



To Our Stockholders:

At the time this annual report went to print, the COVID-19 outbreak was in its very early stages in the U.S. While our annual report focuses on our activities in 2019, the ramifications of the COVID-19 outbreak are too significant not to reference in a cover letter.

While the long-term effects of this pandemic are unknown at this time, we do know that it has had a significant impact on the U.S. economy and global financial markets. The magnitude of the impact on our business will likely depend on the length and severity of the pandemic and the corresponding economic realities that come from it. We are very focused on our corporate operations and our corporate health, and the health of our associates, our residents, our tenants, and our communities. We have business continuity plans and systems in place, and we have implemented work from home policies for many of our associates as well as controlled environments for our associates working at our properties.

Many things have changed in our country and in our world as the COVID-19 outbreak has evolved. Despite these dynamic and challenging economic conditions, we remain committed as ever to our primary investment objective to generate attractive and stable returns for our stockholders.

Sincerely,

A handwritten signature in black ink that reads "Joel".

Joel T. Murphy

President and Chief Executive Officer



2019 ANNUAL REPORT

APTS
LISTED
NYSE

APTS
LISTED
NYSE

20
19

ANNUAL
REPORT

CONTENTS

COMPANY OVERVIEW

LETTER TO STOCKHOLDERS

PORTFOLIO HIGHLIGHTS

FORM 10-K

COMPANY INFORMATION

PREFERRED APARTMENT | COMMUNITIES®



APTS
LISTED
NYSE



Preferred Apartment Communities, Inc. (NYSE: APTS) is a real estate investment trust engaged primarily in the ownership and operation of Class A multifamily properties, with additional investments in grocery anchored retail, Class A office buildings, and student housing properties. Preferred Apartment Communities' investment objective is to generate attractive, stable returns for stockholders by investing in income-producing properties and acquiring or originating real estate loans. As of December 31, 2019, the Company owned or had real estate loan investments in **123 properties in 15 states**, predominantly in the Sunbelt region of the United States.





2011

THE YEAR OF THE IPO

STARTED YEAR WITH

ZERO ASSOCIATES • **ZERO** REAL ESTATE ASSETS • **ZERO** REVENUES

ENDED YEAR WITH

\$92 MILLION TOTAL ASSETS

\$7 MILLION REVENUES

3 MULTIFAMILY ASSETS

3 MARKETS

2012

THE YEAR OF GROWTH

2013

THE YEAR OF PAVING THE PATH

2014

THE YEAR OF ACHIEVING GOALS

2015

THE YEAR OF TRANSITIONING TO NYSE FROM NYSE/MKT

2016

THE YEAR OF 5 YEARS OF SUCCESS

2017

THE YEAR OF OUR WINNING CULTURE

2018

THE YEAR OF SOARING HIGHER

2019

THE YEAR OF TRANSITION

\$4.8 BILLION TOTAL ASSETS

\$470 MILLION REVENUES

34 MULTIFAMILY ASSETS

8 STUDENT HOUSING ASSETS

52 GROCERY ANCHORED RETAIL ASSETS

10 OFFICE ASSETS

40 MARKETS

03



MULTIFAMILY



STUDENT HOUSING



REAL ESTATE LOAN INVESTMENTS



GROCERY ANCHORED RETAIL



OFFICE PROPERTIES



As of December 31, 2019,
our **ASSETS GREW**
to **\$4.8 BILLION**
and **REVENUES ROSE**
to **\$470 MILLION.**

With assets in **40 Markets** across **15 States**, PAC provides the full gamut of services including Investment Management, Finance, Acquisition and Disposition, Asset Management and Property Level Management. Our guiding philosophy is to provide our residents and tenants with an exceptional experience by offering high quality Apartment Homes, Student Housing, Grocery Anchored Retail assets and Office properties, superior resident and tenant services, and total customer satisfaction.



APTS
LISTED
NYSE





TO OUR STOCKHOLDERS

2019 saw our company continue to grow and mature as an organization.

We ended the year with 123 owned and real estate loan investment properties spread across all four operating divisions.

Relative to each property type, we believe our asset portfolio is “best in class.” Each of our business units has a specific strategy that allows us to target and pursue only properties that fit within that strategy. Our leadership team has long subscribed to the Sunbelt, and its growth story, as a cornerstone of our investment thesis. At the end of 2019, more than 80% of our owned portfolio was located in our top five states: Florida, North Carolina, Georgia, Texas, and Tennessee. These states share common themes of pro-business policies, competitive cost of doing business, access to talent, and affordable cost of living. Job growth drives population growth and demand across our multifamily, retail, and office strategies, and we see the tangible result of this in escalating rents and low vacancy rates.

Our Multifamily business – our foundational business unit – is generally focused on newly constructed, Class A properties in markets of over one million people with good job growth. Our multifamily loan investments and owned portfolio, coupled

with our Student Housing assets, total 55% of our total assets.

For the year, the Multifamily portfolio enjoyed year-over-year same store NOI¹ growth of 4.1% and accelerating sequential quarter-over-quarter increases of 4.1% and 5.1% in the 3rd and 4th quarters, in spite of significant increases in insurance costs. At year end 2019, our stabilized properties were 95.1% occupied. We currently have 10,245 Multifamily units in 17 markets across 34 assets.

Our grocery anchored, necessity-based Retail division, New Market, has continued to grow and produce strong results for the company. We now own 52 grocery anchored shopping centers in nine states and 24 markets totaling over six million square feet. At the heart of this strategy is our commitment to working primarily with market dominant grocers. Publix leads the way, anchoring 28 of our properties – more than half of the centers in the portfolio. Kroger follows with 18 stores and the two grocers combined generated over \$4.7 billion of earnings in 2019. We are now the 4th largest Publix landlord in the country and also took note of Warren Buffet’s \$500 million investment in Kroger in February. The continued strength of our grocery anchored assets is tied directly to our strategy of acquiring centers that are



“ This was as natural of a transition as you will find, as the two of us have WORKED TOGETHER FOR OVER 30 YEARS.”

anchored by market dominant grocers in Sunbelt and Mid-Atlantic markets.

Our Office business unit, Preferred Office Properties (POP), had another banner year. Our office strategy focuses on Atlanta, Charlotte, Raleigh, Nashville, Dallas and Austin. We now own two Class A properties in Charlotte (both in SouthPark where we now control close to 40% of the Class A space), two in Raleigh and three in Atlanta. The total portfolio at year end was 96% leased with 7.4 years weighted average remaining lease term. The total office portfolio at year end consists of ten properties totaling approximately 3.2 million square feet.

Our Real Estate Loan Investment program is an important component of our business plan and has involved making loans to select developers to bridge their project capital stacks from their construction loans to their equity. These real estate loan investments have contributed significantly to our earnings over the years, and the purchase options embedded in most of those loans have allowed us to grow our portfolios at discounts to market prices. In total, at year end, we had \$414.3 million in aggregate loan commitments with \$352.6 million funded. The vast majority of these loans are made through our Multifamily and Student Housing divisions.

In past stockholder letters, we have highlighted the differences in our business plan that separate us from our peers – namely our preferred stock and our commitment to a diversified portfolio. In 2019, we continued to issue our preferred stock with a total issuance of \$549 million. At the same time, we increased our common share count by 4.7 million shares.

We used the capital that we raised to continue to invest in a diversified strategy by acquiring \$708 million in assets in 2019 (two multifamily assets in two markets, one student housing asset in one market, seven grocery anchored retail centers in seven markets and three Class A office properties – one in Raleigh, NC, one in Atlanta, GA and one in Charlotte, NC). The Company also initiated new real estate loan investments with commitments totaling \$43.7 million and had \$82.2 million in loans pay off or be converted to owned assets.

The character and quality of our people, their dedication, experience and work ethic are our underlying core strength. We have management depth throughout the company. Our associates have embraced our growing focus on Environmental, Social, and Governance (ESG) as we work as an organization to be thoughtful, responsible corporate citizens. For us, ESG means striving to ensure that our properties and corporate office are operated in an

“We are now the 4TH LARGEST PUBLIX LANDLORD in the country.”

OFFICE

THREE RAVINIA ATLANTA, GA

09



“In early 2019, APTS announced that it was exploring the INTERNALIZATION OF ITS EXTERNAL MANAGEMENT FUNCTIONS. This well-run process was completed on January 31, 2020.”

environmentally and socially responsible manner. To push our ESG initiative forward, we formed a Sustainability Committee to advocate energy conservation measures, and to integrate sustainability initiatives throughout our organization, including workforce development and training opportunities, community service projects through our PAC Gives Back initiative, and our PAC wellness program that focuses on health and wellness for our associates and residents. For the first time in 2019, we participated in the Global Real Estate Sustainability Benchmark (“GRESB”) annual survey, which measures the environmental performance of property portfolios around the world and is endorsed by large institutional investors. We understand that we have to continually evolve and adapt in order to be successful.

Looking at the future: Mid 2019, we announced a succession plan whereby Joel Murphy would succeed Dan DuPree as Chief Executive Officer on January 1, 2020 with the latter retaining the role of Executive Chairman of the Board.

This was as natural of a transition as you will find, as the two of us have worked together for over 30 years. Similarly, in early 2019, APTS announced that it was exploring the internalization of its external management functions. This well-run process was completed on January 31, 2020 and the transition to an internally, fully integrated company was seamlessly executed.

As a company that has always looked forward, these moves signal first steps in our evolution. We have challenges and opportunities ahead to be sure. Each year, we evaluate not only each property that we own, but also the structure of the company itself, the composition of its capital stack, the ratio of our common stock to the preferred, and how we conduct business generally. We are firm believers that the status quo is rarely a good option and we know that “what got us here – won’t get us there.”

In conclusion, we know that the company is ultimately graded by its stockholders. The fact that, as of December 31, 2019, we have generated a 15.2% average annual return to stockholders who invested with us at the IPO in 2011 (and reinvested dividends) is nice, but that is looking backward and we are fully engaged in looking ahead.

Thank you for your continued interest in PAC.

Sincerely,



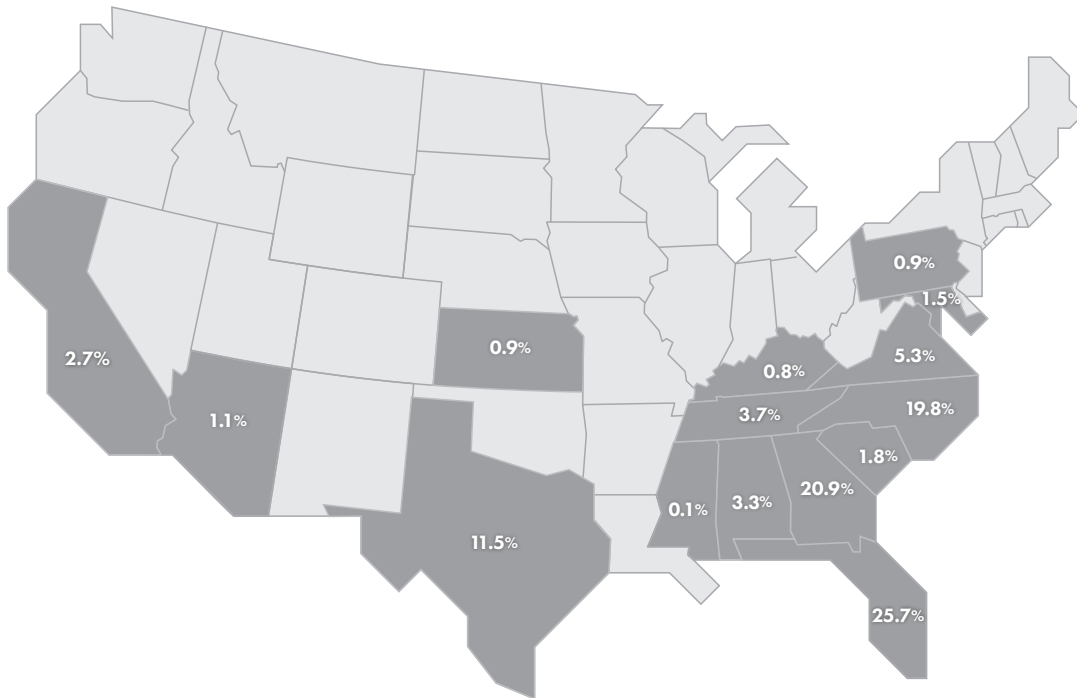
Joel T. Murphy
President and
Chief Executive Officer



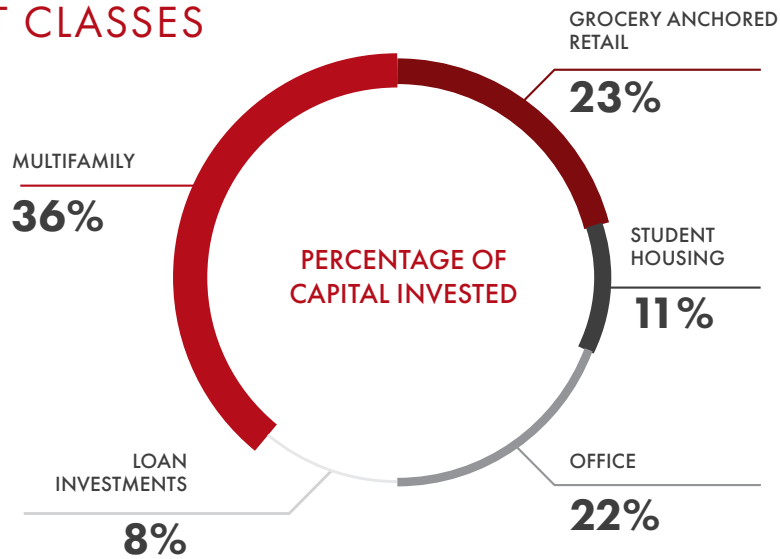
Daniel M. DuPree
Executive Chairman
of the Board



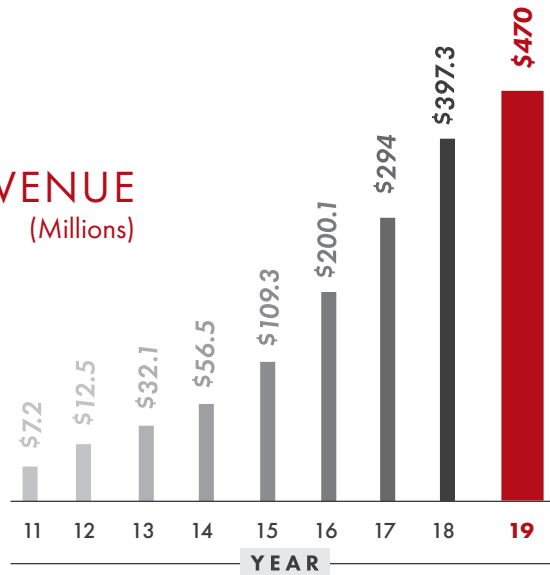
TOTAL ASSETS BY GEOGRAPHIC LOCATION



ASSET CLASSES



TOTAL REVENUE (Millions)



13

Multifamily portfolio enjoyed
YEAR-OVER-YEAR same
store NOI¹ growth of
4.1%

PORTFOLIO GROWTH 2019

APTS
BOUGHT
OVER
\$708M
IN ASSETS
IN 2019



7 GROCERY
anchored retail assets in **7 MARKETS**



2 MULTIFAMILY
assets in **2 MARKETS**

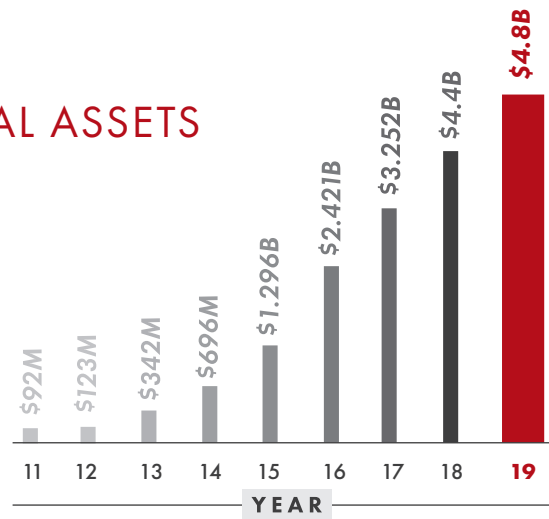


The company also originated
5 REAL ESTATE LOAN INVESTMENTS TOTALING
\$43.7M AND HAD **\$82.2M** in
real estate loan investments payoff
or get converted to owned assets



3 OFFICE BUILDINGS
in **3 MARKETS**

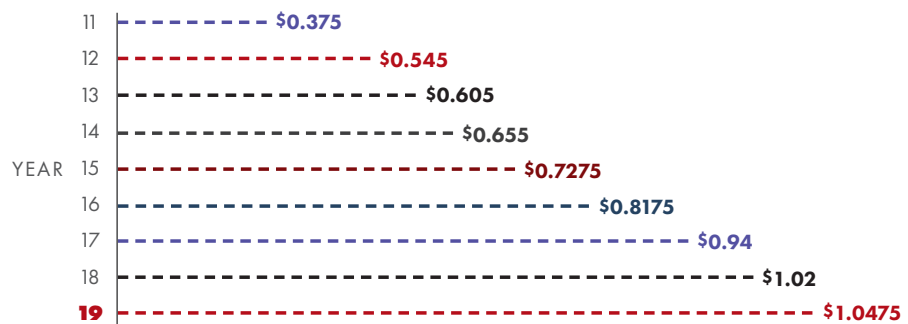
TOTAL ASSETS



PAC WELLNESS

A health and wellness program for our employees and residents.

ANNUAL COMMON STOCK DIVIDENDS / SHARE



JOEL T. MURPHY / PRESIDENT AND CEO

DANIEL M. DUPREE / EXECUTIVE CHAIRMAN

We are firm believers that the status quo is rarely a good option and we know that

**“WHAT GOT US HERE –
WON’T GET US THERE.”**

¹ See our Annual Report for Form 10-K included herein on reconciliation of same store NOI and AFFO to comparable GAAP measures.

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
Commission File No. 001-34995

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

MARYLAND
(State or other jurisdiction of incorporation or organization)

27-1712193
(I.R.S. Employer Identification No.)

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



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

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

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

Title of each class
Series A Redeemable Preferred Stock, par value \$0.01 per share
Warrant to Purchase Common Stock, par value \$0.01 per share
Series M Redeemable Preferred Stock, par value \$0.01 per share
Series A1 Redeemable Preferred Stock, par value \$0.01 per share
Series M1 Redeemable Preferred Stock, par value \$0.01 per share

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$651,264,401 based on the closing price of the common stock on the NYSE on such date. The number of shares outstanding of the registrant's common stock, as of February 19, 2020 was 47,251,996.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information to be included in the registrant's definitive Proxy Statement, to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, for the registrant's 2020 Annual Meeting of Stockholders is incorporated by reference into PART III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

		<u>Page No.</u>
PART I		
1.	Business	<u>2</u>
1A.	Risk Factors	<u>7</u>
1B.	Unresolved Staff Comments	<u>35</u>
2.	Properties	<u>36</u>
3.	Legal Proceedings	<u>41</u>
4.	Mine Safety Disclosures	<u>41</u>
PART II		
5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>41</u>
6.	Selected Financial Data	<u>43</u>
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>43</u>
7A.	Quantitative and Qualitative Disclosures about Market Risk	<u>73</u>
8.	Financial Statements and Supplementary Data	<u>73</u>
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>73</u>
9A.	Controls and Procedures	<u>74</u>
9B.	Other Information	<u>74</u>
PART III		
10.	Directors, Executive Officers and Corporate Governance	<u>75</u>
11.	Executive Compensation	<u>75</u>
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>75</u>
13.	Certain Relationships and Related Transactions, and Director Independence	<u>75</u>
14.	Principal Accountant Fees and Services	<u>75</u>
PART IV		
15.	Exhibits and Financial Statement Schedules	<u>76</u>
16.	Form 10-K Summary	<u>130</u>

PART I

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

Item 1. Business

Development of the Company

Preferred Apartment Communities, Inc. (NYSE: APTS) is a real estate investment trust engaged primarily in the ownership and operation of Class A multifamily properties, with select investments in grocery anchored shopping centers, Class A office buildings, and student housing properties. Preferred Apartment Communities' investment objective is to generate attractive, stable returns for stockholders by investing in income-producing properties and acquiring or originating real estate loans. As of December 31, 2019, we owned or were invested in 123 properties in 15 states, predominantly in the Southeast region of the United States.

As referred to herein, the Sixth Amended and Restated Management Agreement, effective as of June 3, 2016, among the Company, our Operating Partnership and Preferred Apartment Advisors, LLC, or our Manager, is referred to as the Management Agreement.

On January 31, 2020, we internalized the functions performed by our Manager and NMP Advisors, LLC (the "Sub-Manager") by acquiring the entities that own the Manager and the Sub-Manager (such transactions, collectively, the "Internalization"). The Internalization resulted in the elimination of the previous fee structure between us and the Manager, including acquisition and other fees. All managerial and administrative personnel our Manager and Sub-Manager provided to us pursuant to the Management Agreement became employees of the Company effective with the closing of the Internalization. Trusts established, or entities owned, by the family of John A. Williams, the Company's former Chairman of the Board and Chief Executive Officer, Daniel M. DuPree, the Company's Executive Chairman of the Board and former Chief Executive Officer of the Company, and Leonard A. Silverstein, the Company's Vice Chairman of the Board, and former President and Chief Operating Officer, were the owners of NELL. Trusts established, or entities owned, by Joel T. Murphy, the Company's Chief Executive Officer and a member of the Board, the family of Mr. Williams, Mr. DuPree and Mr. Silverstein were the owners of NMA. As of February 25, 2020, the Company had 502 employees.

Our consolidated financial statements include the accounts of the Company and the Operating Partnership. The Company controls the Operating Partnership through its sole general partnership interest and prior to internalizing conducted substantially all its business through the Operating Partnership. Following Internalization, the Company plans to conduct substantially all of its business through PAC Carveout, LLC, or Carveout, a wholly owned subsidiary of the Operating Partnership. For the year ended December 31, 2019, the Company held an approximate 98.1% weighted average ownership percentage in the Operating Partnership.

Our Operating Partnership and Carveout are related parties to us.

At December 31, 2019, our portfolio of owned real estate assets and potential additions from purchase options we held from our real estate loan investments consisted of:

	Owned as of December 31, 2019	Potential additions from real estate loan investment portfolio ⁽¹⁾⁽²⁾	Potential total
Multifamily communities:			
Properties	34 ⁽³⁾	9	43
Units	10,245	2,643	12,888
Grocery-anchored shopping centers:			
Properties	52 ⁽³⁾	—	52
Gross leasable area (square feet)	6,041,629	—	6,041,629
Student housing properties:			
Properties	8 ^(3,4)	1	9
Units	2,011	175	2,186
Beds	6,095	543	6,638
Office buildings:			
Properties	10 ⁽³⁾	1	11
Rentable square feet	3,204,000	192,000	3,396,000

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

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

⁽³⁾ One multifamily community, two student housing properties, two grocery-anchored shopping centers and two office buildings are owned through consolidated joint ventures.

⁽⁴⁾ Six of our student housing properties were under contract for sale at December 31, 2019.

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

We operate within the following five operating segments:

Multifamily Communities - consists of our portfolio of residential multifamily communities.

Student Housing Properties - consists of our portfolio of student housing properties.

Financing - consists of our portfolio of real estate loans, bridge loans, and other instruments deployed by us to partially finance the development, construction, and prestabilization carrying costs of new multifamily communities and other real estate and real estate related assets. Excluded from the financing segment are consolidated assets of VIEs and financial results of our Dawson Marketplace grocery-anchored shopping center real estate loan, which are included in the New Market Properties segment.

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

Preferred Office Properties - consists of the Company's portfolio of office buildings, which are owned by Preferred Office Properties, LLC, a wholly-owned subsidiary of the Company.

Investment Strategy

We seek to maximize returns for our stockholders by employing efficient management techniques to grow income and create asset value. Our investment strategies may include, without limitation, the following:

- Acquiring Class “A” multifamily assets in performing and stable markets throughout the United States; these properties, we believe, will generate sustainable and growing cash flow from operations sufficient to allow us to cover the dividends that we expect to declare and pay and which we believe will have the potential for capital appreciation. These multifamily assets will generally be located in metropolitan statistical areas, or MSAs, with at least one million people which we expect will generate job growth and where we believe new multifamily development of comparable properties is able to be absorbed at attractive rental rates.
- Acquiring Class “A” multifamily assets that are intended to be financed with longer-term, assumable, fixed-rate debt typically provided by FHA/HUD programs.
- Acquiring Class “A” multifamily assets that present an opportunity to implement a value-add program whereby the properties can be upgraded or improved physically to better take advantage of the market.
- Acquiring grocery-anchored shopping centers, typically anchored by one of the market-dominant grocers in that particular market.
- Acquiring leading Class “A” office properties in high-growth markets across the U.S.
- Originating real estate loan investments secured by interests in multifamily communities, membership or partnership interests in multifamily communities, other multifamily related assets, grocery-anchored shopping centers and office properties.
- It is our policy to acquire any of our target assets primarily for income, and only secondarily for possible capital gain. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities, office buildings and retail centers and we may make real estate related loans, provide deposit arrangements, or provide performance assurances, as may be necessary or appropriate, in connection with the construction of multifamily communities and other properties.
- We also may invest in real estate related debt, including, but not limited to, newly or previously originated first mortgage loans on multifamily properties, office buildings and retail centers that meet our investment criteria, which are performing or non-performing, newly or previously originated real estate related loans on multifamily properties that meet our investment criteria (second or subsequent mortgages), which are performing or non-performing, and tranches of securitized loans (pools of collateralized mortgaged-backed securities) on multifamily properties that meet our investment criteria, which are performing or non-performing. In connection with our investments in real estate related debt, we may negotiate the inclusion of exclusive purchase options on the to-be-developed properties. These purchase options may include a fixed purchase price set at the time we enter into the loan, or a purchase price which is calculated as a certain discount from market capitalization rates at the date of exercise of such purchase option. Certain of the purchase options we hold may be settled by cash payments to us in the event we elect not to acquire the underlying property.

