in the range of \$285 million - \$315 million for the full year 2017.

Core FFO, AFFO and FFO are all calculated after deductions for all preferred stock dividends. A reconciliation of net income (loss) attributable to common stockholders to Core FFO, AFFO and FFO appears on pages S-4 and S-5 of this report, as well as on the Company's website and is available using the following link:

[http://investors.pacapts.com/download/4Q16\\_Earnings\\_and\\_Supplemental\\_Data.pdf](http://investors.pacapts.com/download/4Q16_Earnings_and_Supplemental_Data.pdf)

### **Forward-Looking Statements**

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Estimates of future earnings, guidance, goals and performance are, by definition, and certain other statements in this Supplemental Financial Data Report may constitute, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, achievements or transactions to be materially different from the results, guidance, goals, performance, achievements or transactions expressed or implied by the forward-looking statements. Factors that impact such forward-looking statements include, among others, our business and investment strategy; legislative or regulatory actions; the state of the U.S. economy generally or in specific geographic areas; economic trends and economic recoveries; our ability to obtain and maintain debt or equity financing; financing and advance rates for our target assets; our leverage level; changes in the values of our assets; availability of attractive investment opportunities in our target markets; our ability to maintain our qualification as a real estate investment trust, or REIT, for U.S. federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; availability of quality personnel; our understanding of our competition and market trends in our industry; and interest rates, real estate values, the debt securities markets and the general economy.

Except as otherwise required by the federal securities laws, we assume no liability to update the information in this Supplemental Financial Data Report.

We refer you to the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Reports on Form 10-K for the year ended December 31, 2015 that was filed with the Securities and Exchange Commission, or SEC, on March 14, 2016, and for the year ended December 31, 2016 that will be filed with the SEC by March 16, 2017, which discuss various factors that could adversely affect our financial results. Such risk factors and information may be updated or supplemented by our Form 10-Q and Form 8-K filings and other documents filed from time to time with the SEC.

### **Additional Information**

The SEC has declared effective the registration statement (including prospectus) filed by the Company for each of the offerings to which this communication may relate. Before you invest, you should read the final prospectus, and any prospectus supplements, forming a part of the registration statement and other documents the Company has filed with the SEC for more complete information about the Company and the offering to which this communication may relate. In particular, you should carefully read the risk factors described in the final prospectus and in any related prospectus supplement and in the documents incorporated by reference in the final prospectus and any related prospectus supplement to which this communication may relate. You may get these documents for free by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, the Company or its dealer manager, Preferred Capital Securities, LLC, with respect to the mShares Offering and the \$1.5 Billion Unit Offering, and JonesTrading Institutional Services LLC, with respect to the ATM Offering, will arrange to send you a prospectus if you request it by calling Leonard A. Silverstein at (770) 818-4100, 3284 Northside Parkway NW, Suite 150, Atlanta, Georgia 30327.

The ATM Offering prospectus, dated July 18, 2016, including a base prospectus, dated May 17, 2016, can be accessed through the following link:

<https://www.sec.gov/Archives/edgar/data/1481832/000148183216000152/atmprospectus.htm>

The final prospectus for the mShares Offering, dated January 19, 2017, can be accessed through the following link:

<https://www.sec.gov/Archives/edgar/data/1481832/000148183217000008/a424prospectus-mshares1.htm>

The final prospectus for the \$1.5 Billion Unit Offering, dated February 14, 2017, can be accessed through the following link:

<https://www.sec.gov/Archives/edgar/data/1481832/000148183217000032/a424prospectus-15bseriesa.htm>

(Unaudited)

Three months ended December 31,

|                                                                                        | 2016                   | 2015                  |
|----------------------------------------------------------------------------------------|------------------------|-----------------------|
| Revenues:                                                                              |                        |                       |
| Rental revenues                                                                        | \$ 40,789,230          | \$ 21,824,050         |
| Other property revenues                                                                | 6,012,218              | 2,809,770             |
| Interest income on loans and notes receivable                                          | 7,856,232              | 6,839,746             |
| Interest income from related parties                                                   | 4,334,173              | 2,442,911             |
| Total revenues                                                                         | <u>58,991,853</u>      | <u>33,916,477</u>     |
| Operating expenses:                                                                    |                        |                       |
| Property operating and maintenance                                                     | 6,098,507              | 3,156,855             |
| Property salary and benefits reimbursement to related party                            | 2,710,241              | 1,770,490             |
| Property management fees                                                               | 1,671,894              | 931,962               |
| Real estate taxes                                                                      | 6,137,235              | 3,023,378             |
| General and administrative                                                             | 1,302,262              | 732,123               |
| Equity compensation to directors and executives                                        | 656,336                | 601,185               |
| Depreciation and amortization                                                          | 23,158,734             | 11,686,571            |
| Acquisition and pursuit costs                                                          | 1,428,295              | 1,309,450             |
| Acquisition fees to related parties                                                    | 233,384                | 1,567,650             |
| Asset management fees to related party                                                 | 4,153,297              | 2,210,638             |
| Insurance, professional fees, and other expenses                                       | 1,956,134              | 1,155,915             |
| Total operating expenses                                                               | <u>49,506,319</u>      | <u>28,146,217</u>     |
| Contingent asset management and general and administrative expense fees                | <u>(127,322)</u>       | <u>(276,999)</u>      |
| Net operating expenses                                                                 | <u>49,378,997</u>      | <u>27,869,218</u>     |
| Operating income                                                                       | <u>9,612,856</u>       | <u>6,047,259</u>      |
| Interest expense                                                                       | <u>13,595,639</u>      | <u>6,431,388</u>      |
| Net loss                                                                               | <u>(3,982,783)</u>     | <u>(384,129)</u>      |
| Consolidated net loss attributable to non-controlling interests                        | 135,246                | 4,609                 |
| Net loss attributable to the Company                                                   | <u>(3,847,537)</u>     | <u>(379,520)</u>      |
| Dividends declared to Series A preferred stockholders                                  | (12,738,922)           | (6,374,354)           |
| Earnings attributable to unvested restricted stock                                     | <u>(3,409)</u>         | <u>(2,901)</u>        |
| Net loss attributable to common stockholders                                           | <u>\$ (16,589,868)</u> | <u>\$ (6,756,775)</u> |
| Net loss per share of Common Stock available to common stockholders, basic and diluted | <u>\$ (0.66)</u>       | <u>\$ (0.30)</u>      |
| Weighted average number of shares of Common Stock outstanding, basic and diluted       | <u>25,210,069</u>      | <u>22,402,366</u>     |

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

Year ended December 31,  
2016

|                                                                         | 2016                | 2015               |
|-------------------------------------------------------------------------|---------------------|--------------------|
| Revenues:                                                               |                     |                    |
| Rental revenues                                                         | \$ 137,330,774      | \$ 69,128,280      |
| Other property revenues                                                 | 19,302,548          | 9,495,522          |
| Interest income on loans and notes receivable                           | 28,840,857          | 23,207,610         |
| Interest income from related parties                                    | 14,644,736          | 7,474,100          |
| Total revenues                                                          | <u>200,118,915</u>  | <u>109,305,512</u> |
| Operating expenses:                                                     |                     |                    |
| Property operating and maintenance                                      | 19,981,640          | 10,878,872         |
| Property salary and benefits reimbursement to related party             | 10,398,711          | 5,885,242          |
| Property management fees                                                | 5,980,735           | 3,014,801          |
| Real estate taxes                                                       | 21,594,369          | 9,934,412          |
| General and administrative                                              | 4,557,990           | 2,285,789          |
| Equity compensation to directors and executives                         | 2,524,042           | 2,362,453          |
| Depreciation and amortization                                           | 78,139,798          | 38,096,334         |
| Acquisition and pursuit costs                                           | 7,607,737           | 4,186,092          |
| Acquisition fees to related parties                                     | 939,806             | 4,967,671          |
| Asset management fees to related party                                  | 13,637,458          | 7,041,226          |
| Insurance, professional fees, and other expenses                        | 6,172,972           | 3,568,356          |
| Total operating expenses                                                | <u>171,535,258</u>  | <u>92,221,248</u>  |
| Contingent asset management and general and administrative expense fees | <u>(1,585,567)</u>  | <u>(1,805,478)</u> |
| Net operating expenses                                                  | <u>169,949,691</u>  | <u>90,415,770</u>  |
| Operating income                                                        | <u>30,169,224</u>   | <u>18,889,742</u>  |
| Interest expense                                                        | <u>44,284,144</u>   | <u>21,315,731</u>  |
| Net loss before gain on sale of real estate                             | <u>(14,114,920)</u> | <u>(2,425,989)</u> |
| Gain on sale of real estate, net of disposition expenses                | <u>4,271,506</u>    | <u>—</u>           |

|                                                                                        |                 |                 |
|----------------------------------------------------------------------------------------|-----------------|-----------------|
| Net loss                                                                               | (9,843,414)     | (2,425,989)     |
| Consolidated net loss attributable to non-controlling interests                        | 310,291         | 25,321          |
| Net loss attributable to the Company                                                   | (9,533,123)     | (2,400,668)     |
| Dividends declared to Series A preferred stockholders                                  | (41,080,645)    | (18,751,934)    |
| Earnings attributable to unvested restricted stock                                     | (15,843)        | (19,256)        |
| Net loss attributable to common stockholders                                           | \$ (50,629,611) | \$ (21,171,858) |
| Net loss per share of Common Stock available to common stockholders, basic and diluted | \$ (2.11)       | \$ (0.95)       |
| Weighted average number of shares of Common Stock outstanding, basic and diluted       | 23,969,494      | 22,182,971      |

**Reconciliation of FFO, Core FFO, and AFFO  
to Net Loss Attributable to Common Stockholders (A)**

|                                                                                                                                                               | <b>Three months ended:</b> |                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------|
|                                                                                                                                                               | <b>12/31/2016</b>          | <b>12/31/2015</b>     |
| <b>Net loss attributable to common stockholders</b> (See note 1)                                                                                              | <b>\$ (16,589,868)</b>     | <b>\$ (6,756,775)</b> |
| Less: Loss attributable to non-controlling interests (See note 2)                                                                                             | (135,246)                  | (4,609)               |
| Add: Depreciation of real estate assets                                                                                                                       | 16,890,027                 | 8,545,481             |
| Amortization of acquired real estate intangible assets and deferred leasing costs                                                                             | 6,123,722                  | 3,058,298             |
| <b>FFO</b>                                                                                                                                                    | <b>6,288,635</b>           | <b>4,842,395</b>      |
| Add: Acquisition and pursuit costs                                                                                                                            | 1,661,679                  | 2,877,100             |
| Loan cost amortization on acquisition term note (See note 3)                                                                                                  | 26,938                     | —                     |
| Amortization of loan coordination fees paid to the Manager (See note 4)                                                                                       | 317,997                    | —                     |
| <b>Core FFO</b>                                                                                                                                               | <b>8,295,249</b>           | <b>7,719,495</b>      |
| Add: Non-cash equity compensation to directors and executives                                                                                                 | 656,336                    | 601,185               |
| Amortization of loan closing costs (See note 6)                                                                                                               | 818,685                    | 404,315               |
| Depreciation/amortization of non-real estate assets                                                                                                           | 144,985                    | 82,792                |
| Net loan fees received (See note 7)                                                                                                                           | 497,277                    | 348,317               |
| Deferred interest income received (See note 8)                                                                                                                | —                          | 130,072               |
| Less: Non-cash loan interest income (See note 7)                                                                                                              | (4,227,953)                | (3,328,607)           |
| Cash paid for loan closing costs                                                                                                                              | (215,258)                  | (42,023)              |
| Amortization of acquired real estate intangible liabilities (See note 9)                                                                                      | (743,550)                  | (379,025)             |
| Normally recurring capital expenditures and leasing costs (See note 10)                                                                                       | (617,237)                  | (250,976)             |
| <b>AFFO</b>                                                                                                                                                   | <b>\$ 4,608,534</b>        | <b>\$ 5,285,545</b>   |
| Common Stock dividends and distributions to Unitholders declared:                                                                                             |                            |                       |
| Common Stock dividends                                                                                                                                        | \$ 5,740,616               | \$ 4,314,999          |
| Distributions to Unitholders (See note 2)                                                                                                                     | 194,957                    | 53,238                |
| Total                                                                                                                                                         | <b>\$ 5,935,573</b>        | <b>\$ 4,368,237</b>   |
| Common Stock dividends and Unitholder distributions per share                                                                                                 | \$ 0.22                    | \$ 0.1925             |
| <b>FFO per weighted average basic share of Common Stock and Unit outstanding</b>                                                                              | <b>\$ 0.24</b>             | <b>\$ 0.21</b>        |
| <b>Core FFO per weighted average basic share of Common Stock and Unit outstanding</b>                                                                         | <b>\$ 0.32</b>             | <b>\$ 0.34</b>        |
| <b>AFFO per weighted average basic share of Common Stock and Unit outstanding</b>                                                                             | <b>\$ 0.18</b>             | <b>\$ 0.23</b>        |
| Weighted average shares of Common Stock and Units outstanding: (A)                                                                                            |                            |                       |
| Basic:                                                                                                                                                        |                            |                       |
| Common Stock                                                                                                                                                  | 25,210,069                 | 22,402,366            |
| Class A Units                                                                                                                                                 | 886,168                    | 276,560               |
| Common Stock and Class A Units                                                                                                                                | <b>26,096,237</b>          | <b>22,678,926</b>     |
| Diluted Common Stock and Class A Units (B)                                                                                                                    | <b>27,009,119</b>          | <b>23,443,082</b>     |
| Actual shares of Common Stock outstanding, including 15,498 and 15,067 unvested shares of restricted Common Stock at December 31, 2016 and 2015, respectively | 26,513,690                 | 22,776,618            |
| Actual Class A Units outstanding                                                                                                                              | 886,168                    | 276,560               |
| Total                                                                                                                                                         | <b>27,399,858</b>          | <b>23,053,178</b>     |

(A) Units and Unitholders refer to Class A Units in our Operating Partnership, 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 3.40% weighted average non-controlling interest in the Operating Partnership for the three-month period ended December 31, 2016.

(B) Since our Core 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.

See Notes to Reconciliation of FFO, Core FFO and AFFO to Net Loss Attributable to Common Stockholders on page S-6.