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

Financing Strategy

We intend to finance the acquisition of investments using various sources of capital, as described in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” included in this Annual Report on Form 10-K. Included in this discussion are details regarding (i) our offering of up to a maximum of 1,000,000 shares of Series A1 Redeemable Preferred Stock, Series M1 Redeemable Preferred Stock or a combination of both (the “Series A1/M1 Offering”) and (ii) our offering of up to \$400 million of equity or debt securities (the “2019 Shelf Offering”), including an offering of up to \$125 million of Common Stock from time to time in an “at the market” offering (the “2019 ATM Offering”). Our Series A1/M1 Offering was declared effective on September 27, 2019. The Series A Preferred Stock, par value \$0.01 per share, or Series A Preferred Stock; Series M Preferred Stock, par value \$0.01 per share, or mShares, Series A1 Preferred Stock, par value \$0.01 per share, or Series A1 Preferred Stock, and Series M1 Preferred Stock, par value \$0.01 per share, or Series M1 Preferred Stock are collectively referred to as our Preferred Stock.

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

We generally intend to target leverage levels (secured and unsecured) between 50% and 65% of the fair market value of our tangible assets (including our real estate assets, real estate loans, notes receivable, accounts receivable and cash and cash equivalents) on a portfolio basis. As of December 31, 2019, our outstanding debt (both secured and unsecured) was approximately 51.2% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 2019. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. These targets, however, will not apply to individual real estate assets or investments. The amount of leverage we will place on particular investments will depend on our assessment of a variety of factors which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in the portfolio, the availability and cost of financing the asset, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and the health of the commercial real estate market in general. In addition, factors such as our outlook on interest rates, changes in the yield curve slope, the level and volatility of interest rates and their associated credit spreads, the underlying collateral of our assets and our outlook on credit spreads relative to our outlook on interest rate and economic performance could all impact our decision and strategy for financing the target assets. At the date of acquisition of each asset, we anticipate that the investment cost for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. Finally, we intend to acquire all our properties through separate single purpose entities and intend to finance each of these properties using debt financing techniques for that property alone, without any cross-collateralization to our other properties or any guarantees by us or our Operating Partnership. We have an Amended and Restated Credit Agreement, or Credit Facility, with Key Bank, N.A., or Key Bank. The Credit Facility provides for our \$200.0 million revolving credit facility, or the Revolving Line of Credit. The Credit Facility requires that we adhere to certain covenants regarding our revolving line of credit, as described in note 8 to our consolidated financial statements. Other than with regard to our Credit Facility and interim term loan, as of December 31, 2019, we held no debt at the Company or operating partnership levels, had no cross-collateralization of our real estate mortgages, and had no contingent liabilities at the Company or operating partnership levels with regard to our secured mortgage debt on our properties.

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

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

Branding Strategy

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

We acquired all the trademarks owned by our Manager in connection with the closing of the Internalization transaction on January 31, 2020.

Environmental Regulation

We are subject to regulation at the federal, state and municipal levels and are at risk for potential liability should conditions at our properties or our actions or inaction result in damage to the environment or to persons or properties. These conditions could include the potential presence or growth of mold, potential leaks from current or former underground or above-ground storage tanks, breakage or leaks from sewer lines and risks pertaining to the management or disposal of wastes and chemicals. We could be liable for the potential costs of compliance, property damage, restoration and other costs which could occur without regard to our fault or knowledge of such conditions.

In the course of acquiring and owning real estate assets, we typically engage an independent environmental consulting firm to perform a phase I environmental assessment (and if appropriate, a phase II assessment) to identify and mitigate these risks as part of our due diligence process. We believe these assessment reports provide a reasonable basis for discovery of potential adverse environmental conditions prior to acquisition. If any potential environmental risks or conditions are discovered during our due diligence process, the potential costs of remediation are assessed carefully and factored into the cost of acquisition, assuming the identified risks and factors are deemed to be manageable and reasonable. Some risks or conditions may be identified that are significant enough to cause us to abandon the possibility of acquiring a given property. As of December 31, 2019, we have no knowledge of any material claims made or pending against us with regard to environmental matters for which we could be found liable, nor are we aware of any potential hazards to the environment related to any of our properties which could reasonably be expected to cause us to incur material expenditures.

Competition

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

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

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

Available Information

The Company makes available all reports which are filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material has been filed with, or furnished to, the SEC for viewing or download free of charge at the Company's website: www.pacaps.com.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating us and our business. Our business, operating results, prospects and financial condition could be materially adversely affected by any of these risks. The risks and uncertainties described below are not the only ones we face, but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that, as of the date of this Annual Report on Form 10-K, we deem immaterial also may harm our business. This "Risk Factors" section contains references to our "capital stock" and to our "stockholders." Unless expressly stated otherwise, the references to our "capital stock" represent our common stock and any class or series of our preferred stock, while the references to our "stockholders" represent holders of our common stock and any class or series of our preferred stock. Unless expressly stated otherwise, the references to our Preferred Stock refer to our Series A Preferred Stock, mShares, Series A1 Preferred Stock and Series M1 Preferred Stock.

Risks Related to an Investment in Our Company

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

Our ability to grow the Company and execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Potential volatility and uncertainty in financial markets could result in debt or equity financing to not be available in sufficient amounts, on favorable terms or at all. Returns on our assets and our ability to make acquisitions could be adversely affected by our inability to secure financing on reasonable terms, if at all. Additionally, if we issue additional equity securities to finance our investments instead of incurring debt (through our Series A1/M1 Offering or our ATM Offering or other offerings), the interests of our existing stockholders could be diluted.

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

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

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

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

Our ability to achieve our investment objectives and to make distributions to our stockholders is dependent upon our performance in the acquisition of, and arranging of financing for, investments, as well as our performance in the selection of residents and tenants and the negotiation of leases and our performance in the selection of retail and office tenants and the negotiation

of leases. The current market for properties that meet our investment objectives is highly competitive, as is the leasing market for such properties. The more proceeds we raise in current and future offerings of our securities, the greater our challenge will be to invest all the net offering proceeds on attractive terms. Our stockholders will not have the opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. Our stockholders must rely entirely on the oversight of our board of directors, our management ability and the performance of our employees and contractors. We cannot be sure that we will be successful in obtaining suitable investments on financially attractive terms.

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

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

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

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

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

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

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

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

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

We may make redemptions of Preferred Stock in shares of our Common Stock. Although the number of redemptions are unknown, the number of shares to be issued in connection with such redemptions will fluctuate based on the price of our Common Stock. Any sales or perceived sales in the public market of shares of our Common Stock issued upon such redemptions could adversely affect the prevailing market prices of shares of our Common Stock. The issuance of Common Stock upon such redemptions or from the exercise of outstanding Warrants also would have the effect of reducing our net income per share. In

addition, the existence of Preferred Stock may encourage short selling by market participants because redemptions could depress the market price of our Common Stock.

Our board of directors is authorized, without stockholder approval, to cause us to issue additional shares of our Preferred Stock or to raise capital through the issuance of additional preferred stock (including equity or debt securities convertible into preferred stock or our Common Stock), options, warrants and other rights, on such terms and for such consideration as our board of directors in its sole discretion may determine subject to the rules of NYSE. Any such issuance could result in dilution of the equity of our stockholders. Our board of directors may, in its sole discretion, authorize us to issue Common Stock or other equity or debt securities to persons from whom we purchase real estate assets as part or all of the purchase price. Our board of directors, in its sole discretion, may determine the value of any Common Stock or other equity or debt securities issued in consideration of multifamily communities, retail centers, or office buildings acquired or services provided, or to be provided, to us.

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

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

Our internal control over financial reporting is effective only at the reasonable assurance level, and undetected errors could adversely affect our reputation, results of operations and stock price.

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

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

Information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks around the world. We collect and retain certain personal information provided by our residents and tenants. In addition, we engage third party service providers that may have access to such personally identifiable information in connection with providing necessary information technology and security and other business services to us. While we have implemented a variety of security measures to protect the confidentiality of this information and periodically review and improve our security measures, there can be no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and loss of this information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance, and require significant management attention and resources to remedy the damages and penalties that result.

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

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

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

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

There is no public market for our Preferred Stock or warrants to purchase up to 20 shares of Common Stock, or Warrants, and we do not expect one to develop.

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

We will be required to terminate the Series A1/M1 Offering if our Common Stock is no longer listed on the NYSE or another national securities exchange.

The classes of Preferred Stock are a "covered security" under the Securities Act and therefore are not subject to registration in the various states in which they may be sold due to their seniority to our Common Stock, which is listed on the NYSE. If our Common Stock is no longer listed on the NYSE or another appropriate exchange, we will be required to register our Preferred Stock Offerings in any state in which we subsequently offer the Preferred Stock. This would require the termination of the Series A1/M1 Offering and could result in our raising an amount of gross proceeds that is substantially less than the amount of the gross proceeds we expect to raise if the maximum offering is sold. This would reduce our ability to purchase additional properties and limit the diversification of our portfolio.

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

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

The Preferred Stock are senior securities, and rank senior to our Common Stock with respect to dividends and payments upon liquidation.

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

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

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

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

We will have the ability to call the outstanding shares of Series A Preferred Stock and mShares after ten years following the date of original issuance and the ability to call the outstanding shares of Series A1 Preferred Stock and Series M1 Preferred Stock after two years following the date of original issuance. At that time, we will have the right to redeem, at our option, the outstanding shares of Preferred Stock, in whole or in part, at 100% of the Stated Value, plus any accrued and unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our Common Stock, based upon (i) for our Series A Preferred Stock and mShares, the volume weighted average price of our Common Stock for the 20 trading days prior to the redemption date or (ii) for our Series A1 Preferred Stock and Series M1 Preferred Stock, the closing price of our Common Stock for the trading day immediately preceding the date fixed for the call as specified by the Company.

Risks Related to Our Organization, Structure and Management

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

Our success depends to a significant degree upon the contributions of certain of our executive officers and other key personnel. We cannot guarantee that all, or any, of such personnel, will remain affiliated with us. If any of our key personnel were to cease their affiliation with us, our operating results could suffer.

We believe our future success depends upon our ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure our stockholders that we will be successful

in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of key personnel, our ability to implement our investment strategies could be delayed or hindered, and the value of our stockholders' investment in our Company may decline.

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

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

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

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

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

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

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under the Maryland General Corporation Law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. The Maryland General Corporation Law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

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

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

- the election or removal of directors;
- the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
 - change our name;
 - change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock;
 - increase or decrease the aggregate number of shares of stock that we have the authority to issue;
 - increase or decrease the number of shares of any class or series of stock that we have the authority to issue; and
 - effect certain reverse stock splits;

- our liquidation and dissolution; and
- our being a party to a merger, consolidation, sale or other disposition of all or substantially all our assets or statutory share exchange.

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

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

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

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

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

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

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

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

We also are permitted to purchase and we currently maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents against any liability asserted which was incurred in any such capacity with us or arising

out of such status. This may result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders.

Our net income, FFO and AFFO may decrease in the near term as a result of the Internalization.

We expensed all cash and non-cash costs involved in the internalization. As a result, our statements of operations and FFO results for the interim and annual periods in 2019 were negatively impacted, driven predominately by the cash charges related to the internalization consideration and, to a lesser extent, other transaction-related costs. In addition, while we will no longer effectively bear the costs of the various fees and expense reimbursements previously paid to our former Manager while we were externally managed, our expenses will now include the compensation and benefits of our executive officers and the employees of the Manager and NMP Advisors, LLC, or our Sub-Manager, as well as overhead previously paid by our former Manager and Sub-Manager or their affiliates in managing our business and operations. Furthermore, these employees of the Manager and Sub-Manager will be providing us with services historically provided by the former Manager and Sub-Manager. There are no assurances that, following the internalization, these employees will be able or incentivized to provide services at the same level or for the same costs as were previously provided to us by the former Manager, and there may be other unforeseen costs, expenses and difficulties associated with operating as an internally managed company. If the expenses we assume as a result of the internalization are higher than the fees that we have historically paid to the former Manager and Sub-Manager or otherwise higher than we anticipate, we may not realize the anticipated cost savings and other benefits from the internalization and our net income, FFO and AFFO could decrease further, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Risks Related to Conflicts of Interest

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

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

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

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

- joint venturers may share certain approval rights over major decisions;
- a co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- a co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
- a co-venturer, co-owner or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
- under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

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

obligation that we or our board of directors may owe to our partner in an affiliated transaction may make it more difficult for us to enforce our rights.

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

Risks Related to Investments in Real Estate

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

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

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

- natural disasters, such as hurricanes, earthquakes, floods and sea rise;
- a pandemic or other health crisis, such as the recent outbreak of novel coronavirus (COVID-19);
- climate change;
- acts of war or terrorism, including the consequences of terrorist attacks;
- adverse changes in national and local economic and real estate conditions;
- an oversupply of (or a reduction in demand for) space in the areas where particular properties are located and the attractiveness of particular properties to prospective residents or tenants;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance therewith and the potential for liability under applicable laws;
- costs of complying with applicable environmental requirements and remediation and liabilities associated with environmental conditions affecting real properties; and
- the potential for uninsured or underinsured property losses.

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

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

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

We face possible risks associated with the physical effects of climate change.

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

We may suffer losses that are not covered by insurance.

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

Because of our inability to obtain specialized coverage at rates that correspond to our perceived level of risk, we may not obtain insurance for acts of terrorism. We will continue to evaluate the availability and cost of additional insurance coverage from the insurance market. If we decide in the future to purchase insurance for terrorism, the cost could have a negative impact on our results of operations. If an uninsured loss or a loss in excess of insured limits occurs on a property, we could lose our capital invested in the property, as well as the anticipated future revenues from the property and, in the case of debt that is recourse to us, would remain obligated for any mortgage debt or other financial obligations related to the property. Any loss of this nature would adversely affect us. Although we intend to adequately insure our properties, we can offer no assurance that we will successfully do so.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

All real property and the operations conducted on real property are subject to certain federal, state and local laws and regulations relating to environmental protection and human health and safety. Such federal laws might include: the National Environmental Policy Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Solid Waste Disposal Act as amended by the Resource Conservation and Recovery Act; the Federal Water Pollution Control Act; the Federal Clean Air Act; the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act; and the Hazard Communication Act. These laws and regulations generally govern wastewater discharges, air emissions, the regulation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination, including of off-site third party owned disposal sites. As is the case with community and neighborhood shopping centers, some of our centers had on-site dry cleaning and/or on-site gasoline retail facilities and these prior uses could potentially increase our environmental liability exposure. Some of these laws and regulations may impose joint and several liability on residents, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of certain regulated substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent the property or to use the property as collateral for future borrowing.

We could incur losses from claims relating to the presence of, or exposure of tenants to, indoor air quality issues, including the presence of mold in warmer climates or other microbial organisms, particularly if we are unable to maintain adequate insurance to cover such losses. We also may incur unexpected expenses relating to the abatement of mold on properties that we acquire.

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

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

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

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

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

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

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

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

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

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

The profitability of our acquisitions is uncertain.

We intend to acquire properties selectively. Acquisition of properties entails risks that investments will fail to perform in accordance with expectations. In undertaking these acquisitions, we will incur certain risks, including the expenditure of funds on, and the devotion of management's time to, transactions that may not come to fruition. Additional risks inherent in acquisitions

include risks that the properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired property up to our standards may prove inaccurate.

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

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

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

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

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

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

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

We are subject to geographic concentrations, the carrying values of which are as follows as of December 31, 2019:

	Carrying value of real estate assets and real estate related loans, in millions:	Percentage
Florida	\$ 1,109.6	25.7%
Georgia	904.0	20.9%
North Carolina	854.4	19.8%
Texas	495.5	11.5%
Virginia	229.4	5.3%
Tennessee	160.4	3.7%
Alabama	149.3	3.3%
California	115.4	2.7%
South Carolina	78.4	1.8%
Maryland	65.0	1.5%
Arizona	46.4	1.1%
Pennsylvania	38.8	0.9%
Kansas	38.3	0.9%
Kentucky	33.0	0.8%
Mississippi	4.6	0.1%
Total	\$ 4,322.5	100.0%

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

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

We may make acquisitions outside of our existing market areas if appropriate opportunities arise. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local market conditions, to identify appropriate acquisition opportunities, to hire and retain key personnel, and a lack of familiarity with local governmental and permitting procedures. In addition, we may abandon opportunities to enter new markets that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred.

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

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

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

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

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

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

Risks Associated with Debt Financing

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

As of December 31, 2019, we had outstanding debt of approximately \$2.6 billion. This indebtedness could have important consequences, including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the effectiveness of the multifamily sector's available financing and decrease the amount of available liquidity and credit that could be used to acquire and diversify our portfolio of multifamily assets.

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

A lack of volume in the commercial mortgage-backed securities market could result in the following adverse effects on our incurrence of secured debt, which could have a materially negative impact on our financial condition, results of operations, cash flow and cash available for distribution, including:

- the general availability of loan proceeds/originators;
- higher loan spreads;
- tighter loan covenants;
- reduced loan to value ratios and resulting borrower proceeds; and
- higher amortization and reserve requirements.

High levels of debt or increases in interest rates could increase the amount of our loan payments, which could reduce the cash available for distribution to stockholders.

As mentioned above, we incur and expect to continue to incur debt. Higher debt levels would cause us to incur higher interest charges, would result in higher debt service payments and could be accompanied by restrictive covenants. Interest we pay could reduce cash available for distribution to stockholders. Additionally, if we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flow and our ability to make distributions to our stockholders. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments and could result in a loss.

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

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

Risks Related to Our Real Estate Loan Investments

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

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

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

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;

- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property

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

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

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

Risks Related to our Investments in Multifamily Communities

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

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

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, availability of "for sale" properties, competition from other similar properties, our ability to provide adequate maintenance, insurance and management services, increased operating costs (including real estate taxes), the attractiveness and location of the property and changes in market rental rates may adversely affect a property's income and value. The continued rise in energy costs and other property-level expenses could result in higher operating costs, which may adversely affect our results from operations. In addition, local conditions in the markets in which we own or intend to own properties may significantly affect occupancy or rental rates at such properties. The risks that may adversely affect conditions in those markets may include, but are not limited to: layoffs, business closings, relocations of significant local employers and other events negatively impacting local employment rates and the local economy; an oversupply of, or a lack of demand for, apartments; a decline in household formation; the inability or unwillingness of residents to pay rent increases; and rent control, rent stabilization and other housing laws, which could prevent us from raising rents.

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

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

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

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

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

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

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

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

Risks Related to our Investments in Student Housing Properties

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

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

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

A number of large national companies are participants in the collegiate housing business. In some cases, these competitors possess substantially greater financial and marketing resources than we do. The entry of one or more of these companies into

collegiate housing markets in which we have a presence could increase competition for residents and for the acquisition, development and management of other collegiate housing communities.

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

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

In addition, we are subject to increased leasing risk on properties that we acquire that we have not previously managed due to our lack of experience leasing those properties and unfamiliarity with their leasing cycles. Collegiate housing communities are typically leased during a leasing season that begins in October and ends in August of the following year. We are therefore highly dependent on the effectiveness of our marketing and leasing efforts and personnel during this season. Prior to the commencement of each new lease period, mostly during the first two weeks of August but also during September at some communities and during the summer months for the on-campus properties leased by semester, we prepare the units for new incoming residents. Although gross rental revenue is recognized evenly over twelve-month lease periods, during this period referred to as “Turn”, we have no leases in place. In addition, during Turn, we incur significant expenses preparing our units for occupancy, which we recognize immediately. This lease Turn period results in seasonality in our operating results during the second and third quarter of each year. As a result, we may experience significantly reduced cash flows during the summer months at properties leased for terms shorter than 12 months.

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

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

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

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

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

Risks Related to our Grocery-Anchored Shopping Center Investments

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

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

- weakness in the national, regional and local economies, and declines in consumer confidence which could adversely impact consumer spending and retail sales and in turn tenant demand for space and could lead to increased store closings;
- changes in market rental rates;
- changes in demographics (including the number of households and average household income) surrounding our shopping centers;
- adverse financial conditions for grocery anchors and other retail, service, medical or restaurant tenants;
- continued consolidation in the retail and grocery sector;
- excess amount of retail space in our markets;
- reduction in the demand by tenants to occupy our shopping centers as a result of reduced consumer demand for certain retail formats;
- increased diversification of product offerings by grocery anchors can lead to increased competition, declining same store sales and store closings;
- increase in e-commerce and alternative distribution channels may negatively affect our tenant sales or decrease the square footage our tenants require and could lead to margin pressure on our grocery anchors, which could lead to store closures;
- the impact of an increase in energy costs on consumers and its consequential effect on the number of shopping visits to our centers;
- a pandemic or other health crisis, such as the recent outbreak of novel coronavirus (COVID-19); and
- consequences of any armed conflict involving, or terrorist attack against, the United States.

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

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

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

Loss of revenues from significant tenants and our in-line tenants could reduce distributions to our stockholders.

For our currently owned and planned acquisitions of grocery-anchored shopping centers, we derive or will derive significant revenues from anchor tenants such as Publix, Kroger, Harris Teeter, Wal-Mart, Safeway, Sprouts, BJ's Wholesale Club and The Fresh Market, in addition to our in-line tenants.

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

- become bankrupt or insolvent;
- experience a downturn in their business;

- materially default on their leases;
- do not renew their leases as they expire; or
- renew at lower rental rates.

Vacated anchor space, including space owned by the anchor, can also reduce rental revenues generated by the shopping center because of the loss of the departed anchor tenant's customer drawing power. The closing of one or more anchor stores at a center or occupancy falling below a certain percentage could adversely affect the financial performance of the center, adversely affect the operations of other tenants and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit such actions.

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

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

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

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

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

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

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

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

Risks Related to our Office Building Investments

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

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

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
- competition from other office properties;

- local real estate market conditions, such as oversupply or reduction in demand for office space;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let office space;
- changes in space utilization by our office tenants due to technology, economic conditions and business culture;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- a pandemic or other health crisis, such as the recent outbreak of novel coronavirus (COVID-19); and
- declines in the financial condition of our office tenants and our ability to collect rents from our office tenants.

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

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

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

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

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

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

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

Material U.S. Federal Income Tax Considerations

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

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

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

- we would not be allowed to deduct our distributions to our stockholders when computing our taxable income;
- we would be subject to U.S. federal income tax on our taxable income at the corporate rate and possibly increased state and local taxes;
- we could be disqualified from being taxed as a REIT for the four taxable years following the year during which qualification was lost, unless entitled to relief under certain statutory provisions;
- we would have less cash to make distributions to our stockholders; and
- we might be required to borrow additional funds or sell some of our assets in order to pay corporate tax obligations we may incur as a result of our disqualification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Certain Employee Benefit Plan Risks

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.



[This page intentionally left blank.]

Item 2. Properties

Multifamily Communities

At December 31, 2019, we owned the following 34 properties within our multifamily communities segment:

Property	Location	Year constructed	Number of Units	Average Unit Size (sq. ft.)	Average Rent per Unit ^(1,3)
Summit Crossing	Atlanta, GA	2007	345	1,034	\$ 1,222
Summit Crossing II	Atlanta, GA	2013	140	1,100	\$ 1,318
The Reserve at Summit Crossing	Atlanta, GA	2017	172	1,002	\$ 1,372
Vineyards	Houston, TX	2003	369	1,122	\$ 1,190
Aster at Lely Resort	Naples, FL	2015	308	1,071	\$ 1,454
CityPark View Property:					
CityPark View	Charlotte, NC	2014	284	948	\$ 1,150
CityPark View South	Charlotte, NC	2017	200	1,005	\$ 1,279
Avenues at Cypress	Houston, TX	2014	240	1,170	\$ 1,484
Venue at Lakewood Ranch	Sarasota, FL	2015	237	1,001	\$ 1,585
Avenues at Creekside	San Antonio, TX	2014	395	974	\$ 1,184
Citi Lakes	Orlando, FL	2014	346	984	\$ 1,498
Avenues at Northpointe	Houston, TX	2013	280	1,167	\$ 1,427
Lenox Village Property:					
Lenox Village	Nashville, TN	2009	273	906	\$ 1,314
Regent at Lenox Village	Nashville, TN	2009	18	1,072	\$ 1,379
Retreat at Lenox Village	Nashville, TN	2015	183	773	\$ 1,227
Stone Creek	Houston, TX	2009	246	852	\$ 1,137
Overton Rise	Atlanta, GA	2015	294	1,018	\$ 1,573
Village at Baldwin Park	Orlando, FL	2008	528	1,069	\$ 1,691
Crosstown Walk Property:					
Crosstown Walk	Tampa, FL	2014	342	1,070	\$ 1,324
Overlook at Crosstown Walk	Tampa, FL	2016	180	986	\$ 1,398
525 Avalon Park	Orlando, FL	2008	487	1,394	\$ 1,509
Sorrel	Jacksonville, FL	2015	290	1,048	\$ 1,332
Retreat at Greystone	Birmingham, AL	2015	312	1,100	\$ 1,342
Citrus Village	Tampa, FL	2011	296	980	\$ 1,326
Founders Village	Williamsburg, VA	2014	247	1,070	\$ 1,435
Claiborne Crossing	Louisville, KY	2014	242	1,204	\$ 1,376
Luxe at Lakewood Ranch	Sarasota, FL	2016	280	1,105	\$ 1,538
Adara Overland Park	Kansas City, KS	2016	260	1,116	\$ 1,375
Aldridge at Town Village	Atlanta, GA	2016	300	969	\$ 1,390
Colony at Centerpointe	Richmond, VA	2016	255	1,149	\$ 1,409
City Vista ⁽²⁾	Pittsburgh, PA	2014	272	1,023	\$ 1,445
Lux at Sorrel	Jacksonville, FL	2017	265	1,025	\$ 1,422
Green Park	Atlanta, GA	2017	310	985	\$ 1,483
Lodge at Hidden River	Tampa, FL	2017	300	980	\$ 1,404
Vestavia Reserve	Birmingham, AL	2016	272	1,113	\$ 1,556
Artisan at Viera	Melbourne, FL	2018	259	1,070	—
Five Oaks at Westchase	Tampa, FL	2019	218	983	—
			10,245		

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

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

⁽³⁾ Values are based on leasing activity from the quarter-ended December 31, 2019.