**Reconciliation of FFO, Core FFO, and AFFO  
to Net Loss Attributable to Common Stockholders (A)**

|                                                                                                                                                               | Year ended:            |                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
|                                                                                                                                                               | 12/31/2016             | 12/31/2015             |
| <b>Net loss attributable to common stockholders</b> (See note 1)                                                                                              | <b>\$ (50,629,611)</b> | <b>\$ (21,171,858)</b> |
| Loss attributable to non-controlling interests (See note 2)                                                                                                   | (310,291)              | (25,321)               |
| Add: Depreciation of real estate assets                                                                                                                       | 55,896,381             | 27,497,386             |
| Amortization of acquired real estate intangible assets and deferred leasing costs                                                                             | 21,700,590             | 10,401,698             |
| Less: Gain on sale of real estate                                                                                                                             | (4,271,506)            | —                      |
| <b>FFO</b>                                                                                                                                                    | <b>22,385,563</b>      | <b>16,701,905</b>      |
| Add: Acquisition and pursuit costs                                                                                                                            | 8,547,543              | 9,153,763              |
| Loan cost amortization on acquisition term note (See note 3)                                                                                                  | 166,682                | 96,658                 |
| Amortization of loan coordination fees paid to the Manager (See note 4)                                                                                       | 869,651                | —                      |
| Costs incurred from extension of management agreement with the Manager (See note 5)                                                                           | 421,387                | —                      |
| <b>Core FFO</b>                                                                                                                                               | <b>32,390,826</b>      | <b>25,952,326</b>      |
| Add: Non-cash equity compensation to directors and executives                                                                                                 | 2,524,042              | 2,362,453              |
| Amortization of loan closing costs (See note 6)                                                                                                               | 2,559,096              | 1,377,618              |
| Depreciation/amortization of non-real estate assets                                                                                                           | 542,827                | 197,250                |
| Net loan fees received (See note 7)                                                                                                                           | 1,872,105              | 1,387,109              |
| Deferred interest income received (See note 8)                                                                                                                | 6,875,957              | 3,380,451              |
| Less: Non-cash loan interest income (See note 7)                                                                                                              | (14,685,707)           | (9,924,973)            |
| Abandoned pursuit costs                                                                                                                                       | —                      | (39,657)               |
| Cash paid for loan closing costs                                                                                                                              | (228,534)              | (571,876)              |
| Amortization of acquired real estate intangible liabilities (See note 9)                                                                                      | (2,458,342)            | (1,074,202)            |
| Normally recurring capital expenditures and leasing costs (See note 10)                                                                                       | (2,797,360)            | (1,263,416)            |
| <b>AFFO</b>                                                                                                                                                   | <b>\$ 26,594,910</b>   | <b>\$ 21,783,083</b>   |
| Common Stock dividends and distributions to Unitholders declared:                                                                                             |                        |                        |
| Common Stock dividends                                                                                                                                        | \$ 19,940,730          | \$ 16,196,324          |
| Distributions to Unitholders (See note 2)                                                                                                                     | 671,250                | 202,545                |
| Total                                                                                                                                                         | <u>\$ 20,611,980</u>   | <u>\$ 16,398,869</u>   |
| Common Stock dividends and Unitholder distributions per share                                                                                                 | \$ 0.8175              | \$ 0.7275              |
| <b>FFO per weighted average basic share of Common Stock and Unit outstanding</b>                                                                              | <b>\$ 0.90</b>         | <b>\$ 0.74</b>         |
| <b>Core FFO per weighted average basic share of Common Stock and Unit outstanding</b>                                                                         | <b>\$ 1.31</b>         | <b>\$ 1.16</b>         |
| <b>AFFO per weighted average basic share of Common Stock and Unit outstanding</b>                                                                             | <b>\$ 1.07</b>         | <b>\$ 0.97</b>         |
| Weighted average shares of Common Stock and Units outstanding: (A)                                                                                            |                        |                        |
| Basic:                                                                                                                                                        |                        |                        |
| Common Stock                                                                                                                                                  | 23,969,494             | 22,182,971             |
| Class A Units                                                                                                                                                 | 819,197                | 278,745                |
| Common Stock and Class A Units                                                                                                                                | <u>24,788,691</u>      | <u>22,461,716</u>      |
| Diluted Common Stock and Class A Units (B)                                                                                                                    | <u>26,502,136</u>      | <u>22,982,002</u>      |
| Actual shares of Common Stock outstanding, including 15,498 and 15,067 unvested shares of restricted Common Stock at December 31, 2016 and 2015, respectively | 26,513,690             | 22,776,618             |
| Actual Class A Units outstanding                                                                                                                              | 886,168                | 276,560                |
| Total                                                                                                                                                         | <u>27,399,858</u>      | <u>23,053,178</u>      |

(A) Units and Unitholders refer to Class A Units in our Operating Partnership, 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 3.30% weighted average non-controlling interest in the Operating Partnership for the year ended December 31, 2016.

(B) Since our Core 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.

See Notes to Reconciliation of FFO, Core FFO and AFFO to Net Loss Attributable to Common Stockholders on page S-6.

**Notes to Reconciliation of FFO, Core FFO and AFFO to Net Loss Attributable to Common Stockholders**

- Rental and other property revenues and expenses for the three-month period ended December 31, 2016 include activity for the two office buildings and one grocery-anchored shopping center acquired during the fourth quarter 2016 only from their respective dates of acquisition. In addition, the fourth quarter 2016 period includes a full quarter of activity for the six multifamily communities, 16 grocery-anchored shopping centers and one student housing community and office building acquired during the first three quarters of 2016. Rental and other property revenues and expenses for the three-month period ended December 31, 2015 include activity for the two multifamily communities and two grocery-anchored shopping centers only from their respective dates of acquisition during the fourth quarter 2015.

2. Non-controlling interests in our Operating Partnership consisted of a total of 886,168 Class A Units as of December 31, 2016. 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 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 3.40% and 1.22% for the three-month periods ended December 31, 2016 and 2015, respectively and 3.30% and 1.24% for the years ended December 31, 2016 and 2015, respectively.
3. We incurred loan closing costs for the acquisition of the Village at Baldwin Park multifamily community during the first quarter 2016 on our \$35 million acquisition term loan facility, or 2016 Term Loan, and on our \$11 million term note. These costs were deferred and are being amortized over the lives of the two instruments. We also incurred loan closing costs for the acquisition of the Avenues at Northpointe and Avenues at Cypress multifamily communities in 2015 on our \$32 million acquisition term loan facility, or 2015 Term Loan. These costs were deferred and were amortized over the life of the 2015 Term Loan until it was repaid in full on May 12, 2015. The amortization expense of these deferred costs is an additive adjustment in the calculation of Core FFO.
4. Beginning in 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 replace acquisition fees and to more accurately reflect the administrative effort involved in arranging debt financing for acquired properties. The portion of the loan coordination fees attributable to the financing are amortized over the lives of the respective mortgage loans, and this non-cash amortization expense is an addition to FFO in the calculation of Core FFO. At December 31, 2016, aggregate unamortized loan costs were approximately \$8.7 million, which will be amortized over a weighted average remaining loan life of approximately 10.3 years.
5. We incurred legal costs pertaining to the extension of our management agreement with our Manager. The three-year extension was effective as of June 3, 2016. Such costs are an additive adjustment to FFO in our calculation of Core FFO.
6. 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 \$150 million syndicated revolving line of credit with Key Bank National Association, or our Revolving Line of Credit. 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 Core FFO in the calculation of AFFO. Neither we nor the Operating Partnership have any recourse liability in connection with any of the mortgage loans, nor do we have any cross-collateralization arrangements with respect to the assets securing the mortgage loans, other than security interests in 49% of the equity interests of the subsidiaries owning such assets, granted in connection with our Revolving Line of Credit, which provides for full recourse liability. At December 31, 2016, aggregate unamortized loan costs were approximately \$15.0 million, which will be amortized over a weighted average remaining loan life of approximately 6.9 years.
7. We receive loan fees in conjunction with the origination of certain real estate loans. These fees are then recognized as revenue over the lives of the applicable loans as adjustments of yield using the effective interest method. The total fees received in excess of amortization income, after the payment of acquisition fees to our Manager are additive adjustments in the calculation of AFFO. Correspondingly, the non-cash income recognized under the effective interest method is a deduction in the calculation of AFFO. We also accrue over the lives of certain loans additional interest amounts that become due to us at the time of repayment of the loan or refinancing of the property, or when the property is sold to a third party. This non-cash income is deducted from Core FFO in the calculation of AFFO.
8. The Company records deferred interest revenue on certain of its real estate loans. These adjustments reflect the receipt during the periods presented of interest income which was earned and accrued prior to those periods presented on various real estate loans.
9. This adjustment reflects straight-line rent adjustments and the reversal of the non-cash amortization of below-market and above-market lease intangibles, which were recognized in conjunction with the Company's acquisitions and which are amortized over the estimated average remaining lease terms from the acquisition date for multifamily communities and over the remaining lease terms for retail assets. At December 31, 2016, the balance of unamortized below-market lease intangibles was approximately \$29.8 million, which will be recognized over a weighted average remaining lease period of approximately 9.5 years.
10. We deduct from Core FFO normally recurring capital expenditures that are necessary to maintain our assets' revenue streams in the calculation of AFFO. No adjustment is made in the calculation of AFFO for nonrecurring capital expenditures, which totaled \$1,679,437 and \$730,821 for the three-month periods ended December 31, 2016 and 2015, respectively and \$5,939,510 and \$2,871,202 for the years ended December 31, 2016 and 2015, respectively. This adjustment also deducts from Core FFO capitalized amounts for third party costs during the period to originate or renew leases in our grocery-anchored shopping centers.

See Definitions of Non-GAAP Measures beginning on page S-15.