Our communities are equipped with an array of amenities believed to be sufficient to position Preferred Apartment Communities as attractive residential rental options within each local market. Such amenities can include, but are not limited to, one or more swimming pools, a clubhouse with a business center, tennis courts and laundry facilities. Unit-specific amenities can include high-end appliances, tile kitchen backsplashes, washer and dryers or washer and dryer hookups and ceiling fans. Resident lease terms are generally thirteen months or less in duration.

Student Housing Communities

At December 31, 2019, we owned the following eight properties within our student housing communities segment:

Property	Location	University	Year constructed/ renovated	Number of Units	Number of beds	Average Unit Size (sq. ft.)	Average Rent per Bed ^(1,3)
North by Northwest ⁽⁴⁾	Tallahassee, FL	Florida State University	2012	219	679	1,250	\$ 702
SoL ⁽⁴⁾	Tempe, AZ	Arizona State University	2010	224	639	1,296	\$ 720
Stadium Village ^(2,4)	Atlanta, GA	Kennesaw State University	2015	198	792	1,466	\$ 721
Ursa ^(2,4)	Waco, TX	Baylor University	2017	250	840	1,634	\$ 604
The Tradition	College Station, TX	Texas A&M University	2017	427	808	549	\$ 605
The Retreat at Orlando ⁽⁴⁾	Orlando, FL	University of Central Florida	2014	221	894	2,036	\$ 769
Haven 49 ⁽⁴⁾	Charlotte, NC	University of North Carolina Charlotte	2019	332	887	1,224	\$ 515
The Bloc	Lubbock, TX	Texas Tech University	2017	140	556	1,394	\$ 751
				<u>2,011</u>	<u>6,095</u>		

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

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

⁽³⁾ Values are based on leasing activity from the quarter-ended December 31, 2019.

⁽⁴⁾ Six of our student housing properties were under contract for sale at December 31, 2019.

New Market Properties

At December 31, 2019, we owned the following 52 grocery-anchored shopping centers, which comprise our New Market Properties segment:

Property name	Location	Year built	GLA ⁽¹⁾	Percent leased	Grocery anchor tenant
Castleberry-Southard	Atlanta, GA	2006	80,018	98.3%	Publix
Cherokee Plaza	Atlanta, GA	1958	102,864	100.0%	Kroger
Governors Towne Square	Atlanta, GA	2004	68,658	95.9%	Publix
Lakeland Plaza	Atlanta, GA	1990	301,711	95.4%	Sprouts
Powder Springs	Atlanta, GA	1999	77,853	87.7%	Publix
Rockbridge Village	Atlanta, GA	2005	102,432	90.6%	Kroger
Roswell Wieuca Shopping Center	Atlanta, GA	2007	74,370	100.0%	The Fresh Market
Royal Lakes Marketplace	Atlanta, GA	2008	119,493	95.0%	Kroger
Sandy Plains Exchange	Atlanta, GA	1997	72,784	98.4%	Publix
Summit Point	Atlanta, GA	2004	111,970	88.7%	Publix
Thompson Bridge Commons	Atlanta, GA	2001	92,587	96.4%	Kroger
Wade Green Village	Atlanta, GA	1993	74,978	88.7%	Publix
Woodmont Village	Atlanta, GA	2002	85,639	98.6%	Kroger
Woodstock Crossing	Atlanta, GA	1994	66,122	100.0%	Kroger
East Gate Shopping Center	Augusta, GA	1995	75,716	92.2%	Publix
Fury's Ferry	Augusta, GA	1996	70,458	98.0%	Publix
Parkway Centre	Columbus, GA	1999	53,088	97.7%	Publix
Greensboro Village	Nashville, TN	2005	70,203	91.9%	Publix
Spring Hill Plaza	Nashville, TN	2005	61,570	100.0%	Publix
Parkway Town Centre	Nashville, TN	2005	65,587	100.0%	Publix
The Market at Salem Cove	Nashville, TN	2010	62,356	100.0%	Publix
The Market at Victory Village	Nashville, TN	2007	71,300	100.0%	Publix
The Overlook at Hamilton Place	Chattanooga, TN	1992	213,095	100.0%	The Fresh Market
Shoppes of Parkland	Miami-Ft. Lauderdale, FL	2000	145,720	100.0%	BJ's Wholesale Club
Polo Grounds Mall	West Palm Beach, FL	1966	130,285	98.9%	Publix
Crossroads Market	Naples, FL	1993	126,895	100.0%	Publix
Neapolitan Way	Naples, FL	1985	137,580	91.8%	Publix
Berry Town Center	Orlando, FL	2003	99,441	85.6%	Publix
Conway Plaza	Orlando, FL	1966	117,705	83.4%	Publix
Deltona Landings	Orlando, FL	1999	59,966	100.0%	Publix
University Palms	Orlando, FL	1993	99,172	100.0%	Publix
Disston Plaza	Tampa-St. Petersburg, FL	1954	129,150	96.6%	Publix
Barclay Crossing	Tampa, FL	1998	54,958	100.0%	Publix
Champions Village	Houston, TX	1973	383,346	78.0%	Randalls
Kingwood Glen	Houston, TX	1998	103,397	97.1%	Kroger
Independence Square	Dallas, TX	1977	140,218	87.2%	Tom Thumb
Oak Park Village	San Antonio, TX	1970	64,855	100.0%	H.E.B. (2)
Sweetgrass Corner	Charleston, SC	1999	89,124	29.1%	
Irmo Station	Columbia, SC	1980	99,384	96.4%	Kroger
Rosewood Shopping Center	Columbia, SC	2002	36,887	93.5%	Publix
Anderson Central	Greenville Spartanburg, SC	1999	223,211	96.8%	Walmart
Fairview Market	Greenville Spartanburg, SC	1998	46,303	93.1%	Aldi
Brawley Commons	Charlotte, NC	1997	122,028	100.0%	Publix
West Town Market	Charlotte, NC	2004	67,883	100.0%	Harris Teeter
Heritage Station	Raleigh, NC	2004	72,946	100.0%	Harris Teeter
Maynard Crossing	Raleigh, NC	1996	122,781	94.6%	Harris Teeter
Hanover Center ⁽⁴⁾	Wilmington, NC	1954	305,346	100.0%	Harris Teeter
Southgate Village	Birmingham, AL	1988	75,092	96.8%	Publix
Hollymead Town Center	Charlottesville, VA	2005	158,807 ⁽³⁾	90.8%	Harris Teeter
Gayton Crossing	Richmond, VA	1983	158,316	84.4%	Kroger
Fairfield Shopping Center ⁽⁴⁾	Virginia Beach, VA	1985	231,829	85.3%	Food Lion
Free State Shopping Center	Washington, DC	1970	264,152	97.7%	Giant
Grand total/weighted average			<u>6,041,629</u>	93.2%	

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

⁽²⁾ Bi-Lo (the former anchor tenant) had extended their term through April 30, 2019 and had no further right or option to extend their lease.

⁽³⁾ The GLA figure shown excludes the GLA of the Kroger store, which is owned by others.

⁽⁴⁾ Property is owned through a consolidated joint venture.

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

Our grocery anchor tenants comprised 43.4% of our portfolio GLA at December 31, 2019. Our small in-line tenants generally consist of retail, consumer services, healthcare providers, and restaurants; none of our small in-line tenants individually constitute more than 1.0% of our portfolio GLA as of December 31, 2019. The following table summarizes our grocery anchor tenants by GLA as of December 31, 2019:

Grocery Anchor Tenant	GLA	% of GLA within retail portfolio
Publix	1,175,430	19.5%
Kroger	518,194	8.6%
Harris Teeter	273,273	4.5%
Wal-Mart	183,211	3.0%
BJ's Wholesale Club	108,532	1.8%
Giant	73,149	1.2%
Randall's	61,604	1.0%
H.E.B	54,844	0.9%
Tom Thumb	43,600	0.7%
The Fresh Market	43,321	0.7%
Food Lion	38,538	0.6%
Sprouts	29,855	0.5%
Aldi	23,622	0.4%
Total	2,627,173	43.4%

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

	Totals		
	Number of leases	Leased GLA	Percent of leased GLA
Month to month	9	37,826	0.7%
2020	125	385,241	6.9%
2021	173	685,469	12.2%
2022	173	601,057	10.7%
2023	132	616,227	11.0%
2024	124	1,157,454	20.6%
2025	70	777,600	13.9%
2026	17	172,282	3.1%
2027	26	189,485	3.4%
2028	27	352,816	6.3%
2029	26	183,451	3.3%
2030 +	18	456,824	7.9%
Total	920	5,615,732	100.0%

Preferred Office Properties

At December 31, 2019, we owned the following nine office properties, which comprise our Preferred Office Properties segment:

Property Name	Location	GLA	Percent leased
Three Ravinia	Atlanta, GA	814,000	98%
150 Fayetteville	Raleigh, NC	560,000	91%
Capitol Towers	Charlotte, NC	479,000	99%
Westridge at La Cantera	(1) San Antonio, TX	258,000	100%
CAPTRUST Tower	(1) Raleigh, NC	300,000	97%
Morrocroft Centre	(1) Charlotte, NC	291,000	89%
Armour Yards	Atlanta, GA	187,000 (2)	96%
Brookwood Center	Birmingham, AL	169,000	100%
Galleria 75	Atlanta, GA	111,000	96%
		<u>3,169,000</u>	96%

(1) Property is owned through a consolidated joint venture.

(2) GLA for Armour Yards excludes 35,000 square feet for 251 Armour, which is under redevelopment.

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

As of December 31, 2019, our significant tenants within our Preferred Office Properties segment consisted of:

	Rentable square footage	Percent of Annual Base Rent	Annual Base Rent (in thousands)
InterContinental Hotels Group	520,000	14.3%	\$ 12,043
Albemarle	162,000	6.8%	5,706
CapFinancial	113,000	4.7%	3,983
United Services Automobile Association	129,000	3.7%	3,118
Harland Clarke Corporation	129,000	3.4%	2,881
	<u>1,053,000</u>	<u>32.9%</u>	<u>\$ 27,731</u>

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

Office building portfolio		
Year of lease expiration	Rented square feet	Percent of rented square feet
2020	111,000	3.7%
2021	263,000	8.8%
2022	127,000	4.2%
2023	124,000	4.1%
2024	266,000	8.8%
2025	251,000	8.3%
2026	266,000	8.8%
2027	319,000	10.6%
2028	213,000	7.1%
2029	57,000	1.9%
2030+	1,015,000	33.7%
Total	3,012,000	100.0%

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

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

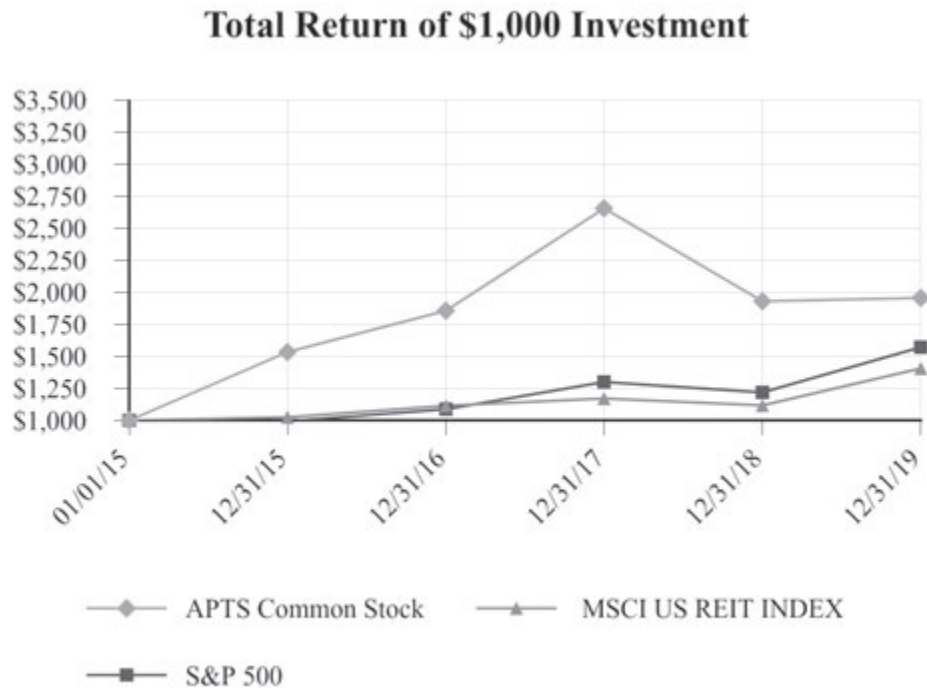
As of December 31, 2019, there were approximately 29,800 holders of record of our Common Stock. This total excludes an unknown number of holders of 7.1 million shares of Common Stock in street name at non-responding brokerage firms.

Dividends

We have declared and subsequently paid cash dividends on shares of our Common Stock for each quarter since our IPO in 2011. Since we have elected to be taxed as a REIT effective with our tax year ended December 31, 2011, we are required to, and intend to, distribute at least 90% of our REIT taxable income (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) to maintain such status. Dividends are declared with the action and approval of our board of directors and any future distributions are made at our board of director's discretion. Our dividend paying capacity is primarily dependent upon cash generated from our multifamily communities, grocery-anchored shopping centers and office properties, interest income on our real estate loans and cash needs for capital expenditures, both foreseen and unforeseen, among other factors. Risks inherent in our ability to pay dividends are further described in the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Stockholder Return Performance Graph

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



The chart above presents comparative investment results through December 31, 2019 of a hypothetical initial investment of \$1,000 on January 1, 2015 in: (i) our Common Stock, ticker symbol "APTS;" (ii) the MSCI U. S. REIT Index, an index of equity REIT constituent companies that derive the majority of their revenue from real estate rental activities; and (iii) the S&P 500 Index. The total return results assume automatic reinvestment of dividends and no transaction costs.

	Value of initial investment on:					
	1/1/2015	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
APTS Common Stock	\$ 1,000	\$ 1,533	\$ 1,854	\$ 2,653	\$ 1,927	\$ 1,955
MSCI U. S. REIT Index	\$ 1,000	\$ 1,025	\$ 1,113	\$ 1,170	\$ 1,116	\$ 1,405
S&P 500	\$ 1,000	\$ 993	\$ 1,087	\$ 1,299	\$ 1,218	\$ 1,569

Sales of Unregistered Securities

There were no previously unreported sales of unregistered securities by the Company during the fiscal year ended 2019.

Preferred Stock Redemptions

For the year ended December 31, 2019, we redeemed 66,489 shares of Series A Preferred Stock and 2,023 mShares. The redemption price was \$1,000 per share, less any applicable declining redemption fee.

Item 6. Selected Financial Data

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

<i>(In thousands, except per-share data and preferred stock par values)</i>	Year Ended December 31,				
	2019	2018	2017	2016	2015
Total revenues	\$ 470,427	\$ 397,271	\$ 294,005	\$ 200,119	\$ 109,306
Net income (loss)	\$ (7,458)	\$ 44,538	\$ 28,667	\$ (9,843)	\$ (2,426)
Net loss per share of Common Stock available to common stockholders, basic and diluted	\$ (2.73)	\$ (1.08)	\$ (1.13)	\$ (2.11)	\$ (0.95)
Weighted average number of shares of Common Stock outstanding, basic and diluted	44,265	40,032	31,926	23,969	22,183
Cash dividends declared per share of Common Stock	\$ 1.0475	\$ 1.02	\$ 0.94	\$ 0.8175	\$ 0.7275
Total assets	\$ 4,770,560	\$ 4,410,958	\$ 3,252,370	\$ 2,420,833	\$ 1,295,529
Long term debt	\$ 2,679,829	\$ 2,339,752	\$ 1,812,049	\$ 1,327,878	\$ 696,945
Revolving credit facility	\$ —	\$ 57,000	\$ 41,800	\$ 127,500	\$ 34,500
Total liabilities	\$ 2,836,444	\$ 2,801,573	\$ 1,971,604	\$ 1,535,571	\$ 770,075
Preferred Stock (par value outstanding)	\$ 21,362	\$ 16,518	\$ 12,373	\$ 9,144	\$ 4,830
Total equity	\$ 1,934,116	\$ 1,609,385	\$ 1,280,766	\$ 885,261	\$ 525,454
Cash flows provided by (used in):					
Operating activities	\$ 145,631	\$ 145,381	\$ 86,289	\$ 61,661	\$ 35,221
Investing activities	\$ (661,057)	\$ (881,805)	\$ (727,177)	\$ (1,126,584)	\$ (533,510)
Financing activities	\$ 564,989	\$ 751,102	\$ 646,185	\$ 1,074,804	\$ 497,615
Funds from operations ("FFO") ⁽¹⁾	\$ 61,847	\$ 57,773	\$ 43,344	\$ 22,386	\$ 16,702
Adjusted funds from operations ("AFFO") ⁽¹⁾	\$ 45,949	\$ 54,429	\$ 38,377	\$ 26,595	\$ 21,783

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

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

Significant Developments

During the year ended December 31, 2019, we acquired three office buildings, two multifamily communities, seven grocery-anchored shopping centers and one student housing property.

During the year ended December 31, 2019, we issued 486,529 Units (one share of Series A Preferred Stock and one warrant to purchase 20 shares of our Common Stock) and collected net proceeds of approximately \$437.8 million from our \$1.5 Billion Unit Offering. We also issued 61,758 shares of Series M Preferred Stock and collected net proceeds of approximately \$59.9 million from our mShares Offering. On September 27, 2019, the SEC declared effective our offering of up to a maximum of

1,000,000 shares of Series A1 Redeemable Preferred Stock, Series M1 Redeemable Preferred Stock, or a combination of both (the "Series A1/M1 Registration Statement"). During the year ended December 31, 2019, we issued 4,736 shares of Series A1 Preferred Stock and collected net proceeds of approximately \$4.3 million. Our Preferred Stock offerings and our other equity offerings are discussed in detail in the Liquidity and Capital Resources section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

In addition, during the year ended December 31, 2019, we issued 886,780 shares of Common Stock upon the exercise of Warrants issued in our offerings of our Series A Redeemable Preferred Stock and collected net proceeds of approximately \$11.5 million from those exercises.

On January 1, 2020, Joel T. Murphy became Chief Executive Officer of the Company. Mr. Murphy will continue as a member of the board, where he has served since May 2019. Mr. Murphy was the CEO of our New Market Properties subsidiary for the last five years until his appointment as our CEO, and since June 2018 has been the chairman of the Company's investment committee. Mr. Murphy succeeded our previous CEO and Chairman of the Board, Daniel M. DuPree, who will remain with us as Executive Chairman of the Board.

On January 31, 2020, we internalized the functions performed by Preferred Apartment Advisors, LLC (the "Manager") and NMP Advisors, LLC (the "Sub-Manager") by acquiring the entities that own the Manager and the Sub-Manager (such transactions, collectively, the "Internalization") for an aggregate purchase price of \$154.0 million, plus up to \$25.0 million of additional consideration. Additionally, up to \$15.0 million of the \$154.0 million purchase price was to be held back and is payable to the sellers less certain losses following final resolution of certain specified matters. Pursuant to the Stock Purchase Agreement entered into on January 31, 2020 the sellers sold all of the outstanding shares of NELL Partners, Inc. ("NELL") and NMA Holdings, Inc., parent companies of the Manager and Sub-Manager, respectively, to us, in exchange for an aggregate of approximately \$111.1 million in cash paid at the closing which reflects the satisfaction of certain indebtedness of NELL, the estimated net working capital adjustment, and a hold back of \$15.0 million for certain specified matters. Trusts established, or entities owned, by the family of John A. Williams, the Company's former Chairman of the Board and Chief Executive Officer, Daniel M. DuPree, the Company's Executive Chairman of the Board and former Chief Executive Officer of the Company, and Leonard A. Silverstein, the Company's Vice Chairman of the Board, and former President and Chief Operating Officer, were the owners of NELL. Trusts established, or entities owned, by Joel T. Murphy, the Company's Chief Executive Officer and a member of the Board, the family of Mr. Williams, Mr. DuPree and Mr. Silverstein were the owners of NMA.

Forward-looking Statements

Certain statements contained in this Annual Report on Form 10-K, including, without limitation, statements containing the words "believes," "anticipates," "intends," "expects," "assumes," "goals," "guidance," "trends" and similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon our current plans, expectations and projections about future events. However, such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. Government and changes to U.S. Government policies and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic areas;
- economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements, including through Fannie Mae and Freddie Mac;
- financing and advance rates for our target assets;
- our expected leverage;
- changes in the values of our assets;
- our expected portfolio of assets;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;

- rates of default or decreased recovery rates on our target assets;
- changes in our operating costs, including real estate taxes, utilities and insurance costs;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust, or REIT, for U.S. federal income tax purposes;
- the possibility that the anticipated benefits from the internalization of our former external Manager and Sub-Manager, or the Internalization, may not be realized or may take longer to realize than expected, or that unexpected costs or unexpected liabilities may arise from the Internalization;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- the availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- the availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- our understanding of our competition;
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;
- weakness in the national, regional and local economies, which could adversely impact consumer spending and retail sales and in turn tenant demand for space and could lead to increased store closings;
- changes in market rental rates;
- changes in demographics (including the number of households and average household income) surrounding our shopping centers;
- adverse financial conditions for grocery anchors and other retail, service, medical or restaurant tenants;
- continued consolidation in the grocery-anchored shopping center sector;
- excess amount of retail space in our markets;
- reduction in the demand by tenants to occupy our shopping centers as a result of reduced consumer demand for certain retail formats;
- the growth of super-centers and warehouse club retailers, such as those operated by Wal-Mart and Costco, and their adverse effect on traditional grocery chains;
- the entry of new market participants into the food sales business, such as Amazon's acquisition of Whole Foods, the growth of online food delivery services and online supermarket retailers and their collective adverse effect on traditional grocery chains;
- our ability to aggregate a critical mass of grocery-anchored shopping centers;
- the impact of an increase in energy costs on consumers and its consequential effect on the number of shopping visits to our centers; and
- consequences of any armed conflict involving, or terrorist attack against, the United States.

Forward-looking statements are found throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission, or SEC, we do not have any intention or obligation to publicly release any revisions to forward-looking statements to reflect unforeseen or other events after the date of this report. The forward-looking statements should be read in light of the risk factors indicated in the section entitled "Risk Factors" in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2019 and as may be supplemented by any amendments to our risk factors in our subsequent quarterly reports on Form 10-Q and other reports filed with the SEC, which are accessible on the SEC's website at www.sec.gov.

General

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial position. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Industry Outlook

We believe continued, albeit potentially sporadic, improvement in the United States' economy will continue for 2020, given the continued job growth and improvements in the overall economy. The presidential administration certainly creates more uncertainty in the direction and trajectory of economic growth. We believe a growing economy, improved job market and increased consumer confidence should help create favorable conditions for the multifamily sector. If the economy continues to perform, we expect current occupancy rates generally to remain stable on an annual basis as we believe the current level of occupancy nationwide will be difficult to measurably improve upon.

Multifamily Communities

The pipeline of new multifamily construction, although increasing nationwide in recent years, may be showing signs of declining going forward, or at least plateauing. The new supply coming on line to date has been generally in line with demand in most of our markets although we have seen some areas where demand is falling short of new supply. Nationally, new multifamily construction is currently at or above average historical levels in most markets. Even with the increase in new supply of multifamily properties, recent job growth and demographic trends have led to reasonable levels of absorption in most of our markets. The absorption rate has led to generally stable occupancy rates with increases in rental rates in most of our markets. We believe the supply of new multifamily construction will not increase dramatically as the constraints in the market (including availability of quality sites and the difficult permitting and entitlement process) will constrain further increases in multifamily supply. We expect that new supply is at or near a peak and these constraints may result in a leveling out or decline in new multifamily “starts” in 2019 and 2020. As an offset, the presidential administration may loosen banking regulation standards, which could cause an increase in available capital for new construction. Any relaxing of these regulations could lead to more capital for new multifamily development and an increase in supply. The cost of private capital, less debt capital available from traditional commercial banks for real estate loans and a softening of the market in some “Gateway” cities have all put pressure on the pricing dynamic in multifamily transactions. This could lead to an increase in capitalization rates and a softening price environment, and if this were to occur, then our pipeline of candidate multifamily property acquisitions with returns meeting our investment objectives may expand. However, it is important to note that, currently, equity capital for multifamily product remains available and has fueled the demand for the product which has led to the recent cap rate compression. Currently, that availability of capital remains strong and the investment market for multifamily remains popular.

The recent declines in U.S. Treasury yields combined with competitive lender spreads have maintained a favorable borrowing environment for multifamily owners and developers. Given the uncertainty around the world's financial markets, fueled in part by the U.S. President and how his policies may affect domestic and international markets, investors have been wary in their approach to debt markets. Recent US bond market movements have seen rates decline and spreads from the government-sponsored entity, or GSE, lenders have been relatively stable with slightly more volatility than in the recent past. Other lenders in the market have had generally stable spreads as well and some lenders have actually dropped spreads in our markets. During the balance of 2020, we may well see spreads remaining at or near current levels as the investment community becomes more comfortable with the direction of the market and the US economy. With the recent decrease in U.S. Treasury rates, we expect the market to continue to remain favorable for financing multifamily communities, as the equity and debt markets have generally continued to view the U.S. multifamily sector as a desirable investment. Lending by GSEs is limited by the caps on production or capital retention rates imposed by the Federal Housing and Finance Association. The new caps set production levels generally in line with the agencies recent history. It could be the case that the agencies new caps lead to higher lending rates in the short term as the agencies and the market digest the new caps. Although we expect such higher costs to be offset by increased lending activity by other market participants; such other market participants may have increased costs and stricter underwriting criteria. Recently, there has been increased dialog from multiple sources discussing the future of the GSEs. Any change to the structure of the GSEs and their business model could have material impacts on the multifamily debt capital markets generally.

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

Student Housing Properties

Regarding the student housing industry, the Fall 2019 preleasing numbers were very consistent with last year, which is encouraging considering the roughly 10% increase in anticipated supply this year. Industry reports suggest that nationally, effective rents were up 1.7% as of June, slightly higher than 2018's growth. The top 10 universities for rent growth are all experiencing growth over 5%, however, nearly all of them have seen little to no new supply as of late. Over the past four years, national occupancy levels have stayed fairly consistent at approximately 95%. There were roughly 48,000 student housing beds delivered across the country in the fall of 2019, with a similar forecast for fall of 2020 delivery. This inventory growth, while greater than the two previous years, remains in line with recent levels.

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

New Market Properties

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

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

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

Preferred Office Properties

The office investment market continues to post healthy fundamentals across our current and target footprint, where we are primarily focused on high growth, non-“Gateway” markets. Due to banking reforms and conservative behavior among market participants, this cycle has been characterized by an historically low level of speculative office construction which is supporting continued good performance.

Critical Accounting Policies

Below is a discussion of the accounting policies that management believes are critical. We consider these policies critical because they involve significant management judgments, assumptions and estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Real Estate

Cost Capitalization. Investments in real estate properties are carried at cost and depreciated using the straight-line method over the estimated useful lives of 30 to 50 years for buildings, 5 to 20 years for building and land improvements and 5 to 10 years for computers, furniture, fixtures and equipment. Acquisition costs are generally expensed as incurred for transactions that are deemed to be business combinations. Accounting Standards Update 2017-01 ("ASU 2017-01"), which was released in January 2017, clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We adopted ASU 2017-01 as of January 1, 2017 and believe our future acquisitions of multifamily communities, office buildings, grocery-anchored shopping centers, and student housing communities will generally qualify as asset acquisitions. Pursuant to ASU 2017-01, certain qualifying acquisition costs will be capitalized and amortized rather than expensed as incurred.

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

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

All assets acquired and liabilities assumed in a business combination are measured at their acquisition-date fair values.

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

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

Intangible assets include the value of in-place leases, which represents the estimated value of the net cash flows of the in-place leases to be realized, as compared to the net cash flows that would have occurred had the property been vacant at the time of acquisition and subject to lease-up. These estimates include estimated carrying costs, such as real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the hypothetical expected lease-up periods.

The fair values of in-place leases for retail shopping centers and office properties represent the value of direct costs associated with leasing, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases. Direct costs associated with obtaining a new tenant include commissions, legal and marketing costs, incentives such as tenant improvement allowances and other direct costs. Such direct costs are estimated based on our consideration of current market costs to execute a similar lease. The value of opportunity costs is estimated using the estimated market lease rates and the estimated absorption period of the space. These direct costs and opportunity costs are included in the accompanying consolidated balance sheets as acquired intangible assets and are amortized to expense over the remaining term of the respective leases. The fair values of above-market and below-market in-place leases for retail shopping centers and office properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the leases, taking into consideration the probability of renewals for any below-market leases. Acquired in-place lease values for multifamily communities and student housing communities are amortized to operating expense over the average remaining non-cancelable term of the respective in-place leases.

Estimating the fair values of the tangible assets, identifiable intangibles and assumed liabilities requires us to make significant assumptions to estimate market lease rates, property-operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, the number of years the property will be held for investment and market interest rates. The use

of different assumptions would result in variations of the values of our acquired tangible assets, identifiable intangibles and assumed liabilities, which would impact their subsequent amortization and ultimately our net income.

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

Real Estate Loans

We extend loans for purposes such as to acquire land and to provide partial financing for the development of multifamily residential communities, student housing communities, grocery-anchored shopping centers and office properties and for other real estate or real estate related projects. Certain of these loans we extend include characteristics such as exclusive options to purchase the project within a specific time window following expected project completion and stabilization. These characteristics can cause the loans to contain variable interests and the potential of consolidation of the underlying project as a variable interest entity, or VIE. We consider the facts and circumstances pertinent to each loan, including the relative amount of financing we are contributing to the overall project cost, decision making rights or control we hold and our rights to expected residual gains or our obligations to absorb expected residual losses from the project. If we are deemed to be the primary beneficiary of a VIE due to holding a controlling financial interest, the majority of decision making control, or by other means, consolidation of the VIE would be required. Arriving at these conclusions requires us to make significant assumptions and judgments concerning each project, especially with regard to our estimates of future market capitalization rates and property net operating income projections. Additionally, we analyze each loan arrangement and utilize these same assumptions and judgments for consideration of whether the loan qualifies for accounting as a loan or as an investment in a real estate development project.

Loan loss allowances

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

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

Revenue Recognition

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

Revenue from reimbursements of retail and office building tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs are recognized as the respective costs are incurred in accordance with the lease agreements. We estimate the collectability of the receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental income on a straight-line basis, by taking into consideration our historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms.

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

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

New Accounting Pronouncements

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

Results of Operations

Certain financial highlights of our results of operations for the three-month periods and years ended December 31, 2019 and 2018 were:

	Three months ended December 31,			Years ended December 31,		
	2019	2018	% change	2019	2018	% change
Revenues <i>(in thousands)</i>	\$ 124,866	\$ 106,280	17.5 %	\$ 470,427	\$ 397,271	18.4 %
Per share data:						
Net income (loss) ⁽¹⁾	\$ (0.71)	\$ 0.06	—	\$ (2.73)	\$ (1.08)	152.8 %
FFO ^{(2)(A)}	\$ 0.31	\$ 0.38	(18.4)%	\$ 1.37	\$ 1.41	(2.8)%
AFFO ⁽²⁾	\$ 0.35	\$ 0.48	(27.1)%	\$ 1.02	\$ 1.33	(23.3)%
Dividends ⁽³⁾	\$ 0.2625	\$ 0.26	1.0 %	\$ 1.0475	\$ 1.02	2.7 %

^(A) FFO includes due diligence and pursuit costs related to the Internalization of our Manager of approximately \$1.8 million and \$3.0 million for the three months and year ended December 31, 2019, respectively. Excluding these costs, our FFO would have been \$0.35 and \$1.44 for these periods.

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

⁽²⁾ FFO and AFFO results are presented per weighted average share of Common Stock and Class A Unit in our Operating Partnership outstanding for the periods indicated. See Reconciliations of FFO Attributable to Common Stockholders and Unitholders and AFFO to Net Income (Loss) Attributable to Common Stockholders and Definitions of Non-GAAP Measures later in this section.

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

- For the fourth quarter 2019, our FFO payout ratio to Common Stockholders and Unitholders was approximately 84.4% and our FFO payout ratio (before the deduction of preferred dividends) to our preferred stockholders was approximately 68.0%. Excluding costs related to the Internalization of our Manager, these respective ratios were 75.0% and 65.4%.^(A)

- Our AFFO payout ratio to Common Stockholders and Unitholders was approximately 74.9% for the fourth quarter 2019 and 103.7% for the year ended December 31, 2019. Our AFFO payout ratio (before the deduction of preferred dividends) to our preferred stockholders was approximately 65.4% for the fourth quarter 2019 and 71.2% for the year ended December 31, 2019. ^(B) We have approximately \$25.8 million of accrued but not yet paid interest revenues on our real estate loan investment portfolio.
- At December 31, 2019, the market value of our common stock was \$13.32 per share. A hypothetical investment in our Common Stock in our initial public offering on April 5, 2011, assuming the reinvestment of all dividends and no transaction costs, would have resulted in an average annual return of approximately 15.2% through December 31, 2019.
- As of December 31, 2019, the average age of our multifamily communities was approximately 5.7 years, which is the youngest in the public multifamily REIT industry.
- As of December 31, 2019, approximately 93.2% of our permanent property-level mortgage debt has fixed interest rates and approximately 3.8% has variable interest rates which are capped. We believe we are well protected against potential increases in market interest rates.
- On December 10 and December 17, 2019, we sold our investments in the ML-04 and ML-05 tranches of the Freddie Mac K Program, respectively, for a combined \$26.6 million, realizing a combined gain of approximately \$1.6 million.
- As of December 31, 2019, our total assets were approximately \$4.8 billion compared to approximately \$4.4 billion as of December 31, 2018, an increase of approximately \$360 million, or approximately 8.2%. This growth reflected the acquisition of 13 real estate properties during 2019, partially offset by the sale of our Freddie Mac K program investments in December 2019 and the resulting deconsolidation of the associated VIE mortgage pool assets. Excluding the VIE mortgage pool assets from other participants in the K Program, our total assets grew approximately \$624.5 million, or 15.1% since December 31, 2018.
- On October 17, 2019, we obtained a new fixed-rate mortgage on our Five Oaks at Westchase multifamily community of approximately \$31.5 million, which matures on November 1, 2031 and bears interest of 3.27% per annum.
- At December 31, 2019, our leverage, as measured by the ratio of our debt to the undepreciated book value of our total assets, was approximately 51.6%.
- On May 24, 2019, we entered into a purchase and sale agreement to sell six of our student housing properties to a third party. On June 28, 2019, this agreement was terminated and we recorded revenue from a forfeited earnest money deposit of \$1.0 million. A new purchase and sale agreement was entered into for the same six student housing properties plus a real estate loan investment supporting yet another student housing property on July 29, 2019. On December 9, 2019, the agreement was amended to change the closing date to March 20, 2020 and resulted in another \$1.0 million deposit forfeiture by the prospective purchaser.
- On October 11, 2019, we closed on a real estate loan investment of up to \$10.9 million in connection with the development of Vintage Horizon West, a 340-unit multifamily community to be located in Orlando, Florida.

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

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

Real Estate Loan Investments

Certain real estate loan investments include limited purchase options and additional amounts of accrued interest, which becomes due in cash to us on the earliest to occur of: (i) the maturity of the loan, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing loan by us or one of our affiliates) and (iv) any other repayment of the loan. There are no contingent events that are necessary to occur for us to realize the additional interest amounts. We hold options, but not obligations, to purchase certain of the properties which are partially financed by our real estate loans, as shown in the table below. The option purchase prices are negotiated at the time of the loan closing and are to be calculated based upon market cap rates at the time of exercise of the purchase option, with discounts up to 15 basis points (if any), depending on the loan.

As of December 31, 2019, potential property acquisitions and units from projects in our real estate loan investment portfolio consisted of:

Project/Property	Location	Total units upon completion ⁽¹⁾	Purchase option window	
			Begin	End
Multifamily communities:				
Falls at Forsyth	Atlanta, GA	356	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
V & Three	Charlotte, NC	338	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
The Anson	Nashville, TN	301	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Southpoint	Fredericksburg, VA	240	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
E-Town	Jacksonville, FL	332	S + 90 days ⁽³⁾	S + 150 days ⁽³⁾
Vintage	Destin, FL	282	⁽⁴⁾	⁽⁴⁾
Hidden River II	Tampa, FL	204	S + 90 days ⁽²⁾	S + 150 days ⁽²⁾
Vintage Horizon West	Orlando, FL	340	⁽⁴⁾	⁽⁴⁾
Student housing properties:				
Solis Kennesaw II	Atlanta, GA	175	⁽⁵⁾	⁽⁵⁾
Office property:				
8West	Atlanta, GA	⁽⁶⁾	⁽⁶⁾	⁽⁶⁾
		2,568		

⁽¹⁾ We evaluate each project individually and we make no assurance that we will acquire any of the underlying properties from our real estate loan investment portfolio. The purchase options held by us on the 464 Bishop, Haven Charlotte, Sanibel Straights, Wiregrass, Newbergh, Cameron Square and Solis Kennesaw projects were terminated, in exchange for an aggregate \$14.0 million in termination fees from the developers, net of amounts due to third party loan participants.

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

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

⁽⁴⁾ The option period window begins on the later of one year following receipt of final certificate of occupancy or 90 days beyond the achievement of a 93% physical occupancy rate by the underlying property and ends 60 days beyond the option period beginning date.

⁽⁵⁾ The option period begins on October 1 of the second academic year following project completion and ends on the following December 31. The developer may elect to expedite the option period to begin December 1, 2020 and end on December 31, 2020.

⁽⁶⁾ The project plans are for the construction of a class A office building consisting of approximately 192,000 rentable square feet; our purchase option window opens 90 days following the achievement of 90% lease commencement and ends on November 30, 2024 (subject to adjustment). Our purchase option is at the to-be-agreed-upon market value. In the event the property is sold to a third party, we would be due a fee based on a minimum multiple of 1.15 times the total commitment amount of the real estate loan investment, less the amounts actually paid by the borrower, up to and including payment of accrued interest and repayment of principal at the time of the sale.

Years ended December 31, 2019 compared to 2018

The following discussion and tabular presentations highlight the major drivers behind the line item changes in our results of operations for the years ended December 31, 2019 versus 2018:

Preferred Apartment Communities, Inc.	Years ended December 31,		Change inc (dec)	
	2019	2018	Amount	Percentage
Revenues:				
Rental revenues	\$ 395,121	\$ 323,252	\$ 71,869	22.2 %
Other property revenues	11,795	8,213	3,582	43.6 %
Interest income on loans and notes receivable	49,542	50,190	(648)	(1.3)%
Interest income from related parties	11,946	15,616	(3,670)	(23.5)%
Miscellaneous revenues	2,023	—	2,023	—
Total revenues	470,427	397,271	73,156	18.4 %
Operating expenses:				
Property operating and maintenance	52,911	44,065	8,846	20.1 %
Property salary and benefits	20,693	17,766	2,927	16.5 %
Property management fees	13,981	11,681	2,300	19.7 %
Real estate taxes	50,298	42,035	8,263	19.7 %
General and administrative	8,541	8,224	317	3.9 %
Equity compensation to directors and executives	1,223	1,703	(480)	(28.2)%
Depreciation and amortization	185,065	171,136	13,929	8.1 %
Asset management and general and administrative expense fees to related parties	33,516	27,541	5,975	21.7 %
Loan loss allowance	2,038	2,533	(495)	(19.5)%
Insurance, professional fees and other expenses	13,687	7,166	6,521	91.0 %
Total operating expenses	381,953	333,850	48,103	14.4 %
Waived asset management and general and administrative expense fees	(11,764)	(6,656)	(5,108)	76.7 %
Net operating expenses	370,189	327,194	42,995	13.1 %
Operating income before gains on sales of				
real estate and trading investments	100,238	70,077	30,161	43.0 %
Gain on sale of real estate and trading investment	1,567	69,705	(68,138)	(97.8)%
Operating income	101,805	139,782	(37,977)	(27.2)%
Interest expense	111,964	95,564	16,400	17.2 %
Change in fair value of net assets of consolidated				
VIE from mortgage-backed pool	1,831	320	1,511	472.2 %
(Loss) on debt extinguishment	(84)	—	(84)	—
Gains on sale of real estate loan investment and land condemnation	954	—	954	—
Net (loss) income	(7,458)	44,538	(51,996)	—
Consolidated net loss (income) attributable to non-controlling interests	214	(1,071)	1,285	—
Net (loss) income attributable to the Company	\$ (7,244)	\$ 43,467	\$ (50,711)	—

New Market Properties, LLC

Our New Market Properties, LLC business consists of our portfolio of grocery-anchored shopping centers and our Dawson Marketplace real estate loan supporting a shopping center in the Atlanta, Georgia market. Comparative statements of operations of New Market Properties, LLC for the year ended December 31, 2019 versus 2018 are presented below. These statements of operations include no allocations of corporate overhead or other expenses.

New Market Properties, LLC	Years ended December 31,		Change inc (dec)	
	2019	2018	Amount	Percentage
Revenues:				
Rental revenues	\$ 94,064	\$ 74,519	\$ 19,545	26.2 %
Other property revenues	564	713	(149)	(20.9)%
Interest income on notes receivable	1,761	2,011	(250)	(12.4)%
Total revenues	96,389	77,243	19,146	24.8 %
Operating expenses:				
Property operating and maintenance	10,113	8,571	1,542	18.0 %
Property management fees	3,318	2,741	577	21.1 %
Real estate taxes	11,602	9,296	2,306	24.8 %
General and administrative	1,081	924	157	17.0 %
Equity compensation to directors and executives	70	149	(79)	(53.0)%
Depreciation and amortization	44,786	39,269	5,517	14.0 %
Asset management and general and administrative expense fees to related parties	7,242	5,743	1,499	26.1 %
Insurance, professional fees and other expenses	1,772	1,126	646	57.4 %
Total operating expenses	79,984	67,819	12,165	17.9 %
Waived asset management and general and administrative expense fees	(382)	(375)	(7)	—
Net operating expenses	79,602	67,444	12,158	18.0 %
Operating income	16,787	9,799	6,988	71.3 %
Interest expense	24,566	19,188	5,378	28.0 %
Loss on extinguishment of debt	68	—	68	—
Net income (loss)	(7,847)	(9,389)	1,542	(16.4)%
Consolidated net (income) loss attributable to non-controlling interests				
	(55)	—	(55)	—
Net income (loss) attributable to the Company	\$ (7,792)	\$ (9,389)	\$ 1,597	(17.0)%

Recent acquisitions

Our acquisitions (net of dispositions) of real estate assets since January 1, 2018 were generally the primary drivers behind our increases in rental and property revenues and property operating expenses for the year ended December 31, 2019 versus 2018.

Real estate assets acquired

Acquisition date	Property	Location	Units	Beds	Leasable square feet
Multifamily communities:					
1/9/2018	The Lux at Sorrel	Jacksonville, FL	265	-	-
2/28/2018	Green Park	Atlanta, GA	310	-	-
9/27/2018	The Lodge at Hidden River	Tampa, FL	300	-	-
11/9/2018	Vestavia Reserve	Birmingham, AL	272	-	-
11/15/2018	CityPark View South ⁽¹⁾	Charlotte, NC	200	-	-
8/8/2019	Artisan at Viera	Melbourne, FL	259	-	-
9/18/2019	Five Oaks at Westchase	Tampa, FL	218	-	-
New Market Properties:					
4/27/2018	Greensboro Village	Nashville, TN	-	-	70,203
4/27/2018	Governors Towne Square	Atlanta, GA	-	-	68,658
6/26/2018	Neapolitan Way	Naples, FL	-	-	137,580
6/29/2018	Conway Plaza	Orlando, FL	-	-	117,705
7/6/2018	Brawley Commons	Charlotte, NC	-	-	122,028
12/21/2018	Hollymead Town Center	Charlottesville, VA	-	-	158,807
1/17/2019	Gayton Crossing	Richmond, VA	-	-	158,316
5/28/2019	Free State Shopping Center	Washington, D.C.	-	-	264,152
6/12/2019	Disston Plaza	Tampa - St. Petersburg, FL	-	-	129,150
6/12/2019	Polo Grounds Mall	West Palm Beach, FL	-	-	130,285
8/16/2019	Fairfield Shopping Center ⁽²⁾	Virginia Beach, VA	-	-	231,829
11/14/2019	Berry Town Center	Orlando, FL	-	-	99,441
12/19/2019	Hanover Shopping Center ⁽²⁾	Wilmington, NC	-	-	305,346
Student housing properties:					
5/10/2018	The Tradition	College Station, TX	427	808	-
5/31/2018	The Retreat at Orlando	Orlando, FL	221	894	-
6/27/2018	The Bloc	Lubbock, TX	140	556	-
3/27/2019	Haven49	Charlotte, NC	322	887	-
Preferred Office Properties:					
1/29/2018	Armour Yards	Atlanta, GA	-	-	187,000
7/31/2018	150 Fayetteville	Raleigh, NC	-	-	560,000
12/20/2018	Capitol Towers	Charlotte, NC	-	-	479,000
7/25/2019	CAPTRUST Tower ⁽²⁾	Raleigh, NC	-	-	300,000
7/31/2019	251 Armour	Atlanta, GA	-	-	35,000
12/20/2019	Morrocroft Centre ⁽²⁾	Charlotte, NC	-	-	291,000
			<u>2,934</u>	<u>3,145</u>	<u>3,845,500</u>

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

⁽²⁾ Property is owned through a consolidated joint venture.

Real estate assets sold

Disposition date	Property	Location	Units
3/20/2018	Lake Cameron	Raleigh, NC	328
9/28/2018	Stone Rise	Philadelphia, PA	216
10/23/2018	Stoneridge Farms at the Hunt Club	Nashville, TN	364
12/11/2018	McNeil Ranch	Austin, TX	192

Rental Revenues

Rental revenue increased due primarily to properties acquired since January 1, 2018, as shown in the following table:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31, 2019 versus 2018	
	2019	2018	Increase (decrease) Amount	Percent
Rental revenues				
Properties acquired since January 1, 2018	\$ 119,262	\$ 38,010	\$ 81,252	113.1 %
Properties sold since January 1, 2018	—	10,808	(10,808)	(15.1)%
Properties acquired in 2011 - 2017	275,859	274,434	1,425	2.0 %
Total	\$ 395,121	\$ 323,252	\$ 71,869	100.0 %

Increases in occupancy rates and in percentages of leased space and rent growth are the primary drivers of increases in rental revenue from our owned properties. Factors which we believe affect market rents include vacant unit inventory in local markets, local and national economic growth and resultant employment stability, income levels and growth, the ease of obtaining credit for home purchases, and changes in demand due to consumer confidence in the above factors.

We also collect revenue from residents and tenants for items such as utilities, application fees, lease termination fees, common area maintenance reimbursements and late charges. The increases in these other property revenues for the year ended December 31, 2019 versus 2018 were primarily due to the acquisitions listed above, an approximate \$1.3 million increase in lease termination revenues.

Interest income from our real estate loan investments decreased for the year ended December 31, 2019 versus 2018. Although the principal amount outstanding on our portfolio of real estate loan investments increased to approximately \$352.6 million at December 31, 2019 from \$336.3 million at December 31, 2018, interest revenue decreased due to the repayment or settlement of fully-drawn, larger balance loans early in 2019.

We recorded interest income and other revenue from these instruments as presented in Note 4 to the Company's Consolidated Financial Statements.

Miscellaneous revenues for the year ended December 31, 2019 consisted primarily of forfeited earnest money deposits from prospective purchasers of six of our student housing properties.

Property operating and maintenance expense

Expenses to operate and maintain our properties increased due primarily to properties acquired since January 1, 2018, as shown in the following table. The primary components of operating and maintenance expense are utilities, property repairs, and landscaping costs. The expenses incurred for property repairs and, to a lesser extent, utilities could generally be expected to increase gradually over time as the buildings and properties age. Utility costs may generally be expected to increase in future periods as rate increases from providing carriers are passed on to our residents and tenants.

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31, 2019 versus 2018 Increase (decrease)	
	2019	2018	Amount	Percent
Property operating and maintenance expense				
Properties acquired since January 1, 2018	\$ 17,986	\$ 6,301	\$ 11,685	132.1 %
Properties sold since January 1, 2018	—	1,903	(1,903)	(21.5)%
Properties acquired in 2011 - 2017	34,925	35,861	(936)	(10.6)%
Total	\$ 52,911	\$ 44,065	\$ 8,846	100.0 %

Property salary and benefits

We recorded property salary and benefits expense for individuals who handle the on-site management, operations and maintenance of our properties. These costs increased primarily due to the incremental costs brought on by additional personnel necessary to manage and operate properties acquired since January 1, 2018, as shown in the following table:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31, 2019 versus 2018 Increase (decrease)	
	2019	2018	Amount	Percent
Property salary and benefits				
Properties acquired since January 1, 2018	\$ 5,542	\$ 2,027	\$ 3,515	120.1 %
Properties sold since January 1, 2018	—	1,069	(1,069)	(36.5)%
Properties acquired in 2011 - 2017	15,151	14,670	481	16.4 %
Total	\$ 20,693	\$ 17,766	\$ 2,927	100.0 %

Property management fees

We paid fees for property management services to our Manager in an amount of 4% of gross property revenues as compensation for services such as rental, leasing, operation and management of our multifamily communities and the supervision of any subcontractors; for grocery-anchored shopping center assets, property management fees are generally 4% of gross property revenues, of which generally 2.0% to 2.5% is paid to a third party management company. Property management fees for office building assets are within the range of 2.0% to 2.75% of gross property revenues, of which 1.5% to 2.25% is paid to a third party management company. All property management fees paid to our Manager will cease, effective with our Internalization on January 31, 2020. The increases were primarily due to properties acquired since January 1, 2018, as shown in the following table:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31, 2019 versus 2018 Increase (decrease)	
	2019	2018	Amount	Percent
Property management fees				
Properties acquired since January 1, 2018	\$ 3,796	\$ 1,245	\$ 2,551	110.9 %
Properties sold since January 1, 2018	—	458	(458)	(19.9)%
Properties acquired in 2011 - 2017	10,185	9,978	207	9.0 %
Total	\$ 13,981	\$ 11,681	\$ 2,300	100.0 %

Real estate taxes

We are liable for property taxes due to the various counties and municipalities that levy such taxes on real property for each of our properties. Real estate taxes rose primarily due to the incremental costs brought on by properties acquired since January 1, 2018, as shown in the following table:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31, 2019 versus 2018	
	2019	2018	Increase (decrease) Amount	Percent
Real estate taxes				
Properties acquired since January 1, 2018	\$ 13,077	\$ 4,438	\$ 8,639	104.6 %
Properties sold since January 1, 2018	—	1,364	(1,364)	(16.6)%
Properties acquired in 2011 - 2017	37,221	36,233	988	12.0 %
Total	\$ 50,298	\$ 42,035	\$ 8,263	100.0 %

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

General and Administrative

The changes in general and administrative expenses occurred as shown in the following table:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31, 2019 versus 2018	
	2019	2018	Increase (decrease) Amount	Percent
General and administrative expense				
Taxes, licenses and fees	\$ 1,919	\$ 1,575	\$ 344	108.5 %
Properties acquired since January 1, 2018	1,881	939	942	297.2 %
Properties sold since January 1, 2018	—	243	(243)	(76.7)%
Properties acquired in 2011 - 2017	4,741	5,467	(726)	(229.0)%
Total	\$ 8,541	\$ 8,224	\$ 317	100.0 %

Equity compensation to directors and executives

Expenses recorded for equity compensation awards decreased for the year ended December 31, 2019 versus 2018 primarily due to the lack of a Class B OP Unit grant for 2019. The Class B Unit grant made on January 2, 2018 was comprised of an aggregate 256,087 Class B Units with a fair value of approximately \$4.3 million.