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

|                                                                      | <u>December 31, 2016</u>       | <u>December 31, 2015</u>       |
|----------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                                                        |                                |                                |
| Real estate                                                          |                                |                                |
| Land                                                                 | \$ 299,547,501                 | \$ 141,729,264                 |
| Building and improvements                                            | 1,499,129,649                  | 733,417,442                    |
| Tenant improvements                                                  | 37,806,472                     | 5,781,199                      |
| Furniture, fixtures, and equipment                                   | 126,357,742                    | 86,092,408                     |
| Construction in progress                                             | 2,645,634                      | 609,400                        |
| Gross real estate                                                    | 1,965,486,998                  | 967,629,713                    |
| Less: accumulated depreciation                                       | (103,814,894)                  | (48,155,874)                   |
| Net real estate                                                      | 1,861,672,104                  | 919,473,839                    |
| Property held for sale                                               | —                              | 33,817,081                     |
| Real estate loans, net of deferred fee income                        | 201,855,604                    | 180,688,293                    |
| Real estate loans to related parties, net                            | 130,905,464                    | 57,313,465                     |
| Total real estate and real estate loans, net                         | <u>2,194,433,172</u>           | <u>1,191,292,678</u>           |
| Cash and cash equivalents                                            | 12,321,787                     | 2,439,605                      |
| Restricted cash                                                      | 55,392,984                     | 12,539,440                     |
| Notes receivable                                                     | 15,499,699                     | 18,489,247                     |
| Note receivable and revolving line of credit due from related party  | 22,115,976                     | 19,454,486                     |
| Accrued interest receivable on real estate loans                     | 21,894,549                     | 14,294,648                     |
| Acquired intangible assets, net of amortization                      | 79,156,400                     | 19,381,473                     |
| Deferred loan costs on Revolving Line of Credit, net of amortization | 1,768,779                      | 488,770                        |
| Deferred offering costs                                              | 2,677,023                      | 5,834,304                      |
| Tenant receivables and other assets                                  | 15,572,233                     | 11,314,382                     |
| Total assets                                                         | <u><b>\$ 2,420,832,602</b></u> | <u><b>\$ 1,295,529,033</b></u> |
| <b>Liabilities and equity</b>                                        |                                |                                |
| Liabilities                                                          |                                |                                |
| Mortgage notes payable, principal amount                             | \$ 1,327,878,112               | \$ 668,836,291                 |

|                                                              |               |             |
|--------------------------------------------------------------|---------------|-------------|
| Less: deferred loan costs, net of amortization               | 1,905,870,974 | 660,936,574 |
| Mortgage notes payable, net of deferred loan costs           | —             | 28,109,000  |
| Mortgage note held for sale                                  | —             | 34,500,000  |
| Revolving line of credit                                     | 127,500,000   | —           |
| Term note payable                                            | 11,000,000    | —           |
| Less: deferred loan costs, net of amortization               | (40,095)      | —           |
| Term note payable, net of deferred loan costs                | 10,959,905    | —           |
| Real estate loan participation obligation                    | 20,761,819    | 13,544,160  |
| Accounts payable and accrued expenses                        | 20,814,910    | 12,644,818  |
| Accrued interest payable                                     | 3,541,640     | 1,803,389   |
| Dividends and partnership distributions payable              | 10,159,629    | 6,647,507   |
| Acquired below market lease intangibles, net of amortization | 29,774,033    | 9,253,450   |
| Security deposits and other liabilities                      | 6,189,033     | 2,836,145   |
| Total liabilities                                            | 1,535,571,440 | 770,075,243 |

Commitments and contingencies

Equity

|                                                                                                                                                                                                                                  |                         |                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Stockholder's equity                                                                                                                                                                                                             |                         |                         |
| Series A Redeemable Preferred Stock, \$0.01 par value per share; 3,050,000 shares authorized; 924,855 and 486,182 shares issued; 914,422 and 482,964 shares outstanding at December 31, 2016 and December 31, 2015, respectively | 9,144                   | 4,830                   |
| Common Stock, \$0.01 par value per share; 400,066,666 shares authorized; 26,498,192 and 22,761,551 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively                                        | 264,982                 | 227,616                 |
| Additional paid-in capital                                                                                                                                                                                                       | 906,737,470             | 536,450,877             |
| Accumulated deficit                                                                                                                                                                                                              | (23,231,643)            | (13,698,520)            |
| Total stockholders' equity                                                                                                                                                                                                       | 883,779,953             | 522,984,803             |
| Non-controlling interest                                                                                                                                                                                                         | 1,481,209               | 2,468,987               |
| Total equity                                                                                                                                                                                                                     | 885,261,162             | 525,453,790             |
| Total liabilities and equity                                                                                                                                                                                                     | <b>\$ 2,420,832,602</b> | <b>\$ 1,295,529,033</b> |

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

|                                                                          | <b>Year ended December 31,</b> |                |
|--------------------------------------------------------------------------|--------------------------------|----------------|
|                                                                          | <b>2016</b>                    | <b>2015</b>    |
| Operating activities:                                                    |                                |                |
| Net loss                                                                 | \$ (9,843,414)                 | \$ (2,425,989) |
| Reconciliation of net loss to net cash provided by operating activities: |                                |                |
| Depreciation expense                                                     | 56,415,608                     | 27,672,387     |
| Amortization expense                                                     | 21,724,190                     | 10,423,947     |
| Amortization of above and below market leases                            | (1,653,016)                    | (816,509)      |
| Deferred fee income amortization                                         | (994,809)                      | (868,615)      |
| Deferred loan cost amortization                                          | 3,595,429                      | 1,474,276      |
| (Increase) in accrued interest income on real estate loans               | (7,599,901)                    | (6,256,200)    |
| Equity compensation to executives, directors and consultants             | 2,524,042                      | 2,362,453      |
| Other                                                                    | 48,126                         | (19,743)       |
| Gain on sale of real estate                                              | (4,271,506)                    | —              |
| Changes in operating assets and liabilities:                             |                                |                |
| (Increase) in tenant receivables and other assets                        | (4,331,216)                    | (2,341,649)    |
| Increase in accounts payable and accrued expenses                        | 3,112,553                      | 4,866,996      |
| Increase in accrued interest payable                                     | 1,789,109                      | 616,681        |
| Increase in prepaid rents                                                | 818,083                        | 362,625        |
| Increase in security deposits and other liabilities                      | 328,191                        | 170,763        |
| Net cash provided by operating activities                                | 61,661,469                     | 35,221,423     |
| Investing activities:                                                    |                                |                |
| Investment in real estate loans                                          | (151,027,549)                  | (114,026,945)  |
| Repayments of real estate loans                                          | 36,672,482                     | 18,772,024     |
| Notes receivable issued                                                  | (9,887,486)                    | (19,339,695)   |
| Notes receivable repaid                                                  | 12,895,101                     | 15,350,624     |
| Note receivable issued to and draws on line of credit by related party   | (34,206,553)                   | (18,634,237)   |
| Repayments of line of credit by related party                            | 31,096,618                     | 12,502,579     |
| Origination fees received on real estate loans                           | 3,703,514                      | 2,761,047      |
| Origination fees paid on real estate loans                               | (1,886,105)                    | (1,349,273)    |
| Acquisition fees paid to real estate loan participants                   | —                              | (24,665)       |
| Acquisition of properties                                                | (1,010,111,945)                | (420,700,550)  |
| Disposition of properties, net                                           | 10,606,386                     | —              |
| Additions to real estate assets - improvements                           | (10,263,736)                   | (4,239,725)    |
| Proceeds from sale of fixed assets                                       | 10,000                         | —              |
| Deposits paid on acquisitions                                            | (839,600)                      | (660,400)      |
| Increase in restricted cash                                              | (3,344,721)                    | (3,920,995)    |
| Net cash used in investing activities                                    | (1,126,583,594)                | (533,510,211)  |
| Financing activities:                                                    |                                |                |
| Proceeds from mortgage notes payable                                     | 622,394,000                    | 256,865,500    |
| Payment for mortgage extinguishment                                      | (12,035,587)                   | (4,175,271)    |
| Payments for deposits and other mortgage loan costs                      | (19,130,246)                   | (4,481,004)    |
| Proceeds from real estate loan participants                              | 6,432,700                      | 4,996,680      |