Depreciation and amortization

The increases in depreciation and amortization for the year ended December 31, 2019 versus 2018 are primarily due to acquisitions made during 2019.

Asset management fees and general and administrative fees to related party

Monthly asset management fees were equal to one-twelfth of 0.50% of the total book value of assets, as adjusted. General and administrative expense fees were equal to 2% of the monthly gross revenues of the Company. Both were calculated as prescribed by the Management Agreement and were paid monthly to our Manager. These fees rose primarily due to the incremental assets and revenues brought on by acquired office buildings, grocery-anchored shopping centers, student housing properties and multifamily communities listed previously. Effective with the closing of our Internalization transaction on January 31, 2020, fees to the former manager will no longer be incurred.

Insurance, professional fees and other expenses

The increases consisted of:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31,	
	2019 versus 2018		2019 versus 2018	
	2019	2018	Increase (decrease)	Amount
Audit and tax fees	\$ 1,672	\$ 1,464	\$ 208	3.2 %
Insurance premiums and claims	7,020	4,851	2,169	33.3 %
Board of directors fees	163	170	(7)	(0.2)%
Legal fees	1,308	424	884	13.6 %
Internalization costs	2,988	—	2,988	45.8 %
Other professional fees	536	257	279	4.3 %
Total	\$ 13,687	\$ 7,166	\$ 6,521	100.0 %

Waived asset management and general and administrative expense fees

The Manager waived some of the asset management, property management, or general and administrative fees for properties owned by the Company. The waived fees were forfeited in connection with the Internalization transaction.

Interest expense

The increases consisted of:

<i>(dollar amounts in thousands)</i>	Years ended December 31,		Years ended December 31,	
	2019 versus 2018		2019 versus 2018	
	2019	2018	Increase (decrease)	Amount
Interest expense				
Properties acquired since January 1, 2018	\$ 36,813	\$ 12,189	\$ 24,624	150.1 %
Properties sold since January 1, 2018	—	1,856	(1,856)	(11.3)%
Properties acquired in 2011 - 2017	73,077	74,810	(1,733)	(10.5)%
KeyBank operating LOC and Term Notes	1,964	4,278	(2,314)	(14.1)%
Loan participants	110	2,431	(2,321)	(14.2)%
Total	\$ 111,964	\$ 95,564	\$ 16,400	100.0 %

See the sections entitled Contractual Obligations and Quantitative and Qualitative Disclosures About Market Risk.

Years ended December 31, 2018 compared to 2017

Please refer to Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018, that was filed on March 1, 2019 for a discussion and tabular presentations highlighting the major drivers behind the line item changes in our results of operations for the years ended December 31, 2018 versus 2017.

Definitions of Non-GAAP Measures

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

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

FFO is one of the most commonly utilized Non-GAAP measures currently in practice. In its 2002 “*White Paper on Funds From Operations*,” which was restated in 2018, the National Association of Real Estate Investment Trusts, or NAREIT, standardized the definition of how Net income/loss should be adjusted to arrive at FFO, in the interests of uniformity and comparability. We have adopted the NAREIT definition for computing FFO as a meaningful supplemental gauge of our operating results for management and investors, and as is most often presented by other REIT industry participants.

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

Net income/loss, excluding:

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

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

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

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

FFO, plus:

- non-cash equity compensation to directors and executives;
- amortization of loan closing costs;
- losses on debt extinguishments or refinancing costs;
- weather-related property operating losses;
- amortization of loan coordination fees paid to the Manager;
- depreciation and amortization of non-real estate assets;
- net loan fees received;
- accrued interest income received;
- Internalization costs;
- allowances for loan loss reserves;
- cash received for purchase option terminations;
- deemed dividends on preferred stock redemptions;
- non-cash dividends on Series M Preferred Stock; and
- amortization of lease inducements;

Less:

- non-cash loan interest income;
- cash paid for loan closing costs;
- amortization of acquired real estate intangible liabilities;
- amortization of straight line rent adjustments and deferred revenues; and
- 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 may be useful in comparing our operating performance with other real estate companies. Since our calculation of AFFO removes other significant non-cash charges and revenues and other costs which are not representative of our ongoing business operations, we believe it improves comparability to investors in assessing our core operating results across periods. AFFO is a non-GAAP measure that is reconciled to its most comparable GAAP measure, net income/loss available to common stockholders. FFO and AFFO are not considered measures of liquidity and are not alternatives to measures calculated under GAAP.

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

	Three months ended December 31,	
	2019	2018
<i>(In thousands, except per-share figures)</i>		
Net (loss) income attributable to common stockholders (See note 1)	\$ (32,536)	\$ 2,641
Add: Depreciation of real estate assets	38,798	34,309
Depreciation of real estate assets attributable to joint ventures	(172)	—
Amortization of acquired real estate intangible assets and deferred leasing costs	8,588	9,173
Net (loss) income attributable to non-controlling interests (See note 2)	(6)	615
Less: (Gain) on sale of real estate	—	(30,682)
FFO attributable to common stockholders and unitholders	<u>14,672</u>	<u>16,056</u>
Add: Loan cost amortization on acquisition term note	97	20
Amortization of loan coordination fees paid to the Manager (See note 3)	507	707
(Insurance recovery in excess of) weather-related property operating losses (See note 4)	—	(237)
Payment of costs related to property refinancing	—	227
Contingent management fees recognized	11	206
Non-cash equity compensation to directors and executives	301	(1,178)
Amortization of loan closing costs (See note 5)	1,160	1,234
Depreciation/amortization of non-real estate assets	488	444
Net loan fees received (See note 6)	109	707
Accrued interest income received (See note 7)	5,436	12,266
Internalization costs (See note 8)	1,844	—
Increase (decrease) in loan loss allowance	1,400	(496)
Non-cash dividends on Preferred Stock	206	17
Amortization of lease inducements (See note 9)	439	426
Cash received in excess of amortization of purchase option termination revenues (See note 10)	49	1,044
Less: Non-cash loan interest income (See note 6)	(3,686)	(4,611)
Non-cash revenues from mortgage-backed securities	1,474	(135)
Cash paid for loan closing costs	—	(1,073)
Amortization of acquired above and below market lease intangibles and straight-line rental revenues (See note 11)	(4,268)	(2,909)
Amortization of deferred revenues (See note 12)	(941)	(901)
Normally recurring capital expenditures and leasing costs (See note 13)	<u>(2,765)</u>	<u>(1,485)</u>
AFFO	<u>\$ 16,533</u>	<u>\$ 20,329</u>
Common Stock dividends and distributions to Unitholders declared:		
Common Stock dividends	\$ 12,156	\$ 10,840
Distributions to Unitholders (See note 2)	225	228
Total	<u>\$ 12,381</u>	<u>\$ 11,068</u>
Common Stock dividends and Unitholder distributions per share	\$ 0.2625	\$ 0.26
FFO per weighted average basic share of Common Stock and Unit outstanding	\$ 0.31	\$ 0.38
AFFO per weighted average basic share of Common Stock and Unit outstanding	\$ 0.35	\$ 0.48
Weighted average shares of Common Stock and Units outstanding: ^(A)		
Basic:		
Common Stock	45,934	41,320
Class A Units	856	954
Common Stock and Class A Units	<u>46,790</u>	<u>42,274</u>
Diluted Common Stock and Class A Units ^(B)	<u>46,894</u>	<u>43,000</u>
Actual shares of Common Stock outstanding, including 13 and 12 unvested shares of restricted Common Stock at December 31, 2019 and 2018, respectively.	46,457	41,788
Actual Class A Units outstanding at December 31, 2019 and 2018, respectively.	856	877
Total	<u>47,313</u>	<u>42,665</u>

(A) Units and Unitholders refer to Class A Units in our Operating Partnership (as defined in note 2), or Class A Units, and holders of Class A Units, respectively. Unitholders include recipients of awards of Class B Units in our Operating Partnership, or Class B Units, for annual service which became vested and earned and automatically converted to Class A Units. Unitholders also include the entity that contributed the Wade Green grocery-anchored shopping center. The Class A Units collectively represent an approximate 1.83% weighted average non-controlling interest in the Operating Partnership for the three-month period ended December 31, 2019.

(B) Since our FFO and AFFO results are positive for the periods reflected above, we are presenting recalculated diluted weighted average shares of Common Stock and Class A Units for these periods for purposes of this table, which includes the dilutive effect of common stock equivalents from grants of the Class B Units, warrants included in units of Series A Preferred Stock issued, as well as annual grants of restricted Common Stock and restricted stock units. 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 Income (Loss) Attributable to Common stockholders.

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

<i>(In thousands, except per-share figures)</i>	Years ended December 31,	
	2019	2018
Net loss attributable to common stockholders (See note 1)	\$ (121,033)	\$ (43,290)
Add: Depreciation of real estate assets	148,206	124,499
Depreciation of real estate assets attributable to joint ventures	(172)	—
Amortization of acquired real estate intangible assets and deferred leasing costs	34,990	45,136
Net loss attributable to non-controlling interests (See note 2)	(144)	1,071
Less: (Gain) on sale of real estate	—	(69,643)
FFO attributable to common stockholders and unitholders	61,847	57,773
Add: Loan cost amortization on acquisition term note	155	83
Amortization of loan coordination fees paid to the Manager (See note 3)	1,940	2,487
Payment of costs related to property refinancing	594	288
Contingent management fees recognized	11	206
(Insurance recovery in excess of) weather-related property operating losses (See note 4)	—	(270)
Non-cash equity compensation to directors and executives	1,223	1,703
Amortization of loan closing costs (See note 5)	4,618	4,801
Depreciation/amortization of non-real estate assets	1,869	1,501
Net loan fees received (See note 6)	783	2,166
Accrued interest income received (See note 7)	10,514	20,676
Internalization costs (See note 8)	2,987	—
Loan loss allowance	1,400	2,533
Non-cash dividends on Preferred Stock	577	755
Amortization of lease inducements (See note 9)	1,734	1,381
Less: Non-cash loan interest income (See note 6)	(14,431)	(19,337)
Non-cash revenues from mortgage-backed securities	778	(320)
Cash paid for loan closing costs	(37)	(1,489)
Amortization of purchase option termination revenues in excess of cash received (See note 10)	(2,321)	(920)
Amortization of acquired above and below market lease intangibles and straight-line rental revenues (See note 11)	(16,643)	(11,956)
Amortization of deferred revenues (See note 12)	(3,762)	(2,666)
Normally recurring capital expenditures and leasing costs (See note 13)	(7,887)	(4,966)
AFFO	45,949	54,429
Common Stock dividends and distributions to Unitholders declared:		
Common Stock dividends	46,755	41,129
Distributions to Unitholders (See note 2)	908	1,041
Total	47,663	42,170
Common Stock dividends and Unitholder distributions per share	\$ 1.0475	\$ 1.02
FFO per weighted average basic share of Common Stock and Unit outstanding	\$ 1.37	\$ 1.41
AFFO per weighted average basic share of Common Stock and Unit outstanding	\$ 1.02	\$ 1.33
Weighted average shares of Common Stock and Units outstanding: ^(A)		
Basic:	44,265	40,032
Common Stock	870	1,040
Class A Units	45,135	41,072
Common Stock and Class A Units	45,772	42,390
Diluted Common Stock and Class A Units ^(B)	45,772	42,390
Actual shares of Common Stock outstanding, including 13 and 12 unvested shares of restricted Common Stock at December 31, 2019 and 2018, respectively.	46,457	41,788
Actual Class A Units outstanding at December 31, 2019 and 2018, respectively.	856	877
Total	47,313	42,665

(A) Units and Unitholders refer to Class A Units in our Operating Partnership (as defined in note 2), or Class A Units, and holders of Class A Units, respectively. Unitholders include recipients of awards of Class B Units in our Operating Partnership, or Class B Units, for annual service which became vested and earned and automatically converted to Class A Units. Unitholders also include the entity that contributed the Wade Green grocery-anchored shopping center. The Class A Units collectively represent an approximate 1.93% weighted average non-controlling interest in the Operating Partnership for the year ended December 31, 2019.

(B) Since our FFO and AFFO results are positive for the periods reflected above, we are presenting recalculated diluted weighted average shares of Common Stock and Class A Units for these periods for purposes of this table, which includes the dilutive effect of common stock equivalents from grants of the Class B Units, warrants included in units of Series A Preferred Stock issued, as well as annual grants of restricted Common Stock and restricted stock units. 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 Income (Loss) Attributable to Common stockholders.

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

- 1) Rental and other property revenues and property operating expenses for the quarter and year ended December 31, 2019 include activity for the properties acquired during the periods only from their respective dates of acquisition. In addition, the fourth quarter and year ended 2019 includes activity for the properties acquired since December 31, 2018. Rental and other property revenues and expenses for the fourth quarter and year ended 2018 include activity for the acquisitions made during that period only from their respective dates of acquisition.
- 2) Non-controlling interests in Preferred Apartment Communities Operating Partnership, L.P., or our Operating Partnership, consisted of a total of 856,409 Class A Units as of December 31, 2019. 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 1.83% and 2.26% for the three-month periods ended December 31, 2019 and 2018, respectively.
- 3) We paid loan coordination fees to Preferred Apartment Advisors, LLC, our Manager, to reflect the administrative effort involved in arranging debt financing for acquired properties. The fees are calculated as 0.6% of the amount of any mortgage indebtedness on newly-acquired properties or refinancing and are amortized over the lives of the respective mortgage loans. This non-cash amortization expense is an addition to FFO in the calculation of AFFO. At December 31, 2019, aggregate unamortized loan coordination fees were approximately \$14.1 million, which will be amortized over a weighted average remaining loan life of approximately 10.3 years.
- 4) We sustained weather related operating losses due to hurricanes (primarily due to Hurricane Harvey at our Stone Creek multifamily community) during the year ended December 31, 2018; these costs are added back to FFO in our calculation of AFFO. Lost rent and other operating costs incurred during the year ended December 31, 2018 totaled approximately \$563,000. This number is offset by the receipt from our insurance carrier of approximately \$833,000 for recoveries of lost rent, which was recognized in our consolidated statements of operations for the year ended December 31, 2018.
- 5) We incur loan closing costs on our existing mortgage loans, which are secured on a property-by-property basis by each of our acquired real estate assets, and also for occasional amendments to our syndicated revolving line of credit with Key Bank National Association, or our Revolving Line of Credit. Effective April 13, 2018, the maximum borrowing capacity on the Revolving Line of Credit was increased from \$150 million to \$200 million. These loan closing costs are also amortized over the lives of the respective loans and the Revolving Line of Credit, and this non-cash amortization expense is an addition to FFO in the calculation of AFFO. Neither we nor the 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, 2019, aggregate unamortized loan costs were approximately \$25.7 million, which will be amortized over a weighted average remaining loan life of approximately 9.0 years.
- 6) We receive loan origination fees in conjunction with the origination of certain real estate loan investments. These fees are then recognized as revenue over the lives of the applicable loans as adjustments of yield using the effective interest method. The total fees received after the payment of loan origination fees to our Manager are additive adjustments in the calculation of AFFO. Correspondingly, the amortized non-cash income is a deduction in the calculation of AFFO. Over the lives of certain loans, we accrue additional interest amounts that become due to us at the time of repayment of the loan or refinancing of the property, or when the property is sold. This non-cash interest income is subtracted from FFO in our calculation of AFFO. The amount of additional accrued interest becomes an additive adjustment to FFO once received from the borrower (see note 7).
- 7) This adjustment reflects the receipt during the periods presented of additional interest income (described in note 6 above) which was earned and accrued prior to those periods presented on various real estate loans.
- 8) This adjustment reflects the add-back of due diligence and pursuit costs incurred by the Company related to the Internalization of the functions performed by its Manager.
- 9) This adjustment removes the non-cash amortization of costs incurred to induce tenants to lease space in our office buildings and grocery-anchored shopping centers.
- 10) Effective January 1, 2019, we terminated our purchase options on the Sanibel Straits, Newbergh, Wiregrass and Cameron Square multifamily communities and the Solis Kennesaw student housing property; on May 7, 2018, we terminated our purchase options on the Encore, Bishop Street and Hidden River multifamily communities and the Haven46 and Haven Charlotte student housing properties, all of which are (or were) partially supported by real estate loan investments held by us. In exchange, we arranged to receive termination fees aggregating approximately \$20.6 million from the developers, which are recorded as revenue over the period beginning on the date of election until the earlier of (i) the maturity of the real estate loan investment and (ii) the sale of the property. The receipt of the cash termination fees are an additive adjustment in our calculation of AFFO and the removal of non-cash revenue from the recognition of the termination fees are a reduction to FFO in our calculation of AFFO; both of these adjustments are presented in a single net number within this line. For the

years ended December 31, 2019 and 2018, we had recognized termination fee revenues in excess of cash received, resulting in the negative adjustments shown to FFO in our calculation of AFFO.

- 11) This adjustment reflects straight-line rent adjustments and the reversal of the non-cash amortization of below-market and above-market lease intangibles, which were recognized in conjunction with our acquisitions and which are amortized over the estimated average remaining lease terms from the acquisition date for multifamily communities and over the remaining lease terms for grocery-anchored shopping center assets and office buildings. At December 31, 2019, the balance of unamortized below-market lease intangibles was approximately \$62.6 million, which will be recognized over a weighted average remaining lease period of approximately 9.2 years.
- 12) This adjustment removes the non-cash amortization of deferred revenue recorded by us in conjunction with Company-owned lessee-funded tenant improvements in our office buildings.
- 13) We deduct from FFO normally recurring capital expenditures that are necessary to maintain our assets' revenue streams in the calculation of AFFO. This adjustment also deducts from FFO capitalized amounts for third party costs during the period to originate or renew leases in our grocery-anchored shopping centers and office buildings. No adjustment is made in the calculation of AFFO for nonrecurring capital expenditures. See Capital Expenditures, Grocery-Anchored Shopping Center Portfolio, and Office Buildings Portfolio sections for definitions of these terms.

Liquidity and Capital Resources

Short-Term Liquidity

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

- operating expenses directly related to our portfolio of multifamily communities, student housing properties, grocery-anchored shopping centers and office properties (including regular maintenance items);
- operating expenses related to salaries, benefits, and general and administrative expenses (that were formally funded by payment of fees to our former Manager prior to Internalization on January 31, 2020);
- capital expenditures incurred to lease our multifamily communities, student housing properties, grocery-anchored shopping centers and office properties;
- interest expense on our outstanding property level debt;
- amounts due on our Credit Facility;
- distributions that we pay to our preferred stockholders, common stockholders, and unitholders;
- cash redemptions that we may pay to our preferred stockholders, and
- committed investments.

We have a credit facility, or Credit Facility, with KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), working capital and other general corporate purposes on an as needed basis. On March 23, 2018, the maximum borrowing capacity on the Revolving Line of Credit was increased to \$200 million pursuant to an accordion feature. The accordion feature permits the maximum borrowing capacity to be expanded or contracted without amending any further terms of the instrument. On December 12, 2018, the Fourth Amended and Restated Credit Agreement, or the Amended and Restated Credit Agreement, was amended to extend the maturity to December 12, 2021, with an option to extend the maturity date to December 12, 2022, subject to certain conditions described therein. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus an applicable margin of 2.75% to 3.50% per annum, depending upon our leverage ratio. The weighted average interest rate for the Revolving Line of Credit was 5.43% for the year ended December 31, 2019. The Amended and Restated Credit Agreement also reduced the commitment fee on the average daily unused portion of the Revolving Line of Credit to 0.25% or 0.30% per annum, depending upon our outstanding Credit Facility balance.

The Amended and Restated Credit Agreement contains certain affirmative and negative covenants including negative covenants that limit or restrict secured and unsecured indebtedness, mergers and fundamental changes, investments and acquisitions, liens and encumbrances, dividends, transactions with affiliates, burdensome agreements, changes in fiscal year and other matters customarily restricted in such agreements. The material financial covenants include minimum net worth and debt service coverage ratios and maximum leverage and dividend payout ratios. As of December 31, 2019, we were in compliance with all covenants related to the Fourth Amended and Restated Credit Agreement. Our results with respect to such compliance are presented in Note 9 to the Company's Consolidated Financial Statements.

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

On December 20, 2019, we utilized proceeds from an interim term loan to partially finance the acquisition of Morrocroft Centre, an office building located in Charlotte, North Carolina, or the 2019 Interim Term Loan. The 2019 Interim Term Loan accrued interest at a rate of LIBOR plus 170 basis points per annum. We intend to repay the 2019 Interim Term Loan during the first quarter 2020 with permanent mortgage financing.

On February 28, 2017, we entered into a revolving acquisition credit agreement, or Acquisition Credit Agreement, with KeyBank to obtain the Acquisition Facility, with a maximum borrowing capacity of \$200 million. The sole purpose of the Acquisition Credit Agreement is to finance our acquisitions of multifamily communities and student housing communities prior to obtaining permanent conventional mortgage financing on the acquired assets. The maximum borrowing capacity on the Acquisition Facility was reduced by agreement with KeyBank to \$90 million on March 25, 2019. The Acquisition Facility accrues interest at a variable rate of one month LIBOR plus a margin of between 1.75% per annum and 2.20% per annum, depending on the type of assets acquired and the resulting property debt service coverage ratio. The Acquisition Facility has a maturity date of March 1, 2022 and has two one-year extension options, subject to certain conditions described therein.

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

Our net cash provided by operating activities for the years ended December 31, 2019 and 2018 was approximately \$145.6 million and \$145.4 million, respectively. Net cash provided by operating activities was essentially flat between the two periods as incremental cash generated by property income provided by real estate assets acquired during 2019 was offset by a decrease in accrued interest income on real estate loan investments and tenant receivables.

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

We also earn interest revenue from the issuance of real estate-related loans and may receive fees at the inception of these loans for committing and originating them. Interest revenue we receive on these loans is influenced by (1) market interest rates on similar loans; (2) the availability of credit from alternative financing sources; (3) the desire of borrowers to finance new real estate projects; and (4) unique characteristics attached to these loans, such as exclusive purchase options. In the course of extending real estate loan investments for property development, we will often receive an exclusive option to purchase the property once development and stabilization are complete. If we do not wish to acquire the property, we have the right to sell the purchase option back to the borrower for a termination fee in the amount of the purchase option discount, which is recognized as interest income over the earlier of the maturity date of the loan or the sale of the property.

Interest income on our loans and notes receivable decreased from \$65.8 million for the year ended December 31, 2018 to \$61.5 million for the year ended December 31, 2019, primarily due to a decrease in the weighted average accrued interest rate for 2019 to 3.85% from 5.24% for 2018 and full repayment of the Haven Campus Communities Charlotte Member, LLC line of credit, in early 2019.

Our net cash used in investing activities for the years ended December 31, 2019 and 2018 was approximately \$661.1 million and \$881.8 million, respectively. Cash disbursed for property acquisitions decreased from approximately \$1.0 billion in the 2018 period to \$619.1 million in the 2019 period, partially offset by the investing cash inflows from the sale of mortgage-backed securities of approximately \$79.6 million during 2019 and property dispositions of \$164.8 million in 2018.

Cash used in investing activities is primarily driven by acquisitions and dispositions of multifamily properties, student housing properties, office properties and grocery-anchored shopping centers and acquisitions and maturities or other dispositions of real estate loans and other real estate and real estate-related assets, and secondarily by capital expenditures related to our owned

properties. We will seek to acquire more multifamily communities, student housing properties, office properties and grocery-anchored shopping centers at costs that we expect will be accretive to our financial results. Capital expenditures may be nonrecurring and discretionary, as part of a strategic plan intended to increase a property's value and corresponding revenue-generating power, or may be normally recurring and necessary to maintain the income streams and present value of a property. Certain capital expenditures may be budgeted and reserved for upon acquiring a property as initial expenditures necessary to bring a property up to our standards or to add features or amenities that we believe make the property a compelling value to prospective residents or tenants in its individual market. These budgeted nonrecurring capital expenditures in connection with an acquisition are funded from the capital source(s) for the acquisition and are not dependent upon subsequent property operational cash flows for funding.