|                                                                     |                      |                     |
|---------------------------------------------------------------------|----------------------|---------------------|
| Proceeds from lines of credit                                       | 470,136,020          | 295,800,000         |
| Payments on lines of credit                                         | (377,136,020)        | (285,800,000)       |
| Proceeds from term loan                                             | 46,000,000           | 32,000,000          |
| Repayment of the term loan                                          | (35,000,000)         | (32,000,000)        |
| Proceeds from sales of Units, net of offering costs and redemptions | 390,904,255          | 262,456,354         |
| Proceeds from sales of Common Stock                                 | 22,956,604           | 5,381,848           |
| Proceeds from exercises of warrants                                 | 21,503,490           | 1,998,414           |
| Common stock dividends paid                                         | (18,515,113)         | (15,578,760)        |
| Preferred stock dividends paid                                      | (38,940,901)         | (17,373,097)        |
| Distributions to non-controlling interests                          | (529,528)            | (174,686)           |
| Payments for deferred offering costs                                | (4,685,367)          | (2,300,855)         |
| Contribution from non-controlling interests                         | 450,000              | —                   |
| Net cash provided by financing activities                           | <u>1,074,804,307</u> | <u>497,615,123</u>  |
| Net increase (decrease) in cash and cash equivalents                | 9,882,182            | (673,665)           |
| Cash and cash equivalents, beginning of year                        | 2,439,605            | 3,113,270           |
| Cash and cash equivalents, end of year                              | <u>\$ 12,321,787</u> | <u>\$ 2,439,605</u> |

## Real Estate Loans

The following table presents our portfolio of real estate loans. The loan balance column lists the drawn amount of each loan as of December 31, 2016. We hold options, but not obligations, to purchase certain of the properties which are partially financed by our real estate loans. The option purchase prices are negotiated at the time of the loan closing and except for the Founders' Village loan, which is fixed at \$44,266,000, are to be calculated based upon market cap rates at the time of exercise of the purchase option, less a discount ranging from between 15 and 60 basis points, depending on the loan.

| Project/Property                  | Location            | Total units upon completion | Loan balance at December 31, 2016 <sup>(1)</sup> | Total loan commitments | Purchase option window     |                             |
|-----------------------------------|---------------------|-----------------------------|--------------------------------------------------|------------------------|----------------------------|-----------------------------|
|                                   |                     |                             |                                                  |                        | Begin                      | End                         |
| Multifamily communities:          |                     |                             |                                                  |                        |                            |                             |
| Founders' Village                 | Williamsburg, VA    | 247                         | \$ 9,866,000                                     | \$ 10,346,000          | 5/1/2017                   | 7/15/2017                   |
| Encore                            | Atlanta, GA         | 340                         | 10,958,200                                       | 10,958,200             | 1/8/2018                   | 5/8/2018                    |
| Encore Capital                    | Atlanta, GA         | —                           | 6,748,380                                        | 9,758,200              | N/A                        | N/A                         |
| Palisades                         | Northern VA         | 304                         | 16,214,545                                       | 17,270,000             | 3/1/2018                   | 7/31/2018                   |
| Fusion                            | Irvine, CA          | 280                         | 49,456,067                                       | 59,052,583             | 1/1/2018                   | 4/1/2018                    |
| Green Park                        | Atlanta, GA         | 310                         | 13,464,372                                       | 13,464,372             | 11/1/2017                  | 2/28/2018                   |
| Summit Crossing III               | Atlanta, GA         | 172                         | 7,246,400                                        | 7,246,400              | 8/1/2017                   | 11/30/2017                  |
| Overture                          | Tampa, FL           | 180                         | 6,123,739                                        | 6,920,000              | 1/1/2018                   | 5/1/2018                    |
| Aldridge at Town Village          | Atlanta, GA         | 300                         | 10,656,171                                       | 10,975,000             | 11/1/2017                  | 2/28/2018                   |
| Bishop Street                     | Atlanta, GA         | 232                         | 11,145,302                                       | 12,693,457             | 10/1/2018                  | 12/31/2018                  |
| Hidden River                      | Tampa, FL           | 300                         | 4,734,960                                        | 4,734,960              | 9/1/2018                   | 12/31/2018                  |
| Hidden River Capital              | Tampa, FL           | —                           | 4,626,238                                        | 5,380,000              | N/A                        | N/A                         |
| CityPark II                       | Charlotte, NC       | 200                         | 3,364,800                                        | 3,364,800              | 5/1/2018                   | 8/31/2018                   |
| CityPark II Capital               | Charlotte, NC       | —                           | 3,325,668                                        | 3,916,000              | N/A                        | N/A                         |
| Park 35 on Clairmont              | Birmingham, AL      | 271                         | 19,795,886                                       | 21,060,160             | S + 90 days <sup>(2)</sup> | S + 150 days <sup>(2)</sup> |
| Fort Myers                        | Fort Myers, FL      | 224                         | 3,654,621                                        | 4,000,000              | N/A                        | N/A                         |
| Wiregrass                         | Tampa, FL           | 392                         | 1,862,548                                        | 14,975,853             | S + 90 days <sup>(2)</sup> | S + 150 days <sup>(2)</sup> |
| Wiregrass Capital                 | Tampa, FL           | —                           | 3,268,114                                        | 3,744,147              | N/A                        | N/A                         |
| 360 Forsyth                       | Atlanta, GA         | 356                         | 2,520,420                                        | 3,225,000              | N/A                        | N/A                         |
| Student housing communities:      |                     |                             |                                                  |                        |                            |                             |
| Haven West                        | Atlanta, GA         | —                           | 6,784,167                                        | 6,940,795              | N/A                        | N/A                         |
| Haven 12                          | Starkville, MS      | 152                         | 5,815,849                                        | 6,116,384              | 9/1/2017                   | 11/30/2017                  |
| Stadium Village                   | Atlanta, GA         | 198                         | 13,329,868                                       | 13,424,995             | 9/1/2017                   | 11/30/2017                  |
| 18 Nineteen                       | Lubbock, TX         | 217                         | 15,584,017                                       | 15,598,352             | 10/1/2017                  | 12/31/2017                  |
| Haven South                       | Waco, TX            | 250                         | 15,301,876                                       | 15,455,668             | 10/1/2017                  | 12/31/2017                  |
| Haven46                           | Tampa, FL           | 158                         | 9,136,847                                        | 9,819,662              | 11/1/2018                  | 1/31/2019                   |
| Haven Northgate                   | College Station, TX | 427                         | 46,419,194                                       | 64,678,549             | 10/1/2018                  | 12/31/2018                  |
| Lubbock II                        | Lubbock, TX         | 140                         | 8,770,838                                        | 9,357,171              | 11/1/2018                  | 1/31/2019                   |
| Haven Charlotte                   | Charlotte, NC       | 332                         | 5,781,295                                        | 19,581,593             | 12/1/2019                  | 2/28/2020                   |
| Haven Charlotte Member            | Charlotte, NC       | —                           | —                                                | 8,201,170              | N/A                        | N/A                         |
| New Market Properties:            |                     |                             |                                                  |                        |                            |                             |
| Dawson Marketplace                | Atlanta, GA         | —                           | 12,613,860                                       | 12,857,005             | 12/16/2017                 | 12/15/2018                  |
| Other:                            |                     |                             |                                                  |                        |                            |                             |
| Crescent Avenue                   | Atlanta, GA         | —                           | 6,000,000                                        | 6,000,000              | N/A                        | N/A                         |
|                                   |                     | <u>5,982</u>                | <u>334,570,242</u>                               | <u>\$ 411,116,476</u>  |                            |                             |
| Unamortized loan origination fees |                     |                             | <u>(1,809,174)</u>                               |                        |                            |                             |
| Carrying amount                   |                     |                             | <u>\$ 332,761,068</u>                            |                        |                            |                             |

<sup>(1)</sup> Loan balances presented are principal amounts due.

<sup>(2)</sup> The option period window begins and ends at the number of days indicated beyond the achievement of a 93% stabilization rate by the underlying property.

## Multifamily Communities

| Average unit | Three months ended December 31, 2016 |         |
|--------------|--------------------------------------|---------|
|              | Average                              | Average |

| <u>Property</u>                   | <u>Location</u>  | <u>Number of units</u> | <u>size (sq. ft.)</u> | <u>occupancy</u>  | <u>rent per unit</u> |
|-----------------------------------|------------------|------------------------|-----------------------|-------------------|----------------------|
| Ashford Park                      | Atlanta, GA      | 408                    | 1,008                 | 96.0 %            | \$ 1,213             |
| Lake Cameron                      | Raleigh, NC      | 328                    | 940                   | 96.4 %            | \$ 950               |
| McNeil Ranch                      | Austin, TX       | 192                    | 1,071                 | 93.4 %            | \$ 1,246             |
| Stone Rise                        | Philadelphia, PA | 216                    | 1,079                 | 91.0 %            | \$ 1,453             |
| Enclave at Vista Ridge            | Dallas, TX       | 300                    | 1,079                 | 93.4 %            | \$ 1,157             |
| Stoneridge Farms at the Hunt Club | Nashville, TN    | 364                    | 1,153                 | 93.7 %            | \$ 1,042             |
| Vineyards                         | Houston, TX      | 369                    | 1,122                 | 92.2 %            | \$ 1,134             |
| <b>Total/Avg PAC Same Store</b>   |                  | <b>2,177</b>           |                       | <b>94.3 %</b>     |                      |
| Summit Crossing                   | Atlanta, GA      | 485                    | 1,053                 | — %               | \$ 1,115             |
| Sandstone Creek                   | Kansas City, KS  | 364                    | 1,135                 | — %               | \$ 1,036             |
| CityPark View                     | Charlotte, NC    | 284                    | 948                   | — %               | \$ 1,064             |
| Avenues at Creekside              | San Antonio, TX  | 395                    | 974                   | 90.0 %            | \$ 1,169             |
| Citi Lakes                        | Orlando, FL      | 346                    | 984                   | 90.5 %            | \$ 1,340             |
| Lenox Portfolio                   | Nashville, TN    | 474                    | 886                   | 98.4 %            | \$ 1,170             |
| Stone Creek                       | Houston, TX      | 246                    | 852                   | — %               | \$ 1,024             |
| Overton Rise                      | Atlanta, GA      | 294                    | 1,018                 | 95.3 %            | \$ 1,441             |
| Village at Baldwin Park           | Orlando, FL      | 528                    | 1,069                 | — %               | \$ 1,454             |
| Crosstown Walk                    | Tampa, FL        | 342                    | 980                   | 90.5 %            | \$ 1,241             |
| 525 Avalon Park                   | Orlando, FL      | 487                    | 1,394                 | — %               | \$ 1,315             |
| Sorrel                            | Jacksonville, FL | 290                    | 1,048                 | 94.5 %            | \$ 1,377             |
| Avenues at Cypress                | Houston, TX      | 240                    | 1,166                 | 97.8 %            | \$ 1,390             |
| Avenues at Northpointe            | Houston, TX      | 280                    | 1,154                 | 92.0 %            | \$ 1,322             |
| Aster at Lely Resort              | Naples, FL       | 308                    | 979                   | 94.4 %            | \$ 1,356             |
| Venue at Lakewood Ranch           | Sarasota, FL     | 237                    | 1,001                 | 96.2 %            | \$ 1,559             |
| <b>Total PAC Non-Same Store</b>   |                  | <b>5,600</b>           |                       |                   |                      |
| Joint venture:                    |                  |                        |                       |                   |                      |
| City Vista                        | Pittsburgh, PA   | 272                    | 1,023                 | 87.8 %            | \$ 1,360             |
| Student housing community:        |                  |                        |                       |                   | <b>Average</b>       |
| North by Northwest                | Tallahassee, FL  | 219                    | 1,137                 | 99.9 %            | <b>rent per bed</b>  |
|                                   |                  |                        |                       |                   | \$ 715               |
| <b>Total All PAC units</b>        |                  | <b>8,268</b>           |                       | <b>93.9 % (1)</b> |                      |

(1) Excludes average occupancy for student housing community.

For the three-month period ended December 31, 2016, our average occupancy was 93.9%. We define average occupancy as market rent reduced by vacancy losses, expressed as a percentage. All of our multifamily properties are included in this calculation except for properties which are not yet stabilized, which we define as properties having first achieved 93% physical occupancy, properties which are owned for less than the entire reporting period and properties which are undergoing significant capital projects or are adding additional phases (Summit Crossing, Stone Creek, Village at Baldwin Park, 525 Avalon Park and CityPark View). Sandstone Creek is excluded since it was sold on January 20, 2017.

### Capital Expenditures

We regularly incur capital expenditures related to our owned properties. Capital expenditures may be nonrecurring and discretionary, as part of a strategic plan intended to increase a property's value and corresponding revenue-generating ability, 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 retail 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 operating cash flows for funding.

For the three-month period ended December 31, 2016, our capital expenditures were as follows:

|                                   | <u>Nonrecurring capital expenditures</u> |              |              | <u>Recurring capital expenditures</u> | <u>Total</u> |
|-----------------------------------|------------------------------------------|--------------|--------------|---------------------------------------|--------------|
|                                   | <u>Budgeted at acquisition</u>           | <u>Other</u> | <u>Total</u> |                                       |              |
| <b>Multifamily communities:</b>   |                                          |              |              |                                       |              |
| Summit Crossing                   | \$ —                                     | \$ —         | \$ —         | \$ 21,170                             | \$ 21,170    |
| Stone Rise                        | —                                        | —            | —            | 11,158                                | 11,158       |
| Ashford Park                      | —                                        | 33,660       | 33,660       | 12,182                                | 45,842       |
| McNeil Ranch                      | —                                        | 141,968      | 141,968      | 13,626                                | 155,594      |
| Lake Cameron                      | —                                        | —            | —            | 30,077                                | 30,077       |
| Stoneridge Farms at the Hunt Club | —                                        | 21,498       | 21,498       | 24,313                                | 45,811       |
| Vineyards                         | —                                        | —            | —            | 22,848                                | 22,848       |
| Enclave                           | —                                        | —            | —            | 18,672                                | 18,672       |
| Sandstone                         | —                                        | —            | —            | 30,741                                | 30,741       |
| Cypress                           | —                                        | 28,067       | 28,067       | 3,938                                 | 32,005       |
| Northpointe                       | —                                        | 35,386       | 35,386       | 14,479                                | 49,865       |
| Lakewood Ranch                    | —                                        | —            | —            | 5,259                                 | 5,259        |
| Aster at Lely                     | —                                        | —            | —            | 14,919                                | 14,919       |
| CityPark View                     | —                                        | 13,411       | 13,411       | 3,215                                 | 16,626       |
| Avenues at Creekside              | —                                        | 23,811       | 23,811       | 15,409                                | 39,220       |
| Citilakes                         | —                                        | 2,626        | 2,626        | 14,962                                | 17,588       |
| Stone Creek                       | —                                        | 12,664       | 12,664       | 12,844                                | 25,508       |
| Lenox Portfolio                   | 422,412                                  | 499          | 422,911      | 26,506                                | 449,417      |
| Village at Baldwin Park           | 516,776                                  | —            | 516,776      | 64,700                                | 581,476      |
| Crosstown Walk                    | —                                        | —            | —            | 14,002                                | 14,002       |
| Overton Rise                      | —                                        | —            | —            | 14,365                                | 14,365       |