For the year ended December 31, 2019, our capital expenditures for our multifamily communities, not including changes in related payables were as follows:

<i>(In thousands, except per-unit amounts)</i>	Capital Expenditures					
	Recurring		Non-recurring		Total	
	Amount	Per Unit	Amount	Per Unit	Amount	Per Unit
Appliances	\$ 492	\$ 48.55	\$ —	\$ —	\$ 492	\$ 48.55
Carpets	1,543	152.39	—	—	1,543	152.39
Wood flooring / vinyl	276	27.23	184	18.15	460	45.38
Blinds and ceiling fans	198	19.60	15	1.48	213	21.08
Fire safety	—	—	225	22.22	225	22.22
Furnace, air (HVAC)	494	48.80	19	1.84	513	50.64
Computers, equipment, misc.	15	1.50	275	27.20	290	28.70
Elevators	—	—	170	16.83	170	16.83
Exterior painting	—	—	1,439	142.12	1,439	142.12
Leasing office / common amenities	341	33.69	1,262	124.62	1,603	158.31
Major structural	—	—	2,391	236.25	2,391	236.25
Cabinets & countertops and unit upgrades	—	—	1,025	101.19	1,025	101.19
Landscaping & fencing	—	—	1,267	125.11	1,267	125.11
Parking lot	107	10.58	624	61.58	731	72.16
Signage and sanitation	—	—	107	10.57	107	10.57
	<u>\$ 3,466</u>	<u>\$ 342.34</u>	<u>\$ 9,003</u>	<u>\$ 889.16</u>	<u>\$ 12,469</u>	<u>\$ 1,231.50</u>

For the year ended December 31, 2019, our capital expenditures for our student housing properties, not including changes in related payables were as follows:

	Capital Expenditures					
	Recurring		Non-recurring		Total	
	Amount	Per Bed	Amount	Per Bed	Amount	Per Bed
<i>(In thousands, except per-unit amounts)</i>						
Appliances	\$ 103	\$ 17.42	\$ —	\$ —	\$ 103	\$ 17.42
Carpets	224	38.10	—	—	224	38.10
Wood flooring / vinyl	5	0.80	34	5.74	39	6.54
Blinds and ceiling fans	30	5.10	—	—	30	5.10
Fire safety	—	—	155	26.41	155	26.41
Furnace, air (HVAC)	111	18.81	296	50.26	407	69.07
Computers, equipment, misc.	11	1.81	150	25.43	161	27.24
Elevators	—	—	6	1.08	6	1.08
Exterior painting	—	—	806	136.93	806	136.93
Leasing office / common amenities	31	5.27	322	54.70	353	59.97
Major structural	—	—	1,917	325.76	1,917	325.76
Cabinets & countertops and unit upgrades	93	15.78	37	6.14	130	21.92
Landscaping & fencing	—	—	493	83.81	493	83.81
Parking lot	—	—	79	13.50	79	13.50
Signage and sanitation	—	—	143	24.27	143	24.27
Unit furniture	297	50.70	—	—	297	50.70
	<u>\$ 905</u>	<u>\$ 153.79</u>	<u>\$ 4,438</u>	<u>\$ 754.03</u>	<u>\$ 5,343</u>	<u>\$ 907.82</u>

In addition, second-generation capital expenditures within our grocery-anchored shopping center portfolio for the years ended December 31, 2019 and 2018 totaled \$1.8 million and \$1.6 million, respectively. We define second-generation capital expenditures as those that exclude expenditures made in our grocery-anchored shopping center portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our ownership standards, and (iii) for property re-developments and repositioning.

Second-generation capital expenditures within our office properties portfolio for the years ended December 31, 2019 and 2018 totaled \$1.7 million and \$152,000, respectively. Second-generation capital expenditures exclude those expenditures made in our office properties portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our Class A ownership standards (and which amounts were underwritten into the total investment at the time of acquisition) and (iii) for property re-developments and repositionings.

At December 31, 2019, we had restricted cash of approximately \$18.7 million that was contractually restricted to fund capital expenditures and other property-level commitments such as tenant improvements and leasing commissions.

Net cash provided by financing activities was approximately \$565.0 million and \$751.1 million for the years ended December 31, 2019 and 2018, respectively. Our significant financing cash sources were approximately \$405.0 million and \$602.4 million of net proceeds from the mortgage financing transactions for the years ended December 31, 2019 and 2018, respectively, and approximately \$501.1 million and \$408.6 million for the years ended December 31, 2019 and 2018, respectively, of net proceeds from our offerings of our Preferred Stock.

Distributions

In order to maintain our status as a REIT for U.S. federal income tax purposes, we must comply with a number of organizational and operating requirements, including a requirement to distribute 90% of our annual REIT taxable income (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) to our stockholders. As a REIT, we generally will not be subject to federal income taxes on the taxable income we distribute to our stockholders. Generally, our objective is to meet our short-term liquidity requirement of funding the payment of our quarterly Common Stock dividends, as well as monthly dividends to holders of our Series A Redeemable Preferred Stock, mShares, Series A1 Redeemable Preferred Stock and Series M1 Redeemable Preferred Stock (collectively, our Preferred Stock), through net cash generated from operating results.

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

Our fourth quarter 2019 Common Stock dividend declaration of \$0.2625 per share represented an overall increase of 110% from our initial Common Stock dividend per share of \$0.125 following our IPO, or an average annual dividend growth rate of approximately 13.0% over the same period. Our board of directors reviews the proposed Common Stock dividend declarations quarterly, and there can be no assurance that the current dividend level will be maintained.

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

For the year ended December 31, 2019, our aggregate dividends and distributions totaled approximately \$161.4 million and our cash flows from operating activities were approximately \$145.6 million. We expect our cash flow from operations over time to be sufficient to fund our quarterly Common Stock dividends, Class A Unit distributions and our monthly Preferred Stock dividends.

Long-Term Liquidity Needs

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

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

We intend to finance our future investments with the net proceeds from additional issuances of our securities, including our Series A1/M1 Offering (as defined and described in note 5 to our Consolidated Financial Statements), Common Stock, and units of limited partnership interest in our Operating Partnership, and/or borrowings. The success of our acquisition strategy may depend, in part, on our ability to access further capital through issuances of additional securities. If we are unsuccessful in raising additional funds, we may not be able to obtain any assets in addition to those we have acquired.

On September 27, 2019, our registration statement on Form S-3 (Registration No. 333-233576) (the "Series A1/M1 Registration Statement") was declared effective by the Securities and Exchange Commission (the "SEC"). The Series A1/M1 Registration Statement allows us to offer up to a maximum of 1,000,000 shares of Series A1 Redeemable Preferred Stock, Series M1 Redeemable Preferred Stock or a combination of both. The stated price per share is \$1,000, subject to adjustment under certain conditions. The shares are being offered by our affiliate, Preferred Capital Securities, LLC ("PCS"), on a "reasonable best efforts" basis and we intend to invest substantially all the net proceeds of the Series A1/M1 Offering in connection with the acquisition of multifamily communities, grocery-anchored shopping centers, office buildings, real estate loans and mortgages, other real estate-related investments and general working capital purposes.

Pursuant to FINRA Rule 2310(b)(5), which became effective April 11, 2016, and as described in Regulatory Notice 15-02, we have prepared for our stockholders an estimate of the per share value of our Preferred Stock as of December 31, 2019. This estimate is based on dividing (i) the value of our assets less contractual liabilities as of December 31, 2019, by (ii) the number of shares of Preferred Stock outstanding as of that date. We used a direct capitalization appraised value analysis for this purpose. This methodology was prepared with the material assistance and confirmation of a third party valuation expert pursuant to FINRA Rule 2310(b)(5) and NASD Rule 2340(c). We believe this methodology conforms to standard industry practices. Based on the foregoing, we have determined that the estimated value as of December 31, 2019 of our Preferred Stock is \$1,000 per share (unaudited).

For any property owned for less than 12 months, we used the market value of that property as reflected in the third party appraisal we had received at the time of acquisition to value the property. For properties owned more than 12 months, the direct capitalization value method was used. Under the direct capitalization value analysis, we utilized the trailing 12-month net operating income from the property, adjusted for rare or catastrophic events, such as hurricane damages, as needed, to arrive at a normalized net operating income. The Company then determines the current market capitalization rate for each property. The property's normalized net operating income is divided by the capitalization rate for that property to determine a fair market value for each property. The fair market value of all the properties was then added to the value of our other assets (i.e., the value of our cash on hand and other financial assets as reflected on our audited consolidated financial statements for the year ended December 31, 2019) to determine the aggregate market value of our assets. We then subtracted our contractual liabilities from the aggregate market value of our assets, and divided the difference by the number of shares of our Preferred Stock outstanding as of December 31, 2019 to determine our estimated per share value of our Preferred Stock as of that date.

At December 31, 2019, the Company's active equity offerings consisted of:

- an offering of a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock and one Warrant to purchase up to 20 shares of Common Stock (the "\$1.5 Billion Unit Offering");
- an offering of up to \$400 million of equity or debt securities (the "2019 Shelf Offering"), including an offering of up to \$125 million of Common Stock from time to time in an "at the market" offering (the "2019 ATM Offering"); and
- an offering of up to 1,000,000 Shares of Series A1 Redeemable Preferred Stock ("Series A1 Preferred Stock"), Series M1 Redeemable Preferred Stock ("Series M1 Preferred Stock"), or a combination of both (collectively the "Series A1/M1 Offering").

For the year ended December 31, 2019, no shares of our common stock were issued under our previously expired at-the-market offering of up to \$150 million of Common Stock or our 2019 ATM Offering.

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

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

We intend to target leverage levels (secured and unsecured) between 50% and 65% of the fair market value of our tangible assets (including our real estate assets, real estate loans, notes receivable, accounts receivable and cash and cash equivalents) on a portfolio basis. As of December 31, 2019, our outstanding debt (both secured and unsecured) was approximately 51.2% of the value of our tangible assets on a portfolio basis based on our estimates of fair market value at December 31, 2019. Neither our charter nor our by-laws contain any limitation on the amount of leverage we may use. These targets, however, will not apply to individual real estate assets or investments. The amount of leverage we will place on particular investments will depend on our Manager's assessment of a variety of factors which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in the portfolio, the availability and cost of financing the asset, our

opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and the health of the commercial real estate market in general. In addition, factors such as our outlook on interest rates, changes in the yield curve slope, the level and volatility of interest rates and their associated credit spreads, the underlying collateral of our assets and our outlook on credit spreads relative to our outlook on interest rate and economic performance could all impact our decision and strategy for financing the target assets. At the date of acquisition of each asset, we anticipate that the investment cost for such asset will be substantially similar to its fair market value. However, subsequent events, including changes in the fair market value of our assets, could result in our exceeding these limits. Finally, we intend to acquire all our real estate assets through separate single purpose entities and we intend to finance each of these assets using debt financing techniques for that asset alone without any cross-collateralization to our other real estate assets or any guarantees by us or our Operating Partnership. We intend to have no long-term unsecured debt at the Company or Operating Partnership levels, except for our Revolving Line of Credit.

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

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

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

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

As of December 31, 2019, we had long term mortgage indebtedness of approximately \$2.6 billion, all of which was incurred by us in connection with the acquisition or refinancing of our real estate properties.

As of December 31, 2019, we had approximately \$94.4 million in unrestricted cash and cash equivalents available to meet our short-term and long-term liquidity needs. We believe that our long-term liquidity needs are and will continue to be adequately funded through the sources discussed above.

Off-Balance Sheet Arrangements

As of December 31, 2019, we had 1,528,626 outstanding Warrants from our sales of Units. The Warrants are exercisable by the holder at an exercise price of 120% of the current market price per share of the Common Stock on the date of issuance of such Warrant, with a minimum exercise price of \$19.50 per share for Warrants issued after February 15, 2017. The current market price per share is determined using the closing market price of the Common Stock immediately preceding the issuance of the Warrant. The Warrants are not exercisable until one year following the date of issuance and expire four years following the date of issuance. As of December 31, 2019, a total of 531,494 Warrants had been exercised into 10,629,880 shares of Common stock. The 1,528,626 Warrants outstanding at December 31, 2019 have exercise prices that range between \$13.88 and \$26.34 per share. If all the Warrants outstanding at December 31, 2019 became exercisable and were exercised, gross proceeds to us would be approximately \$592.0 million and we would as a result issue an additional 30,572,520 shares of Common Stock.

Contractual Obligations

As of December 31, 2019, our contractual obligations consisted of the mortgage notes secured by our acquired properties and the Revolving Credit Facility. Based on a LIBOR rate of 1.78% at December 31, 2019, our estimated future required payments on these instruments were:

<i>(In thousands)</i>	<u>Total</u>	<u>Less than one year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than five years</u>
Mortgage debt obligations:					
Interest	\$ 826,535	\$ 104,264	\$ 191,625	\$ 160,006	\$ 370,640
Principal	2,609,829	76,341	405,507	519,484	1,608,497
2019 Interim Term Loan:					
Interest	129	129	—	—	—
Principal	70,000	70,000	—	—	—
Total	<u>\$ 3,506,493</u>	<u>\$ 250,734</u>	<u>\$ 597,132</u>	<u>\$ 679,490</u>	<u>\$ 1,979,137</u>

In addition, we had unfunded real estate loan balances totaling approximately \$61.7 million at December 31, 2019.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk. All our floating-rate debt is tied to the 30-day LIBOR. As of December 31, 2019, we have variable rate mortgages on the properties listed in following table.

	Balance <i>(in thousands)</i>	Percentage of total mortgage indebtedness	LIBOR Cap	All-in Cap
Avenues at Creekside	\$ 38,871		5.0%	6.6%
The Tradition	30,000		3.3%	7.0%
The Bloc	28,966		3.3%	6.8%
Total capped floating-rate debt	97,837	3.8%		
Ursa	31,400		n/a	n/a
Champions Village	27,400		n/a	n/a
Fairfield Shopping Center	19,750		n/a	n/a
Total uncapped floating-rate debt	78,550	3.0%		
Total floating-rate debt	\$ 176,387	6.8%		

Our Revolving Line of Credit accrued interest at a spread of 3.0% over LIBOR as of December 31, 2019; this combined rate is uncapped. Because of the short term nature of the Revolving Line of Credit and Acquisition Credit Facility instruments, we believe our interest rate risk is minimal.

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

- maintain a reasonable ratio of fixed-rate, long-term debt to total debt so that floating-rate exposure is kept at an acceptable level;
- place interest rate caps on floating-rate debt where appropriate; and
- take advantage of favorable market conditions for long-term debt and/or equity financings.

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

If interest rates under our floating-rate LIBOR-based indebtedness fluctuated by 100 basis points, our interest costs, based on outstanding borrowings at December 31, 2019, would increase by approximately \$1.5 million or decrease by approximately \$1.0 million on an annualized basis.

Item 8. Financial Statements and Supplementary Data

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

Consolidated Balance Sheets as of December 31, 2019 and 2018

Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

Schedule III- Real Estate Investments and Accumulated Depreciation as of December 31, 2019 with reconciliations for the years ended December 31, 2019, 2018 and 2017

Schedule IV- Mortgage Loans on Real Estate as of December 31, 2019

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

None.

Item 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

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

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

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

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria described in *Internal Control - Integrated Framework* (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded the Company's internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report included in this Annual Report on Form 10-K.

Evaluation of disclosure controls and procedures.

Management of the Company evaluated, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of December 31, 2019, the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting.

As required by the Exchange Act Rule 13a-15(d), the Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's internal control over financial reporting to determine whether any change occurred during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during such period.

Item 9B. Other Information

Leonard A. Silverstein has resigned from his position as President and Chief Operating Officer of the Company pursuant to a consulting agreement with the Company entered into on March 3, 2020, or the Consulting Agreement. Joel Murphy, our current Chief Executive Officer, will assume the additional role of President following Mr. Silverstein's departure. The Consulting Agreement with Mr. Silverstein is for three years and provides annual compensation of \$250,000 and a lump sum cash payment in the gross amount of \$10,000. Mr. Silverstein's Consulting Agreement includes a general release in favor of the Company. The Consulting Agreement further provides for access to certain welfare benefits of the Company. The foregoing description of the terms of the Consulting Agreement does not purport to be complete and is qualified in its entirety by reference to the Consulting Agreement, a copy of which is filed as Exhibit 10.20 to this Annual Report on Form 10-K and incorporated by reference herein.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

Information required by this item regarding our directors and officers is incorporated herein by reference to our proxy statement, or our 2020 Proxy Statement, to be filed with the SEC with regard to our 2020 Annual Meeting of Stockholders.

Item 11. Executive Compensation

Information required by this item regarding our officers is incorporated herein by reference to our 2020 Proxy Statement to be filed with the SEC.

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

Information required by this item is incorporated herein by reference to our 2020 Proxy Statement to be filed with the SEC.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information required by this item regarding our officers and directors is incorporated herein by reference to our 2020 Proxy Statement to be filed with the SEC.

Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated herein by reference to our 2020 Proxy Statement to be filed with the SEC.

PART IV

Item 15.

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Preferred Apartment Communities, Inc. and its subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
March 3, 2020

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

Preferred Apartment Communities, Inc.
Consolidated Balance Sheets

<i>(In thousands, except per-share par values)</i>	December 31, 2019	December 31, 2018
Assets		
Real estate		
Land	\$ 635,757	\$ 519,300
Building and improvements	3,256,223	2,738,085
Tenant improvements	167,275	128,914
Furniture, fixtures, and equipment	323,381	278,151
Construction in progress	11,893	8,265
Gross real estate	4,394,529	3,672,715
Less: accumulated depreciation	(421,551)	(272,042)
Net real estate	3,972,978	3,400,673
Real estate loan investments, net of deferred fee income and allowance for loan loss	325,790	282,548
Real estate loan investments to related parties, net	23,692	51,663
Total real estate and real estate loan investments, net	4,322,460	3,734,884
Cash and cash equivalents	94,381	38,958
Restricted cash	42,872	48,732
Notes receivable	17,079	14,440
Note receivable and revolving lines of credit due from related parties	24,838	32,867
Accrued interest receivable on real estate loans	25,755	23,340
Acquired intangible assets, net of amortization of \$149,896 and \$113,199	154,803	135,961
Deferred loan costs on Revolving Line of Credit, net of amortization of \$849 and \$180	1,286	1,916
Deferred offering costs	2,147	6,468
Tenant lease inducements, net of amortization of \$3,567 and \$1,833	19,607	20,698
Receivable from sale of mortgage-backed security	—	41,181
Tenant receivables (net of allowance of \$0 and \$1,662) and other assets	65,332	41,567
Variable Interest Entity ("VIE") assets from mortgage-backed pool, at fair value	—	269,946
Total assets	\$ 4,770,560	\$ 4,410,958
Liabilities and equity		
Liabilities		
Mortgage notes payable, net of deferred loan costs and mark-to-market adjustment of \$42,807 and \$40,127	\$ 2,567,022	\$ 2,299,625
Revolving line of credit	—	57,000
Term note payable, net of deferred loan costs of \$511 and \$0	69,489	—
Real estate loan investment participation obligation	—	5,181
Unearned purchase option termination fees	2,859	2,050
Deferred revenue	39,722	43,484
Accounts payable and accrued expenses	42,191	38,618
Accrued interest payable	8,152	6,711
Dividends and partnership distributions payable	23,519	19,258
Acquired below market lease intangibles, net of amortization of \$23,655 and \$15,254	62,611	47,149
Prepaid rent, security deposits, and other liabilities	20,879	17,611
VIE liabilities from mortgage-backed pool, at fair value	—	264,886
Total liabilities	2,836,444	2,801,573
Commitments and contingencies (Note 11)		
Equity		
Stockholders' equity		
Series A Redeemable Preferred Stock, \$0.01 par value per share; 3,050 shares authorized; 2,161 and 1,674 shares issued; 2,028 and 1,608 shares outstanding at December 31, 2019 and December 31, 2018, respectively	20	16
Series A1 Redeemable Preferred Stock, \$0.01 par value per share; up to 1,000 shares authorized; 5 and no shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	—	—
Series M Redeemable Preferred Stock, \$0.01 par value per share; 500 shares authorized; 106 and 44 shares issued; 103 and 44 shares outstanding at December 31, 2019 and December 31, 2018, respectively	1	—
Series M1 Redeemable Preferred Stock, \$0.01 par value per share; up to 1,000 shares authorized; no shares issued and outstanding at December 31, 2019 or December 31, 2018	—	—
Common Stock, \$0.01 par value per share; 400,067 shares authorized; 46,443 and 41,776 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	464	418
Additional paid-in capital	1,938,057	1,607,712
Accumulated (deficit) earnings	(7,244)	—
Total stockholders' equity	1,931,298	1,608,146
Non-controlling interest	2,818	1,239
Total equity	1,934,116	1,609,385
Total liabilities and equity	\$ 4,770,560	\$ 4,410,958

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Operations

(In thousands, except per-share figures)

	Year ended December 31,		
	2019	2018	2017
Revenues:			
Rental revenues	\$ 395,121	\$ 323,252	\$ 231,895
Other property revenues	11,795	8,213	4,958
Interest income on loans and notes receivable	49,542	50,190	35,948
Interest income from related parties	11,946	15,616	21,204
Miscellaneous revenues	2,023	—	—
Total revenues	<u>470,427</u>	<u>397,271</u>	<u>294,005</u>
Operating expenses:			
Property operating and maintenance	52,911	44,065	29,903
Property salary and benefits (including reimbursements of \$18,054, \$16,276, and \$12,329 to related party)	20,693	17,766	13,272
Property management fees (including \$10,307, \$8,976 and \$6,417 to related parties)	13,981	11,681	8,329
Real estate taxes	50,298	42,035	31,281
General and administrative	8,541	8,224	6,490
Equity compensation to directors and executives	1,223	1,703	3,470
Depreciation and amortization	185,065	171,136	116,777
Asset management and general and administrative expense fees to related party	33,516	27,541	20,226
Loan loss allowance	2,038	2,533	—
Insurance, professional fees and other expenses	13,687	7,166	6,598
Total operating expenses	<u>381,953</u>	<u>333,850</u>	<u>236,346</u>
Waived asset management and general and administrative expense fees	<u>(11,764)</u>	<u>(6,656)</u>	<u>(1,729)</u>
Net operating expenses	<u>370,189</u>	<u>327,194</u>	<u>234,617</u>
Operating income before gains on sales of real estate and trading investments	100,238	70,077	59,388
Gains on sales of real estate and trading investments	1,567	69,705	37,635
Operating income	<u>101,805</u>	<u>139,782</u>	<u>97,023</u>
Interest expense	111,964	95,564	67,468
Change in fair value of net assets of consolidated VIEs from mortgage-backed pools	1,831	320	—
Loss on extinguishment of debt	(84)	—	(888)
Gains on sale of real estate loan investment and land condemnation	954	—	—
Net (loss) income	<u>(7,458)</u>	<u>44,538</u>	<u>28,667</u>
Consolidated net loss (income) attributable to non-controlling interests	214	(1,071)	(986)
Net (loss) income attributable to the Company	<u>(7,244)</u>	<u>43,467</u>	<u>27,681</u>
Dividends declared to preferred stockholders	(113,772)	(86,741)	(63,651)
Earnings attributable to unvested restricted stock	(17)	(16)	(15)
Net loss attributable to common stockholders	<u>\$ (121,033)</u>	<u>\$ (43,290)</u>	<u>\$ (35,985)</u>
Net loss per share of Common Stock available to common stockholders, basic and diluted	<u>\$ (2.73)</u>	<u>\$ (1.08)</u>	<u>\$ (1.13)</u>
Weighted average number of shares of Common Stock outstanding, basic and diluted	<u>44,265</u>	<u>40,032</u>	<u>31,926</u>

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2019, 2018 and 2017

	Series A and Series M Redeemable Preferred Stock	Common Stock	Additional Paid in Capital	Accumulated Earnings	Total Stockholders' Equity	Non- Controlling Interest	Total Equity
Balance at January 1, 2019	\$ 16	\$ 418	\$ 1,607,712	\$ —	\$ 1,608,146	\$ 1,239	\$ 1,609,385
Issuance of Series A Preferred Shares	5	—	482,144	—	482,149	—	482,149
Issuance of mShares Preferred Shares	1	—	61,757	—	61,758	—	61,758
Issuance of Series A1/M1 Preferred Shares	—	—	4,731	—	4,731	—	4,731
Exercise of warrants	—	9	11,486	—	11,495	—	11,495
Redemptions of Series A Preferred Stock	(1)	36	(12,140)	—	(12,105)	—	(12,105)
Syndication and Offering Costs	—	—	(60,165)	—	(60,165)	—	(60,165)
Equity compensation to executives and directors	—	—	632	—	632	—	632
Conversion of Class A to Common stock	—	1	676	—	677	(677)	—
Current Period Amortization of Class B Units	—	—	—	—	—	591	591
Net Income (Loss)	—	—	—	(7,244)	(7,244)	(214)	(7,458)
Contributions from Minority Holders	—	—	—	—	—	4,538	4,538
Reallocation of minority interest in PAC OP	—	—	1,751	—	1,751	(1,751)	—
Distributions to Minority Holders	—	—	—	—	—	(908)	(908)
Dividends to Series A preferred stockholders (\$5.00 per share per month)	—	—	(108,950)	—	(108,950)	—	(108,950)
Dividends to mShares preferred stockholders (\$4.79 - \$6.25 per share per month)	—	—	(4,807)	—	(4,807)	—	(4,807)
Dividends to Series A1/M1 preferred stockholders	—	—	(15)	—	(15)	—	(15)
Dividends to common stockholders (\$1.0475 per share)	—	—	(46,755)	—	(46,755)	—	(46,755)
Balance at December 31, 2019	\$ 21	\$ 464	\$ 1,938,057	\$ (7,244)	\$ 1,931,298	\$ 2,818	\$ 1,934,116

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity, continued
For the years ended December 31, 2019, 2018 and 2017

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

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Stockholders' Equity, continued
For the years ended December 31, 2019, 2018 and 2017