|                                |                     |                   |                     |                   |                     |
|--------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
| 525 Avalon Park                | —                   | —                 | —                   | 57,875            | 57,875              |
| City Vista                     | —                   | —                 | —                   | 1,029             | 1,029               |
| Sorrel                         | 10,960              | —                 | 10,960              | 1,620             | 12,580              |
|                                | <u>950,148</u>      | <u>313,590</u>    | <u>1,263,738</u>    | <u>449,909</u>    | <u>1,713,647</u>    |
| <b>Retail:</b>                 |                     |                   |                     |                   |                     |
| Parkway Town Centre            | —                   | —                 | —                   | 25,091            | 25,091              |
| Spring Hill Plaza              | —                   | —                 | —                   | 11,992            | 11,992              |
| Barclay Crossing               | —                   | —                 | —                   | 5,687             | 5,687               |
| Deltona Landings               | —                   | —                 | —                   | 43                | 43                  |
| Sweetgrass Corner              | —                   | 7,909             | 7,909               | 23,317            | 31,226              |
| Salem Cove                     | —                   | —                 | —                   | 5,562             | 5,562               |
| Independence Square            | —                   | 8,243             | 8,243               | 16,950            | 25,193              |
| Summit Point                   | —                   | —                 | —                   | 884               | 884                 |
| The Overlook at Hamilton Place | —                   | —                 | —                   | 3,138             | 3,138               |
| Wade Green Village             | —                   | 21,018            | 21,018              | —                 | 21,018              |
| Anderson Central               | —                   | 9,290             | 9,290               | 2,562             | 11,852              |
| Fairview Market                | —                   | —                 | —                   | 3,166             | 3,166               |
| Fury's Ferry                   | —                   | —                 | —                   | 19,586            | 19,586              |
| Lakeland Plaza                 | —                   | —                 | —                   | 34,967            | 34,967              |
| Shoppes of Parkland            | —                   | —                 | —                   | 17,900            | 17,900              |
| Champions Village              | —                   | —                 | —                   | 652               | 652                 |
|                                | <u>—</u>            | <u>46,460</u>     | <u>46,460</u>       | <u>171,497</u>    | <u>217,957</u>      |
| <b>Student Housing:</b>        |                     |                   |                     |                   |                     |
| North by Northwest             | 369,239             | —                 | 369,239             | (4,169)           | 365,070             |
| <b>Total</b>                   | <u>\$ 1,319,387</u> | <u>\$ 360,050</u> | <u>\$ 1,679,437</u> | <u>\$ 617,237</u> | <u>\$ 2,296,674</u> |

### Retail Portfolio

Our retail portfolio consists of the following properties:

| Property name                  | Location                   | Year built | GLA <sup>(1)</sup> | Percent leased | Grocery anchor tenant |
|--------------------------------|----------------------------|------------|--------------------|----------------|-----------------------|
| Woodstock Crossing             | Atlanta, GA                | 1994       | 66,122             | 92.6 %         | Kroger                |
| Cherokee Plaza                 | Atlanta, GA                | 1958       | 102,864            | 100.0 %        | Kroger                |
| Lakeland Plaza                 | Atlanta, GA                | 1990       | 301,711            | 93.9 %         | Sprouts               |
| Powder Springs                 | Atlanta, GA                | 1999       | 77,853             | 92.8 %         | Publix                |
| Royal Lakes Marketplace        | Atlanta, GA                | 2008       | 119,493            | 84.4 %         | Kroger                |
| Sandy Plains Exchange          | Atlanta, GA                | 1997       | 72,784             | 93.2 %         | Publix                |
| Summit Point                   | Atlanta, GA                | 2004       | 111,970            | 81.5 %         | Publix                |
| Thompson Bridge Commons        | Atlanta, GA                | 2001       | 92,587             | 97.3 %         | Kroger                |
| Wade Green Village             | Atlanta, GA                | 1993       | 74,978             | 89.7 %         | Publix                |
| East Gate Shopping Center      | Augusta, GA                | 1995       | 75,716             | 89.5 %         | Publix                |
| Fury's Ferry                   | Augusta, GA                | 1996       | 70,458             | 95.2 %         | Publix                |
| Parkway Centre                 | Columbus, GA               | 1999       | 53,088             | 97.4 %         | Publix                |
| Spring Hill Plaza              | Nashville, TN              | 2005       | 61,570             | 100.0 %        | Publix                |
| Parkway Town Centre            | Nashville, TN              | 2005       | 65,587             | 100.0 %        | Publix                |
| Salem Cove                     | Nashville, TN              | 2010       | 62,356             | 97.8 %         | Publix                |
| The Market at Victory Village  | Nashville, TN              | 2007       | 71,300             | 98.5 %         | Publix                |
| The Overlook at Hamilton Place | Chattanooga, TN            | 1992       | 213,095            | 93.6 %         | The Fresh Market      |
| Shoppes of Parkland            | Miami-Ft. Lauderdale, FL   | 2000       | 145,720            | 95.0 %         | BJ's Wholesale Club   |
| Barclay Crossing               | Tampa, FL                  | 1998       | 54,958             | 100.0 %        | Publix                |
| Deltona Landings               | Orlando, FL                | 1999       | 59,966             | 95.5 %         | Publix                |
| University Palms               | Orlando, FL                | 1993       | 99,172             | 98.4 %         | Publix                |
| Champions Village              | Houston, TX                | 1973       | 383,093            | 79.1 %         | Randalls              |
| Kingwood Glen                  | Houston, TX                | 1998       | 103,397            | 100.0 %        | Kroger                |
| Independence Square            | Dallas, TX                 | 1977       | 140,218            | 91.5 %         | Tom Thumb             |
| Oak Park Village               | San Antonio, TX            | 1970       | 64,287             | 100.0 %        | H.E.B.                |
| Sweetgrass Corner              | Charleston, SC             | 1999       | 89,124             | 98.6 %         | Bi-Lo                 |
| Anderson Central               | Greenville Spartanburg, SC | 1999       | 223,211            | 97.1 %         | Walmart               |
| Fairview Market                | Greenville Spartanburg, SC | 1998       | 53,888             | 94.2 %         | Publix                |
| Rosewood Shopping Center       | Columbia, SC               | 2002       | 36,887             | 90.2 %         | Publix                |
| Heritage Station               | Raleigh, NC                | 2004       | 72,946             | 100.0 %        | Harris Teeter         |
| Southgate Village              | Birmingham, AL             | 1988       | 75,092             | 100.0 %        | Publix                |
|                                |                            |            | <u>3,295,491</u>   |                |                       |

<sup>(1)</sup> Gross leasable area, or GLA, represents the total amount of property square footage that can be leased to tenants.

As of December 31, 2016, our retail portfolio was 93.0% leased. We define percent leased as the percentage of gross leasable area that is leased, including noncancelable lease agreements that have been signed which have not yet commenced.

Details regarding lease expirations (assuming no exercises of tenant renewal options) within our retail assets as of December 31, 2016 were:

|                | Total retail portfolio |            |                       |
|----------------|------------------------|------------|-----------------------|
|                | Number of leases       | Leased GLA | Percent of leased GLA |
| Month to month | 11                     | 28,425     | 0.9 %                 |
| 2017           | 74                     | 148,921    | 4.8 %                 |

|       |            |                  |              |          |
|-------|------------|------------------|--------------|----------|
| 2018  | 87         | 331,988          | 10.8         | %        |
| 2019  | 73         | 632,376          | 20.7         | %        |
| 2020  | 67         | 383,745          | 12.5         | %        |
| 2021  | 65         | 336,008          | 11.0         | %        |
| 2022  | 23         | 128,398          | 4.2          | %        |
| 2023  | 6          | 23,839           | 0.8          | %        |
| 2024  | 14         | 317,813          | 10.4         | %        |
| 2025  | 14         | 212,072          | 6.9          | %        |
| 2026  | 5          | 70,661           | 2.3          | %        |
| 2027+ | 13         | 447,279          | 14.7         | %        |
|       | <u>452</u> | <u>3,061,525</u> | <u>100.0</u> | <u>%</u> |

The Company's Annual Report on Form 10-K for the year 2016 will present statements of operations by reportable segment within the Results of Operations section of Management's Discussion and Analysis of Financial Condition and Results of Operations. Included in this disclosure will be revenues and specifically identifiable expenses of New Market Properties, LLC.