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

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

Preferred Apartment Communities, Inc.
Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	2019	2018	2017
Operating activities:			
Net (loss) income	\$ (7,458)	\$ 44,538	28,667
Reconciliation of net (loss) income to net cash provided by operating activities:			
Depreciation and amortization expense	185,065	171,136	116,777
Amortization of above and below market leases	(5,765)	(5,905)	(3,335)
Deferred revenues and fee income amortization	(5,346)	(4,323)	(2,347)
Purchase option termination fee amortization	(9,111)	(8,660)	—
Noncash interest income amortization on MBS, net of amortized costs	(928)	(320)	—
Amortization of market discount on assumed debt and lease incentives	1,997	1,644	631
Deferred loan cost amortization	6,450	7,108	5,084
(Increase) decrease in accrued interest income on real estate loan investments	(5,766)	3,524	(4,970)
Equity compensation to executives and directors	1,223	1,703	3,470
Gains on sales of real estate and trading investment	(1,567)	(69,705)	(37,635)
Gain on land condemnation, net of expenses	(207)	—	—
Cash received for purchase option terminations	3,591	7,740	—
Loss on extinguishment of debt	84	—	888
Gain on sale of real estate loan investments, net	(747)	—	—
Non-cash payment of interest on related party line of credit	(637)	—	—
Mortgage interest received from consolidated VIEs	18,750	6,049	—
Mortgage interest paid to other participants of consolidated VIEs	(18,750)	(6,049)	—
Loan loss allowance	2,038	2,533	—
Other	—	—	189
Changes in operating assets and liabilities:			
(Increase) in tenant receivables and other assets	(20,565)	(7,631)	(12,105)
(Increase) in tenant lease incentives	(644)	(7,607)	(14,260)
Increase in accounts payable and accrued expenses	1,518	2,876	2,382
Increase in accrued interest, prepaid rents and other liabilities	2,406	6,730	2,853
Net cash provided by operating activities	145,631	145,381	86,289
Investing activities:			
Investments in real estate loans	(98,418)	(200,806)	(148,346)
Repayments of real estate loans	54,384	250,448	94,410
Notes receivable issued	(5,692)	(9,946)	(7,864)
Notes receivable repaid	3,089	12,759	6,100
Note receivable issued to and draws on line of credit by related parties	(40,458)	(51,789)	(35,281)
Repayments of notes receivable and lines of credit by related parties	35,239	41,117	34,229
Proceeds from sale of real estate loan investment, net	747	—	—
Origination fees received on real estate loan investments	1,565	4,331	2,634
Origination fees paid to Manager on real estate loan investments	(783)	(2,166)	(1,320)
Mortgage principal received from consolidated VIEs	6,570	1,255	—
Purchases of mortgage-backed securities	(30,841)	(45,927)	—
Proceeds from sales of mortgage-backed securities	79,558	—	—
Acquisition of properties	(619,089)	(1,007,048)	(779,643)
Disposition of properties, net	—	164,838	116,813
Receipt of insurance proceeds for capital improvements	746	978	4,719
Proceeds from land condemnation	643	—	—
Equity investment in property development	(100)	—	—
Additions to real estate assets - improvements	(48,071)	(44,383)	(11,594)
Deposits (paid) refunded on acquisitions	(146)	4,534	(2,034)
Net cash used in investing activities	(661,057)	(881,805)	(727,177)
Financing activities:			
Proceeds from mortgage notes payable	405,430	602,375	517,489
Repayments of mortgage notes payable	(176,903)	(121,797)	(124,040)
Payments for deposits and other mortgage loan costs	(8,705)	(12,299)	(14,772)
Payments for mortgage prepayment costs	—	—	(817)
Proceeds from real estate loan participants	—	5	224
Payments to real estate loan participants	(5,223)	(10,425)	(7,883)

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

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

(In thousands)

	Years Ended December 31,		
	2019	2018	2017
Proceeds from lines of credit	265,200	550,300	275,000
Payments on lines of credit	(322,200)	(535,100)	(360,700)
Proceeds from (repayment of) the Term Loans	70,000	(11,000)	—
Mortgage principal paid to other participants of consolidated VIEs	(6,570)	(1,255)	—
Proceeds from repurchase agreements	4,857	—	—
Repayments of repurchase agreements	(4,857)	—	—
Proceeds from the sales of preferred stock and Units, net of offering costs	501,076	408,644	306,947
Proceeds from sales of Common Stock	—	—	74,213
Proceeds from exercises of Warrants	11,659	20,052	80,970
Payments for redemptions of preferred stock	(12,124)	(9,367)	(4,480)
Common Stock dividends paid	(45,439)	(39,865)	(27,409)
Preferred stock dividends paid	(110,827)	(84,427)	(61,966)
Distributions to non-controlling interests	(911)	(1,034)	(817)
Payments for deferred offering costs	(4,013)	(3,705)	(6,314)
Contributions from non-controlling interests	4,539	—	540
Net cash provided by financing activities	564,989	751,102	646,185
Net increase in cash, cash equivalents and restricted cash	49,563	14,678	5,297
Cash, cash equivalents and restricted cash, beginning of year	87,690	73,012	67,715
Cash, cash equivalents and restricted cash, end of period	<u>\$ 137,253</u>	<u>\$ 87,690</u>	<u>\$ 73,012</u>
Supplemental cash flow information:			
Cash paid for interest	\$ 103,298	\$ 86,222	\$ 59,851
Supplemental disclosure of non-cash investing and financing activities:			
Accrued capital expenditures	\$ 4,816	\$ 2,317	\$ 2,305
Writeoff of fully depreciated or amortized assets and liabilities	\$ 261	\$ 480	\$ 836
Writeoff of fully amortized deferred loan costs	\$ 1,919	\$ 4,829	\$ 411
Writeoff of assets due to hurricane damage	\$ —	\$ —	\$ 6,879
Lessee-funded tenant improvements, capitalized as landlord assets	\$ —	\$ 18,202	\$ 28,803
Consolidation of assets of VIEs	\$ 270,669	\$ 264,886	\$ —
Consolidation of liabilities of VIEs	\$ 270,670	\$ —	\$ —
Deconsolidation of assets of VIEs	\$ 578,707	\$ —	\$ —
Deconsolidation of liabilities of VIEs	\$ 578,707	\$ —	\$ —
Dividends payable - Common Stock	\$ 12,156	\$ 10,840	\$ 9,576
Dividends payable - Series A Preferred Stock	\$ 10,020	\$ 7,920	\$ 5,971
Dividends payable - mShares Preferred Stock	\$ 560	\$ 269	\$ 70
Dividends payable - A1/M1 Preferred Stock	\$ 15	\$ —	\$ —
Dividends declared but not yet due and payable	\$ 768	\$ 229	\$ 63
Partnership distributions payable to non-controlling interests	\$ 225	\$ 228	\$ 221
Accrued and payable deferred offering costs	\$ 3,836	\$ 461	\$ 323
Offering cost reimbursement to related party	\$ 512	\$ 1,890	\$ 1,512
Reclass of offering costs from deferred asset to equity	\$ 12,551	\$ 4,044	\$ 2,515
Loan receivables converted to equity for property acquisition	\$ 47,797	\$ —	\$ —
Fair value issuances of equity compensation	\$ 719	\$ 4,972	\$ 4,088
Mortgage loans assumed on acquisitions	\$ 41,550	\$ 47,125	\$ 90,722
Noncash repayment of mortgages through refinancings	\$ 65,607	\$ 152,770	\$ 162,945
Proceeds of like-kind exchange funds for dispositions	\$ —	\$ —	\$ 31,288
Use of like-kind exchange funds for acquisitions	\$ —	\$ —	\$ 31,288
Sales of Agency MBS investments, settled after year-end	\$ —	\$ 41,181	\$ —

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

1. Organization and Basis of Presentation

Preferred Apartment Communities, Inc. (NYSE: APTS) is a real estate investment trust engaged primarily in the ownership and operation of Class A multifamily properties, with select investments in grocery anchored shopping centers, Class A office buildings, and student housing properties. Preferred Apartment Communities' investment objective is to generate attractive, stable returns for stockholders by investing in income-producing properties and acquiring or originating real estate loans for multifamily properties. As of December 31, 2019, the Company owned or was invested in 123 properties in 15 states, predominantly in the Southeast region of the United States. Preferred Apartment Communities, Inc. has elected to be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended, commencing with its tax year ended December 31, 2011. The Company was externally managed and advised by Preferred Apartment Advisors, LLC, or its Manager, a Delaware limited liability company and related party until January 31, 2020 (see Note 6). See Note 17 for a discussion of the Company's Internalization transaction, which closed on January 31, 2020.

As of December 31, 2019, the Company had 46,443,411 shares of common stock, par value \$0.01 per share, or Common Stock, issued and outstanding and was the approximate 98.2% owner of the Preferred Apartment Communities Operating Partnership, L.P., the Company's operating partnership, at that date. The number of partnership units not owned by the Company totaled 856,409 at December 31, 2019 and represented Class A OP Units of the Operating Partnership, or Class A OP Units. The Class A OP Units are convertible at any time at the option of the holder into the Operating Partnership's choice of either cash or Common Stock. In the case of cash, the value is determined based upon the trailing 20-day volume weighted average price of the Company's Common Stock.

The Company controls the Operating Partnership through its sole general partner interest and conducted substantially all of its business through the Operating Partnership until January 31, 2020. Beginning February 1, 2020, the Company will conduct substantially all of its business through PAC Carveout, LLC, a wholly owned subsidiary of the Operating Partnership. The Company has determined the Operating Partnership is a variable interest entity, or VIE, of which the Company is the primary beneficiary. The Company is involved with other VIEs as discussed in Note 4. New Market Properties, LLC owns and conducts the business of our portfolio of grocery-anchored shopping centers. Preferred Office Properties, LLC owns and conducts the business of our portfolio of office buildings. Preferred Campus Communities, LLC owns and conducts the business of our portfolio of off-campus student housing communities. Each of these entities are indirect wholly-owned subsidiaries of the Operating Partnership.

Basis of Presentation

These consolidated financial statements include all of the accounts of the Company and the Operating Partnership presented in accordance with accounting principles generally accepted in the United States of America, or GAAP. All significant intercompany transactions have been eliminated in consolidation. Certain adjustments have been made consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair presentation of the Company's financial condition and results of operations. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Amounts are presented in thousands where indicated.

2. Summary of Significant Accounting Policies

Acquisitions and Impairments of Real Estate Assets

When the Company acquires a property, it allocates the aggregate purchase price to tangible assets, consisting of land, building, site improvements and furniture, fixtures and equipment, and identifiable intangible assets, consisting of the value of in-place leases and above-market and below-market leases as described further below, using estimated fair values of each component at the time of purchase. The Company follows the guidance as outlined in ASC 805-10, *Business Combinations*, as amended by ASU 2017-01. As described below in the section entitled New Accounting Pronouncements, Accounting Standards Update 2017-01 was adopted by the Company effective January 1, 2017, which changed the definition of a business. Under this new guidance, most property acquisitions made by the Company will fall within the category of acquired assets rather than acquired businesses. This distinction will cause the Company to capitalize its costs for acquisitions (including, effective July 1, 2017, a 1% acquisition fee), allocate them to the fair value of acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities. Should the Company complete any acquisitions in the future which qualify as acquisitions of businesses, associated acquisition costs would be expensed as incurred.

Tangible assets

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

Identifiable intangible assets

In-place leases

Multifamily communities and student housing properties

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

Grocery-anchored shopping centers and office properties

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

Above-market and below-market lease values

Multifamily communities and student housing properties

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

Grocery-anchored shopping centers and office properties

The values of above-market and below-market leases are developed by comparing the Company's estimate of the average market rents and expense reimbursements to the average contract rent at the property acquisition date. The amount by which contract rent and expense reimbursements exceed estimated market rent are summed for each individual lease and discounted for a singular aggregate above-market lease intangible asset for the property. The amount by which estimated market rent exceeds contract rent and expense reimbursements are summed for each individual lease and discounted for a singular aggregate below-market lease intangible liability. The above-market or below-market lease values are recorded as a reduction or increase, respectively, to rental revenue over the remaining noncancelable term of the respective leases, plus any below-market probable renewal options.

Impairment Assessment

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

Agency Mortgage-Backed Securities

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

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

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

See section entitled "Variable Interest Entities" below.

Deferred Leasing Costs

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

Variable Interest Entities

A variable interest entity, or "VIE" is an entity that lacks sufficient equity to finance its activities without additional subordinated financial support from other parties, or whose equity holders lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary, which is defined as the party who has a controlling financial interest in the VIE through the (a) power to direct the activities of the VIE that most significantly affect the VIE's economic performance, and (b) obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. The Company assesses whether it meets the power and benefits criteria and in performing this analysis, the Company considers both qualitative and quantitative factors, including the Company's ability to control or significantly influence key decisions of the VIE and the obligation or likelihood for the Company to fund operating losses of the VIE. The determination of whether an entity is a VIE, and whether the Company is the primary beneficiary, may involve significant judgment, including the determination of which activities most significantly affect the entities' performance, and estimates about the current and future fair values and performance of assets held by the VIE. If the Company determines that it meets both the power and benefits criteria of the VIE, the Company is deemed to be the primary beneficiary of the VIE and the Company consolidates the entire VIE entity in its consolidated financial statements. For those VIEs which arise from the Company's investment in mortgage-backed securities and which the Company consolidates, it elects the fair value option, under which the assets and liabilities of the consolidated VIE are carried at fair value. The periodic changes in fair value are included in the earnings of the Company and are reported on the line entitled Change in fair value of net assets of consolidated pool on the Company's Consolidated Statements of Operations. See Note 4 for discussion related to the Company's investments in subordinate tranches of collateralized mortgage-backed pools and Note 15 for fair value disclosures related to a consolidated VIE related to these investments.

Real Estate Loan Investments

The Company carries its investments in real estate loans at amortized cost with assessments made for possible loan loss allowances in the event recoverability of the principal amount becomes doubtful. The balances of real estate loans presented on the consolidated balance sheets consist of drawn amounts on the loans, net of unamortized deferred loan origination fees and loan loss allowances.

Interest income on real estate loans and notes receivable is recognized on an accrual basis over the lives of the loans or notes. In the event that a loan or note is refinanced with the proceeds of another loan issued by the Company, any unamortized loan fee revenue from the first loan will be recognized as interest revenue at the date of refinancing. Loan origination fees applicable to real estate loans are amortized over the lives of the loans as adjustments to interest income using the effective interest rate method. The accrual of interest on all these instruments ceases when there is concern as to the ultimate collection of principal or interest. Certain real estate loan assets include limited purchase options and either exit fees or additional amounts of accrued interest. Exit fees or accrued interest due will be treated as additional consideration for the acquired project if the Company purchases the subject property. Additional accrued interest becomes due in cash to the Company on the earliest to occur of: (i) the maturity of the loan, (ii) any uncured event of default as defined in the associated loan agreement, (iii) the sale of the project or the refinancing of the loan (other than a refinancing loan by the Company or one of its affiliates) and (iv) any other repayment of the loan.

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

In connection with the surveillance review process, the Company's real estate loan investments are assigned an internal risk rating. The internal risk ratings are based on the loan's current status as compared to underwriting for certain metrics such as total expected construction cost if overruns are noted, construction completion timing if there are delays, current cap rates within the MSA, leasing status, rental rates, net operating income, expected free cash flow, and other factors management deems important related to the ultimate collectability of the loan. The final internal risk ratings are influenced by other quantitative and qualitative factors that can result in an adjustment to the ratings. Each loan is given an internal risk rating from "A" to "D". Loans rated an "A" meet all present contractual obligations and there are no indicators which would cause concern for the borrower's ability to

meet all present contractual obligations. Loans rated a “B” meet all present contractual obligations, but exhibited at least one indication of a negative variation from the underwriting for the loan and/or project. Loans rated a “C” exhibit some weakness that deserves management’s close attention and if uncorrected, may result in deterioration of repayment prospects. For these loans, management performs analyses to verify the borrower’s ability to meet all present contractual obligations, including obtaining an appraisal of the underlying collateral for the loan. Based on the available collateral to satisfy the Company’s outstanding principal and interest contractually due, we may provide for an allowance, move the loan to non-accrual status for future interest recognition or continue monitoring the loan. For loans rated a “D”, the collection of all contractual principal and interest is improbable and management has determined to account for the loan as a non-accrual loan and, if appropriate under the circumstances record a loan loss allowance.

The Company's real estate loan investments are collateralized by real estate development projects and secured further by guaranties of repayment from one or more of the borrowers. The Company's lines of credit receivable are typically only collateralized by personal guaranties, but occasionally may be cross-collateralized by interests in other real estate projects. As a result, the Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property’s operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property’s liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower’s competency in managing and operating the properties. In addition, the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates are considered. Such impairment analyses are completed and reviewed by management, utilizing various data sources, including periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower’s exit plan, capitalization and discount rates and site inspections.

Beginning January 1, 2020, the Company adopted ASU 2016-13, that replaced the incurred loss model with an expected loss model for instruments measured at amortized cost, and requires entities to record credit allowances for total expected future losses on financial assets.

See the Revenue Recognition section of this Note for other loan-related policy disclosures required by ASC 310-10-50-6.

Purchase Option Terminations

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

Cash and Cash Equivalents and Restricted Cash

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

Fair Value Measurements

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

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

Deferred Loan Costs

Deferred loan costs are amortized using the effective interest rate method, over the terms of the related indebtedness.

Non-controlling Interest

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

Redeemable Preferred Stock

Shares of the Series A Redeemable Preferred Stock, stated value \$1,000 per share, or Series A Preferred Stock, Series A1 Redeemable Preferred Stock, stated value \$1,000 per share, or Series A1 Preferred Stock, Series M Redeemable Preferred Stock, stated value \$1,000 per share, or mShares, and Series M1 Redeemable Preferred Stock, stated value \$1,000 per share, or Series M1 Preferred Stock (collectively, Preferred Stock), are redeemable at the option of the holder, subject to a declining redemption fee schedule. Redemptions are therefore outside the control of the Company. However, the Company retains the right to fund any redemptions of any of its shares of Preferred Stock in either Common Stock or cash at its option. Therefore, the Company records all its Preferred Stock as components of permanent stockholders' equity.

Deferred Offering Costs

Deferred offering costs represent direct costs incurred by the Company related to current equity offerings, excluding costs specifically identifiable to a closing, such as commissions, dealer-manager fees, and other registration fees. For issuances of equity that occur on one specific date, associated offering costs are reclassified as a reduction of proceeds raised on the date of issue. The Company's offerings of Preferred Stock generally close on a bimonthly basis in variable amounts. Deferred offering costs related to the Preferred Stock Offerings are reclassified to the stockholders' equity section of the consolidated balance sheet as a reduction of proceeds raised on a pro-rata basis equal to the ratio of total Units or value of shares issued to the maximum number of Units or the value of shares, as applicable, that are expected to be issued.

Revenue Recognition

Multifamily communities and student housing properties

Rental revenue is recognized when earned from residents of the Company's multifamily communities, which is over the terms of the rental agreements, typically of nine to fifteen months' duration. The Company evaluates the collectability of amounts due from residents and recognizes revenue from residents when collectability is deemed probable, in accordance with ASC 842-30-25-12. The Company disclosed bad debt expense within the Property Operating and Maintenance expense line item in prior periods, but recorded the reduction in revenue against Rental Revenues and Other Property Revenues, as applicable, for the current period.

The Company evaluated the various ancillary revenues within its multifamily leases, including resident utility reimbursements. Having met the criteria that (i) the timing and pattern of transfer for the lease component and associated non-lease components are the same and (ii) that the lease component, if accounted for separately would be classified as an operating lease, the Company has elected the practical expedient under Lease Accounting, ASC 842, paragraph 10-15-42A, to elect reporting the lease component and non-lease components as one single component under Rental Revenues recognized in accordance with ASC 842. Lease components such as pet rental fees and parking rental fees as well as non-lease components such as utility reimbursements were previously presented in the Company's Other Property Revenues line item. For presentation purposes, the Company has reclassified its revenue from these revenue sources into Rental Revenues for all periods presented, for comparability. Revenue from utility reimbursements are considered variable lease payments and are recognized in the period in which the related expenses are incurred.

Grocery-anchored shopping centers and office properties

Our retail leases have original lease terms which generally range from three to seven years for spaces under 5,000 square feet and from ten to twenty years for spaces over 10,000 square feet. Anchor leases generally contain renewal options for one or more additional periods whereas in-line tenant leases may or may not have renewal options. With the exception of anchor leases,

the leases generally contain contractual increases in base rent rates over the lease term and the base rent rates for renewal periods are generally based upon the rental rate for the primary term, which may be adjusted for inflation or market conditions. Anchor leases generally do not contain contractual increases in base rent rates over the lease term and the renewal periods. Our leases generally provide for the payment of fixed monthly rentals and may also provide for the payment of additional rent based upon a percentage of the tenant's gross sales above a certain threshold level ("percentage rent"). Our leases also generally include tenant reimbursements for common area expenses, insurance, and real estate taxes. Utilities are generally paid by tenants either directly through separate meters or through payment of tenant reimbursements. The foregoing general description of the characteristics of the leases in our centers is not intended to describe all leases and material variations in lease terms may exist. Our office building leases have original lease terms which generally range from five to fifteen years and generally contain contractual, annual base rental rate escalations ranging from 2% to 3%. These leases may be structured as gross where the tenant's base rental rate is all inclusive and there is no additional obligation to reimburse building operating expenses, net or NNN where in addition to base rent the tenant is also responsible for its pro rata share of reimbursable building operating expenses, or modified gross where in addition to base rent the tenant is also responsible for its pro rata share of reimbursable building operating expense increases over a base year amount (typically calculated as the actual reimbursable operating expenses in year one of the original lease term).

Base rental revenue from tenants' operating leases is a lease component revenue in the Company's grocery-anchored shopping centers and office properties and is recognized on a straight-line basis over the term of the lease. Revenue based on "percentage rent" provisions that provide for additional rents that become due upon achievement of specified sales revenue targets (as specified in each lease agreement) is recognized only after the tenant exceeds its specified sales revenue target. Revenue from reimbursements of the tenants' share of real estate taxes, insurance and common area maintenance, or CAM, costs represent non-lease component revenue. Having met the criteria that (i) the timing and pattern of transfer for the lease component and associated non-lease components are the same and (ii) that the lease component, if accounted for separately would be classified as an operating lease, the Company has elected the practical expedient under ASC 842, *Leases*, paragraph 10-15-42A, to elect reporting the lease component and non-lease components as one single component under Rental Revenues recognized in accordance with ASC 842. Reimbursement revenue and percentage rent were previously presented in the Company's Other Property Revenues line item. For presentation purposes, the Company has reclassified its revenue from reimbursements into Rental Revenues for all periods presented, for comparability. Revenue from reimbursements are considered variable lease payments and are recognized in the period in which the related expenses are incurred. The Company does not record income and offsetting expense for certain variable costs paid directly to third parties by lessees on behalf of lessors.

Non-lease components which do not qualify under the practical expedient primarily include lease termination income and other ancillary revenue (e.g. application fees, license fees, late fees and tenant billbacks). These items are recorded under Other property revenues. Lease termination revenues are recognized ratably over the revised remaining lease term after giving effect to the termination notice or when tenant vacates and the Company has no further obligations under the lease. Rents and tenant reimbursements collected in advance are recorded as prepaid rent within other liabilities in the accompanying consolidated balance sheets. The Company evaluated the collectability of the tenant receivable related to rental and reimbursement billings due from tenants and straight-line rent receivables, which represent the cumulative amount of future adjustments necessary to present rental revenue on a straight-line basis, by taking into consideration the Company's historical write-off experience, tenant credit-worthiness, current economic trends, and remaining lease terms. The Company evaluates the collectability of these amounts and recognizes revenue related to tenants where collectability is deemed probable, in accordance with ASC 842-30-25-12. The Company previously recorded bad debt expense within the Property operating and maintenance expense line item, and upon adoption of ASC 842 on January 1, 2019, began recording amounts not deemed probable of collection as a reduction of rental revenues and other property revenues, as applicable.

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

lease with a corresponding recognition of rental revenues. In order to qualify as a landlord asset, the specifics of the tenant's assets are reviewed, including the Company's approval of the tenant's detailed expenditures, whether such assets may be usable by other future tenants, whether the Company has consent to alter or remove the assets from the premises and generally remain the Company's property at the end of the lease.

Gains on sales of real estate assets

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

Lessee accounting

The Company has evaluated its leases for which it is the lessee to determine the value of any right of use assets and related lease liabilities. The Company has three ground leases related to our office and grocery-anchored shopping center assets, one of which had been recorded at fair value on the Company's balance sheet at acquisition due to a purchase option the Company deemed probable of exercising. These ground leases generally have extended terms (e.g. over twenty years with multiple renewal options) and generally have base rent with CPI-based increases. The Company evaluated its renewal option periods in quantifying its asset and liability related to these ground leases. In determining the value of its right of use asset and lease liability, the Company used discount rates comparable to recent loan rates obtained on comparative properties within its portfolio. The Company's right of use asset and related lease liability in accordance with ASC 842-20-30 related to these ground leases are recorded within the Tenant Receivables and Other Assets and the Security Deposits and Other Liabilities line items of the balance sheet, respectively. The Company is also the lessee of furniture and equipment leases such as office equipment, which generally are three to five years with minimal rent increases. The Company determined that the related right of use asset and lease liability for its furniture and equipment leases were immaterial.

Acquisition Costs

The Company accounts for acquisition costs in accordance with guidance provided in Accounting Standards Update 2017-01. Under this guidance, most property acquisitions made by the Company will fall within the category of acquired assets rather than acquired businesses. This distinction causes the Company to capitalize its costs for acquisitions (including, effective July 1, 2017, a 1% acquisition fee), allocate them to the fair value of acquired assets and liabilities and amortize these costs over the remaining useful lives of those assets and liabilities. Should the Company complete any acquisitions in the future which qualify as acquisitions of businesses, associated acquisition costs would be expensed as incurred.

Capitalization and Depreciation

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

- Buildings: 30 - 50 years
- Furniture, fixtures & equipment: 5 - 10 years
- Improvements to buildings and land: 5 - 20 years
- Tenant improvements: shorter of economic life or lease term

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

Income Taxes

The Company has elected to be taxed as a REIT under the Code. To continue to qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of the Company's annual REIT taxable income to its stockholders (which is computed without regard to the dividends paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP). As a REIT, the Company generally will not be subject to federal income tax to the extent it distributes 100% of the Company's annual REIT taxable income to its stockholders.