#### **Multifamily Same Store Financial Data**

The following chart presents same store operating results for the Company's multifamily communities that have been owned for at least 24 full months, enabling comparisons of the current year reporting period to the prior year comparative period. The Company excludes the same store operating results of properties for which construction of adjacent phases have commenced (the Company holds real estate loans partially supporting additional phases of the CityPark View and Summit Crossing multifamily communities, which are excluded as well). For the periods presented, same store operating results consist of the operating results of the following multifamily communities:

|                               |                        |
|-------------------------------|------------------------|
| Stoneridge Farms at Hunt Club | Stone Rise             |
| Vineyards                     | Enclave at Vista Ridge |
| McNeil Ranch                  | Ashford Park           |
| Lake Cameron                  |                        |

Increased real estate taxes had a negative impact on our growth in same store net operating income, as shown below. These increases are the result of our heavy acquisition growth model. Taxing authorities typically adjust real estate taxes within 12 to 24 months after an acquisition, which can severely impact our same store results. The figures below show a hypothetical instance of our same store results as if real estate taxes were held constant for 2016 versus 2015. Same store net operating income and same store net operating income before property tax increase are non-GAAP measures that are most directly comparable to net income, with a reconciliation following below.

#### **Same Store Net Operating Income**

|                                                                     | Year ended:          |                      | \$ change         | % change     |
|---------------------------------------------------------------------|----------------------|----------------------|-------------------|--------------|
|                                                                     | 12/31/2016           | 12/31/15             |                   |              |
| Revenues:                                                           |                      |                      |                   |              |
| Rental revenues                                                     | \$ 28,061,959        | \$ 27,230,439        | \$ 831,520        | 3.1 %        |
| Other property revenues                                             | 3,580,621            | 3,414,493            | 166,128           | 4.9 %        |
| Total revenues                                                      | <u>31,642,580</u>    | <u>30,644,932</u>    | <u>997,648</u>    | <u>3.3 %</u> |
| Operating expenses:                                                 |                      |                      |                   |              |
| Property operating and maintenance                                  | 5,013,272            | 4,837,067            | 176,205           | 3.6 %        |
| Payroll                                                             | 2,856,216            | 2,814,123            | 42,093            | 1.5 %        |
| Property management fees                                            | 1,267,825            | 1,222,456            | 45,369            | 3.7 %        |
| Real estate taxes                                                   | 4,758,724            | 4,091,852            | 666,872           | 16.3 %       |
| Other                                                               | 1,157,487            | 1,130,356            | 27,131            | 2.4 %        |
| Total operating expenses                                            | <u>15,053,524</u>    | <u>14,095,854</u>    | <u>957,670</u>    | <u>6.8 %</u> |
| <b>Same store net operating income</b>                              | <b>16,589,056</b>    | <b>16,549,078</b>    | <b>39,978</b>     | <b>0.2 %</b> |
| Adjustment to remove increased real estate taxes                    | 666,872              | —                    | 666,872           | —            |
| <b>Same store net operating income before property tax increase</b> | <b>\$ 17,255,928</b> | <b>\$ 16,549,078</b> | <b>\$ 706,850</b> | <b>4.3 %</b> |

#### **Reconciliation of Same Store Net Operating Income (NOI) to Net Loss**

|                                                                     | Year ended:          |                      |
|---------------------------------------------------------------------|----------------------|----------------------|
|                                                                     | 12/31/2016           | 12/31/15             |
| <b>Same store net operating income before property tax increase</b> | <b>\$ 17,255,928</b> | <b>\$ 16,549,078</b> |
| Less: adjustment to remove increased real estate taxes              | (666,872)            | —                    |
| <b>Same store net operating income</b>                              | <b>16,589,056</b>    | <b>16,549,078</b>    |
| Add:                                                                |                      |                      |
| Non-same-store property revenues                                    | 124,990,743          | 47,979,479           |
| Less:                                                               |                      |                      |
| Non-same-store property operating expenses                          | <u>49,183,937</u>    | <u>18,689,477</u>    |
| Property net operating income                                       | 92,395,862           | 45,839,080           |
| Add:                                                                |                      |                      |
| Interest revenue on notes receivable                                | 28,946,968           | 23,207,610           |
| Interest revenue on related party notes receivable                  | 14,538,625           | 7,474,100            |
| Less:                                                               |                      |                      |
| Equity stock compensation                                           | 2,524,042            | 2,362,453            |
| Depreciation and amortization                                       | 78,139,798           | 38,096,334           |

|                                                                         |                       |                       |
|-------------------------------------------------------------------------|-----------------------|-----------------------|
| Interest expense                                                        | 44,284,144            | 21,315,731            |
| Acquisition costs                                                       | 7,607,737             | 4,186,092             |
| Acquisition costs to related party                                      | 939,806               | 4,967,671             |
| Management fees                                                         | 13,637,458            | 7,041,226             |
| Other corporate expenses                                                | 4,448,957             | 2,782,749             |
| Contingent asset management and general and administrative expense fees | (1,585,567)           | (1,805,477)           |
| Gain on sale of real estate                                             | 4,271,506             | —                     |
| <b>Net loss</b>                                                         | <b>\$ (9,843,414)</b> | <b>\$ (2,425,989)</b> |

### **Definitions of Non-GAAP Measures**

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

Analysts, managers and investors make certain adjustments to reported net income amounts under U.S. GAAP in order to better assess these vehicles' operating results. FFO is one of the most commonly utilized Non-GAAP measures currently in practice. In its 2002 "White Paper on Funds From Operations," which was most recently revised in 2012, the National Association of Real Estate Investment Trusts, or NAREIT, standardized the definition of how Net income/loss should be adjusted to arrive at FFO, in the interests of uniformity and comparability.

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

Net income/loss:

- excluding impairment charges on and gains/losses from sales of depreciable property;
- plus depreciation and amortization of real estate assets and deferred leasing costs; and
- after adjustments for the Company's proportionate share of unconsolidated partnerships and joint ventures.

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

#### ***Core Funds From Operations Attributable to Common Stockholders and Unitholders ("Core FFO")***

Core FFO makes certain adjustments to FFO, which are either not likely to occur on a regular basis or are otherwise not representative of the Company's ongoing operating performance. For example, the Company incurs substantial costs related to property acquisitions, which are required under GAAP to be recognized as expenses when they are incurred. The Company adds back any such acquisition and pursuit costs, including costs incurred in connection with obtaining short term debt financing for acquisitions and beginning January 1, 2016, amortization of loan coordination fees to FFO in its calculation of Core FFO since such costs are not representative of our operating results. The Company also adds back any costs incurred related to the extension of our management agreement with our Manager, realized losses on debt extinguishment and any non-cash dividends in this calculation. Core FFO figures reported by us may not be comparable to those Core FFO figures reported by other companies.

We utilize Core FFO as a measure of the operating performance of our portfolio of real estate assets. We believe Core FFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other real estate companies that are not as involved in ongoing acquisition activities. Core 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 Core 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:

Core FFO, plus:

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

Less:

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

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

#### ***Same Store Net Operating Income (NOI)***

The Company uses same store net operating income and same store net operating income before property tax increase as operational metrics for properties the Company has owned for at least 24 full months, enabling comparisons of those properties' operating results between the current reporting period and the prior year comparative period. The Company defines net operating income as rental and other property revenues, less total property and maintenance expenses, property management fees, real estate taxes, general and administrative expenses, and property insurance. The Company believes that net operating income and net operating income before property tax increase are important supplemental measures of operating performance for REITs because they provide measures of core operations, rather than factoring in depreciation and amortization, financing costs, acquisition costs, and other corporate expenses. Net operating income is a widely utilized measure of comparative operating performance in the REIT industry, but neither net operating income nor net operating income before property tax increase are a substitute for the closest GAAP-compliant measure, net income/loss.


### **About Preferred Apartment Communities, Inc.**

Preferred Apartment Communities, Inc. (NYSE: APTS), or the Company, is a Maryland corporation formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities and we may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties. As a secondary strategy, we also may acquire or originate senior mortgage loans, subordinate loans or mezzanine debt secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest a lesser portion of our assets in other real estate related investments, including other income-producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other income-producing property types, or membership or partnership interests in other income-producing property types as determined by Preferred Apartment Advisors, LLC, or our Manager, as appropriate for us. At December 31, 2016, the Company was the approximate 96.8% owner of Preferred Apartment Communities Operating Partnership, L.P., or the Operating Partnership. We elected to be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended, commencing with our tax year ended December 31, 2011.

SOURCE Preferred Apartment Communities, Inc.

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Additional assets available online:  [Photos \(1\)](#)