If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at the corporate income tax rate and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which qualification is lost unless the Internal Revenue Service grants the Company relief under certain statutory provisions. Such an event could have a material adverse affect on the Company's net income and net cash available for distribution to stockholders. The Company intends to operate in such a manner as to maintain its election for treatment as a REIT.

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

Earnings (Loss) Per Share

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

New Accounting Pronouncements

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
Recently Adopted Accounting Guidance			
ASU 2016-02, <i>Leases (Topic 842)</i> ASU 2018-11, <i>Leases (Topic 842) Targeted Improvements</i>	<p>ASU 2016-02 requires a lessor to separate lease components from non-lease components, such as maintenance services or other activities that transfer a good or service to our residents and tenants in a contract.</p> <p>In July 2018, the FASB issued ASU 2018-11 which allowed for a practical expedient for lessors to elect, by class of underlying assets, to not separate lease and non-lease components if both (1) the timing and pattern of revenue recognition are the same for the non-lease component(s) and related lease component and (2) the combined single lease component would be classified as an operating lease.</p> <p>Additional practical expedients were also provided for under ASU 2018-11 related to expired or existing leases.</p>	January 1, 2019	<p>Having met the criteria that (i) the timing and pattern of transfer for the lease component and associated non-lease components are the same and (ii) that the lease component, if accounted for separately would be classified as an operating lease, the Company has elected the practical expedient within ASU 2018-11, as codified under ASC 842-10-15-42A, to elect reporting the lease component and non-lease components as one single component under Rental Revenues recognized in accordance with ASC 842. This change had no material effect on the timing of revenue recognition.</p> <p>The Company has also elected to implement the package of practical expedients provided within ASU 2018-11, as codified under ASC 842-10-65-1(f), which allows the Company not to reassess whether expired or existing contracts contain leases, its lease classification, and any related initial direct costs.</p>
ASU 2018-20, <i>Leases (ASC 842), Narrow-Scope Improvements for Lessors</i>	ASU 2018-20 eliminates the requirement to record income and offsetting expense for certain variable costs paid for by lessees on behalf of lessors.	January 1, 2019	The Company no longer records income and expense for property taxes paid directly to the taxing authority by a lessee based on this standard. The effect is a reduction of other property revenues and of property tax expense, with no effect upon net income/loss.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
Recently Issued Accounting Guidance Not Yet Adopted			
ASU 2016-13, <i>Financial Instruments - Credit Losses (ASC 326)</i>	ASU 2016-03 changes how entities will measure credit losses for most financial assets, including loans, which are not measured at fair value through net income. The guidance replaces the existing incurred loss model with an expected loss model for instruments measured at amortized cost, and requires entities to record credit allowances for financial assets rather than reduce the carrying amount, as they do today under the other-than temporary impairment model.	January 1, 2020	Implementation of the new guidance on accounting for financial assets will be limited to our real estate loans and notes and revolving lines of credit. We have developed a model that derives a reserve ratio based upon the amount of financial protection afforded each instrument. For each loan in which we are the lender, the amount of protection afforded to us is estimated to be the excess of the future estimated fair market value of the developed property over the commitment amount of each loan (including other loans senior to the Company's), inclusive of accrued interest and other related receivables. The excess represents the amount of equity dollars in each real estate project, which are in a subordinate position to our real estate loan investments. We expect to implement this new guidance using the modified retrospective basis by recording a cumulative effect adjustment to retained earnings on January 1, 2020. The amount of this adjustment is undergoing final refinement of assumptions and is expected to be approximately \$6.5 million to \$7.5 million, or approximately 1.5% of the Company's ultimate exposure (the committed amount for all outstanding real estate loans plus related receivables).

3. Real Estate Assets

The Company's real estate assets consisted of:

	As of:	
	December 31, 2019	December 31, 2018
Multifamily communities:		
Properties ⁽¹⁾	34 ^(1, 2)	32
Units	10,245	9,768
New Market Properties:		
Properties	52 ⁽²⁾	45
Gross leasable area (square feet) ⁽³⁾	6,041,629	4,730,695
Student housing properties:		
Properties	8 ^(2, 4)	7
Units	2,011	1,679
Beds	6,095	5,208
Preferred Office Properties:		
Properties	10 ⁽²⁾	7
Rentable square feet	3,204,000	2,578,000

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

⁽²⁾ One multifamily community, two student housing properties, two grocery-anchored shopping centers and two office buildings are owned through consolidated joint ventures.

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

⁽⁴⁾ Six of our student housing properties were under contract for sale at December 31, 2019.

Multifamily communities sold

The Company had no sales of multifamily community assets during the year ended December 31, 2019.

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

On October 23, 2018, the Company closed on the sale of its 364-unit multifamily community in Nashville, Tennessee, or Stoneridge Farms at the Hunt Club, to an unrelated third party for a purchase price of \$55.0 million, exclusive of closing costs and resulting in a gain of \$16.8 million. Stoneridge Farms at the Hunt Club contributed approximately \$0.6 million of net income to the consolidated operating results of the Company for the year ended December 31, 2018.

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

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

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

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

<i>(In thousands)</i>	McNeil Ranch	Stoneridge Farms	Stone Rise	Lake Cameron
	December 11, 2018	October 23, 2018	September 28, 2018	March 20, 2018
Real estate assets:				
Land	\$ 2,100	\$ 3,026	\$ 6,950	\$ 4,000
Building and improvements	16,300	35,740	18,860	21,519
Furniture, fixtures and equipment	2,096	4,305	3,292	3,687
Accumulated depreciation	(5,252)	(6,601)	(6,722)	(7,220)
Total assets, net	<u>\$ 15,244</u>	<u>\$ 36,470</u>	<u>\$ 22,380</u>	<u>\$ 21,986</u>
Liabilities:				
Mortgage note payable	<u>\$ 13,418</u>	<u>\$ 25,626</u>	<u>\$ 23,520</u>	<u>\$ 19,736</u>

Multifamily communities acquired

During the years ended December 31, 2019 and 2018, the Company completed the acquisition of the following multifamily communities:

Acquisition date	Property	Location	Units
8/8/2019	Artisan at Viera	Melbourne, Florida	259
9/18/2019	Five Oaks at Westchase	Tampa, Florida	218
			<u>477</u>
1/9/2018	The Lux at Sorrel	Jacksonville, Florida	265
2/28/2018	Green Park	Atlanta, Georgia	310
9/27/2018	The Lodge at Hidden River	Tampa, Florida	300
11/9/2018	Vestavia Reserve	Birmingham, Alabama	272
11/15/2018	CityPark View South	Charlotte, North Carolina	200
			<u>1,347</u>

The aggregate purchase prices of the multifamily acquisitions were approximately \$117.0 million and \$258.6 million for the years ended December 31, 2019 and 2018 respectively, exclusive of acquired escrows, security deposits, prepaids, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

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

<i>(In thousands, except amortization period data)</i>	Multifamily Communities acquired during the years ended December 31,	
	2019	2018
Land	\$ 9,264	\$ 28,365
Buildings and improvements	87,098	181,931
Furniture, fixtures and equipment	19,806	44,474
Lease intangibles	2,647	8,257
Prepays & other assets	75	569
Accrued taxes	(477)	(684)
Security deposits, prepaid rents, and other liabilities	(118)	(494)
Net assets acquired	<u>\$ 118,295</u>	<u>\$ 262,418</u>
Cash paid	\$ 78,295	\$ 87,592
Mortgage debt, net	40,000	174,826
Total consideration	<u>\$ 118,295</u>	<u>\$ 262,418</u>
Year ended December 31, 2019:		
Revenue	\$ 2,967	\$ 23,734
Net income (loss)	\$ (2,074)	\$ (10,489)
Year ended December 31, 2018:		
Revenue	\$ —	\$ 11,533
Net income (loss)	\$ —	\$ (8,704)
Capitalized acquisition costs incurred by the Company	\$ 1,771	\$ 4,412
Acquisition costs paid to related party (included above)	\$ 1,216	\$ 2,615
Remaining amortization period of intangible assets and liabilities (months)	7.1	0

Student housing properties acquired

During the years ended December 31, 2019 and 2018, the Company completed the acquisitions of the following student housing properties:

Acquisition date	Property	Location	Units	Beds
3/27/2019	Haven49 ⁽¹⁾	Charlotte, NC	<u>332</u>	<u>887</u>
5/10/2018	The Tradition	College Station, TX	427	808
5/31/2018	The Retreat at Orlando	Orlando, FL	221	894
6/27/2018	The Bloc	Lubbock, TX	<u>140</u>	<u>556</u>
			<u>788</u>	<u>2,258</u>

⁽¹⁾ The Company effectuated the acquisition via a negotiated agreement whereby the Company accepted the membership interest in the Haven49 project entity in satisfaction of the project indebtedness owed to the Company. See Note 4.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

The aggregate purchase price of the student housing property acquisitions for the years ended December 31, 2019 and 2018 was approximately \$92.4 million and \$197.0 million respectively, exclusive of acquired escrows, security deposits, prepaid assets, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

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

<i>(In thousands, except amortization period data)</i>	Student housing properties acquired during the years ended December 31,	
	2019	2018
Land	\$ 7,289	\$ 23,149
Buildings and improvements	68,163	146,856
Furniture, fixtures and equipment	16,966	27,211
Lease intangibles	983	2,494
Below market leases	—	(54)
Prepays & other assets	—	309
Accrued taxes	(158)	(942)
Security deposits, prepaid rents, and other liabilities	(2,579)	(720)
Net assets acquired	<u>\$ 90,664</u>	<u>\$ 198,303</u>
Cash paid	\$ 2,717	\$ 92,212
Satisfaction of loan receivables	46,397	—
Mortgage debt, net	41,550	106,091
Total consideration	<u>\$ 90,664</u>	<u>\$ 198,303</u>
Year ended December 31, 2019:		
Revenue	\$ 5,532	\$ 17,599
Net income (loss)	\$ (2,946)	\$ (7,010)
Year ended December 31, 2018:		
Revenue	\$ —	\$ 9,882
Net income (loss)	\$ —	\$ (7,797)
Capitalized acquisition costs incurred by the Company	\$ 1,016	\$ 2,555
Acquisition costs to related party	\$ 936	\$ 1,970
Remaining amortization period of intangible assets and liabilities (months)	0	0

On May 24, 2019, the Company entered into a purchase and sale agreement to sell six of its student housing properties to a third party. On June 28, 2019, this agreement was terminated and the Company recorded revenue from a forfeited earnest money deposit of \$1.0 million. A new purchase and sale agreement was entered into for the same six student housing properties plus a real estate loan supporting yet another student housing property on July 29, 2019. On December 9, 2019, the agreement was amended to extend the closing date to March 20, 2020 and resulted in another \$1.0 million deposit forfeiture by a prospective purchaser to the Company.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

New Market Properties assets acquired

During the years ended December 31, 2019 and 2018, the Company completed the acquisition of the following grocery-anchored shopping centers:

Acquisition date	Property	Location	Gross leasable area (square feet)
1/17/2019	Gayton Crossing	Richmond, Virginia	158,316
5/28/2019	Free State Shopping Center	Washington, D.C.	264,152
6/12/2019	Disston Plaza	Tampa - St. Petersburg, Florida	129,150
6/12/2019	Polo Grounds Mall	West Palm Beach, Florida	130,285
8/16/2019	Fairfield Shopping Center ⁽¹⁾	Virginia Beach, Virginia	231,829
11/14/2019	Berry Town Center	Orlando, Florida	99,441
12/19/2019	Hanover Shopping Center ⁽¹⁾	Wilmington, North Carolina	305,346
			<u>1,318,519</u>
4/27/2018	Greensboro Village	Nashville, Tennessee	70,203
4/27/2018	Governors Towne Square	Atlanta, Georgia	68,658
6/26/2018	Neapolitan Way	Naples, Florida	137,580
6/29/2018	Conway Plaza	Orlando, Florida	117,705
7/6/2018	Brawley Commons	Charlotte, North Carolina	122,028
12/21/2018	Hollymead Town Center	Charlottesville, Virginia	158,807
			<u>674,981</u>

⁽¹⁾ Property is owned through a consolidated joint venture.

The aggregate purchase price of the New Market Properties acquisitions for the years ended December 31, 2019 and 2018 was approximately \$248.4 million and \$158.6 million respectively, exclusive of acquired escrows, security deposits, prepaid assets, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

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

<i>(In thousands, except amortization period data)</i>	New Market Properties' acquisitions during the years ended December 31,	
	2019	2018
Land	\$ 77,612	\$ 40,793
Buildings and improvements	152,804	99,967
Tenant improvements	11,319	5,862
In-place leases	21,084	11,394
Above market leases	3,098	3,279
Leasing costs	7,216	3,855
Below market leases	(21,028)	(4,934)
Other assets	124	247
Security deposits, prepaid rents, and other	(869)	(1,024)
Net assets acquired	<u>\$ 251,360</u>	<u>\$ 159,439</u>
Cash paid	\$ 91,422	\$ 83,906
Mortgage debt	159,938	75,533
Total consideration	<u>\$ 251,360</u>	<u>\$ 159,439</u>
Year ended December 31, 2019:		
Revenue	\$ 11,401	\$ 14,650
Net income (loss)	\$ (1,686)	\$ (1,333)
Year ended December 31, 2018:		
Revenue	\$ —	\$ 5,670
Net income (loss)	\$ —	\$ (1,057)
Capitalized acquisition costs incurred by the Company	\$ 5,192	\$ 2,320
Capitalized acquisition costs paid to related party (included above)	\$ 2,367	\$ 1,631
Remaining amortization period of intangible assets and liabilities (years)	7.9	6.3

Preferred Office Properties assets acquired

During the years ended December 31, 2019 and 2018, the Company completed the acquisition of the following office buildings:

Acquisition date	Property	Location	Gross leasable area (square feet)
7/25/2019	CAPTRUST Tower	Raleigh, North Carolina	300,000
7/31/2019	251 Armour Drive	Atlanta, Georgia	35,000
12/20/2019	Morrocroft Center	Charlotte, North Carolina	291,000
			<u>626,000</u>
1/29/2018	Armour Yards	Atlanta, Georgia	187,000
7/31/2018	150 Fayetteville	Raleigh, North Carolina	560,000
12/20/2018	Capitol Towers	Charlotte, North Carolina	479,000
			<u>1,226,000</u>

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

The aggregate purchase price of the Preferred Office Properties acquisitions for the years ended December 31, 2019 and 2018 was approximately \$250.6 million and \$448.3 million respectively, exclusive of acquired escrows, security deposits, prepaid assets, capitalized acquisition costs and other miscellaneous assets and assumed liabilities.

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

<i>(In thousands, except amortization period data)</i>	Preferred Office Properties' acquisitions during the years ended December 31,	
	2019	2018
Land	\$ 22,654	\$ 36,274
Buildings and improvements	193,243	336,944
Tenant improvements	13,205	32,085
In-place leases	12,766	25,275
Above-market leases	1,760	4,900
Leasing costs	6,021	19,817
Below-market leases	(2,892)	(10,626)
Prepaid and other assets	56	1,588
Accrued taxes	(98)	(17)
Security deposits, prepaid rents, and other liabilities	(413)	(12,241)
Net assets acquired	<u>\$ 246,302</u>	<u>\$ 433,999</u>
Cash paid	\$ 93,652	\$ 152,949
Mortgage debt, net	82,650	281,050
Term Note	70,000	—
Total consideration	<u>\$ 246,302</u>	<u>\$ 433,999</u>
Year ended December 31, 2019:		
Revenue	\$ 5,530	\$ 41,391
Net income (loss)	\$ (718)	\$ (1,205)
Year ended December 31, 2018:		
Revenue	\$ —	\$ 12,327
Net income (loss)	\$ —	\$ (2,337)
Capitalized acquisition costs incurred by the Company	\$ 3,079	\$ 6,013
Acquisition costs paid to related party (included above)	\$ 2,570	\$ 4,483
Remaining amortization period of intangible assets and liabilities (years)	6.8	8.8

The Company recorded aggregate amortization and depreciation expense of:

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Depreciation:			
Buildings and improvements	\$ 99,137	\$ 78,691	\$ 55,803
Furniture, fixtures, and equipment	50,747	47,158	30,215
	<u>149,884</u>	<u>125,849</u>	<u>86,018</u>
Amortization:			
Acquired intangible assets	34,057	44,617	30,492
Deferred leasing costs	933	519	201
Website development costs	191	151	66
Total depreciation and amortization	<u>\$ 185,065</u>	<u>\$ 171,136</u>	<u>\$ 116,777</u>

At December 31, 2019, the Company had recorded acquired gross intangible assets of \$304.7 million, accumulated amortization of \$149.9 million, gross intangible liabilities of \$86.3 million and accumulated amortization of \$23.7 million. Net intangible assets and liabilities as of December 31, 2019 will be amortized over the weighted average remaining amortization periods of approximately 7.3 and 9.2 years, respectively.

At December 31, 2019, the Company had restricted cash of approximately \$18.7 million that was contractually restricted to fund capital expenditures and other property-level commitments such as tenant improvements and leasing commissions.

Purchase Options

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

Effective May 7, 2018, the Company terminated its purchase options on the Encore, Bishop Street and Hidden River multifamily communities and the Haven46 and Haven Charlotte student housing properties, all of which are partially supported by real estate loan investments held by the Company, in exchange for termination fees aggregating approximately \$12.3 million from the developers. For the year ended December 31, 2018, the Company recorded approximately \$8.7 million of interest revenue related to these purchase option terminations.

Effective January 1, 2019, the Company terminated its purchase options on the Sanibel Straits, Newbergh, Wiregrass and Cameron Square multifamily communities and the Solis Kennesaw student housing property, all of which are partially supported by real estate loan investments held by the Company, in exchange for termination fees aggregating approximately \$8.4 million from the developers. These fees are treated as additional interest revenue and are amortized over the period ending with the earlier of (i) the sale of the underlying property and (ii) the maturity of the real estate loans. For the year ended December 31, 2019, the Company recorded approximately \$5.5 million of interest revenue related to these purchase option terminations in addition to approximately \$3.6 million of interest revenue for the 464 Bishop and Haven49 purchase options that terminated in the second quarter 2018.

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

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Number of loans	27	29
Number of underlying properties in development	19	19
<i>(In thousands)</i>		
Drawn amount	\$ 352,582	\$ 336,329
Deferred loan origination fees	(1,476)	(2,118)
Allowance for loan losses	(1,624)	—
Carrying value	<u>\$ 349,482</u>	<u>\$ 334,211</u>
Unfunded loan commitments	\$ 61,718	\$ 164,913
Weighted average current interest, per annum (paid monthly)	8.48%	8.47%
Weighted average accrued interest, per annum	3.85%	5.24%

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

<i>(In thousands)</i>	Principal balance	Deferred loan origination fees	Loan loss allowance	Carrying value
Balances as of December 31, 2018	\$ 336,329	\$ (2,118)	\$ —	\$ 334,211
Loan fundings	98,418	—	—	98,418
Loan repayments	(54,384)	—	—	(54,384)
Loans settled with acquisitions	(27,781)	—	—	(27,781)
Increase in loan loss allowance	—	—	(1,624)	(1,624)
Loan origination fees collected	—	(783)	—	(783)
Amortization of loan origination fees	—	1,425	—	1,425
Balances as of December 31, 2019	<u>\$ 352,582</u>	<u>\$ (1,476)</u>	<u>\$ (1,624)</u>	<u>\$ 349,482</u>

Property type	Number of loans	Carrying value	Commitment amount	Percentage of portfolio
<i>(In thousands)</i>				
Multifamily communities	23	\$ 315,286	\$ 362,519	90%
Student housing properties	2	16,898	19,730	5%
New Market Properties	1	12,857	12,857	4%
Preferred Office Properties	1	4,441	19,193	1%
Balances as of December 31, 2019	<u>27</u>	<u>\$ 349,482</u>	<u>\$ 414,299</u>	

Effective June 30, 2019, the Company amended and sold its senior construction loan on the 8West office development to a third party and collected a gross fee of \$1.55 million from the buyer.

The Company's Palisades real estate loan investment was subject to a loan participation agreement with an unaffiliated third party, under which the syndicate was to fund approximately 25% of the loan commitment amount and collectively receive approximately 25% of interest payments, returns of principal and purchase option discount (if applicable). On March 13, 2019, the Company repurchased the loan participant's 25% balance in the loan from the loan participant and at December 31, 2019, carried the entire loan balance on its consolidated balance sheet without reflection of any liability to any third party.

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

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

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

The Company's Starkville loan has been in default since August 20, 2019 under the terms of the underlying mezzanine loan agreement. The Company recorded a loan loss reserve related to this loan totaling \$1.4 million, reducing its net investment in the Starkville loan from \$7.3 million, including accrued interest of \$1.2 million, to a carrying amount of \$5.9 million as of December 31, 2019. This loan is included in the pending purchase and sale agreement to acquire six student properties scheduled to close on March 20, 2020.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

At December 31, 2019, the Company's portfolio of real estate loan investments by credit quality indicator was:

(In thousands)

Rating indicator	Principal balance	Accrued interest	Receivables for purchase option terminations	Allowance for loan losses	Total
A	\$ 346,466	\$ 24,547	\$ 6,100	\$ —	\$ 377,113
B	—	—	—	—	—
C	—	—	—	—	—
D	6,116	1,208	—	(1,400)	5,924
	<u>\$ 352,582</u>	<u>\$ 25,755</u>	<u>\$ 6,100</u>	<u>\$ (1,400)</u>	<u>\$ 383,037</u>

At December 31, 2019, the Company's portfolio of notes and lines of credit receivable consisted of:

Borrower	Date of loan	Maturity date	Total loan commitments	Outstanding balance as of:		Interest rate
				December 31, 2019	December 31, 2018	
<i>(In thousands)</i>						
Preferred Capital Marketing Services, LLC ^(1,9)	1/24/2013	12/31/2020	\$ 1,500	\$ 650	\$ 763	10%
Preferred Apartment Advisors, LLC ^(1,2,3)	8/21/2012	12/31/2020	24,000	15,178	9,778	7.5% ⁽³⁾
Haven Campus Communities, LLC ^(1,4)	6/11/2014	12/31/2018	11,660	9,011	11,620	8%
Oxford Capital Partners, LLC ⁽⁵⁾	10/5/2015	6/30/2020	8,000	5,438	4,022	10% ⁽⁸⁾
Newport Development Partners, LLC ⁽¹⁰⁾	6/17/2014	6/30/2020	—	—	—	12%
Mulberry Development Group, LLC ⁽⁶⁾	3/31/2016	6/30/2020	750	525	465	12%
360 Capital Company, LLC ^(6,11)	5/24/2016	12/31/2020	3,400	3,394	3,100	12%
360 Capital Company, LLC ^(1,7)	7/24/2018	12/31/2020	8,000	7,754	6,923	8.5%
Haven Campus Communities Charlotte Member, LLC ⁽¹⁾	8/31/2018	N/A	—	—	10,788	15%
Unamortized loan fees				(33)	(152)	
			<u>\$ 57,310</u>	<u>\$ 41,917</u>	<u>\$ 47,307</u>	

⁽¹⁾ See related party disclosure in Note 6.

⁽²⁾ The amounts payable under this revolving credit line were collateralized by an assignment of the Manager's rights to fees due under the Sixth Amended and Restated Management Agreement between the Company and the Manager, or the Management Agreement.

⁽³⁾ Effective January 1, 2019, the interest rate was increased from 6.0% per annum to 7.5% per annum and the maturity date was extended to December 31, 2019. Effective December 31, 2019, the maturity date was extended to December 31, 2020 and its total loan commitment increased to \$24,000,000.

⁽⁴⁾ The amount payable under this note is collateralized by one of the principals of the borrower's 49.49% interest in an unrelated shopping center located in Atlanta, Georgia and a personal guaranty of repayment by the principals of the borrower.

⁽⁵⁾ The amounts payable under the terms of this revolving credit line, up to the lesser of 25% of the loan balance or \$2.0 million, are collateralized by a personal guaranty of repayment by the principals of the borrower.

⁽⁶⁾ The amounts payable under the terms of these revolving credit lines are collateralized by a personal guaranty of repayment by the principals of the borrower.

⁽⁷⁾ The amount payable under the note is collateralized by the developer's interest in the Fort Myers multifamily community project and a personal guaranty of repayment by the principals of the borrower.

⁽⁸⁾ Effective July 1, 2019, the interest rate was decreased from 12% per annum to 10% per annum.

⁽⁹⁾ The line of credit extended to PCMS was settled through the Internalization transaction on January 31, 2020.

⁽¹⁰⁾ The line of credit extended to Newport with a total commitment of \$2,000,000 was paid off during the fourth quarter of 2019.

⁽¹¹⁾ The line of credit extended to 360 Residential (LOC III) amended their maturity date from 12/31/2019 to 12/31/2020.

On November 20, 2018, the borrower on the Haven Campus Communities, LLC line of credit defaulted on the loan, triggering the accrual of an additional 10% default interest rate, which is incremental to the original 8% current interest rate. The amount of default interest recorded from the default date through December 31, 2019 was approximately \$1.1 million. Under the terms of the loan,

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

amounts collected are applied first to any legal costs incurred by the Company to collect amounts due on the loan; second, to pay any accrued default and current interest on the loan; and third, to repay the principal amount owed.

Based on the negotiated agreement between the Company and the borrowers, on March 27, 2019, the Company received the membership interests of the Haven49 student housing project in exchange for the complete settlement of the related Haven49 loans, which include the Haven Campus Communities Charlotte Member, LLC line of credit, the Haven49 mezzanine loan and the Haven49 member loan. Additionally, under the same agreement, the Company received payouts and credits totaling approximately \$3.75 million towards the Haven Campus Communities, LLC line of credit. These amounts were applied in accordance with the terms of the line of credit. The Company retains a pledge of a 49.49% interest in an unrelated shopping center located in Atlanta, Georgia as collateral on the Haven Campus Communities, LLC line of credit, as well as personal guaranties of repayment from the principals of the borrower.

In January 2019 the Company filed a lawsuit to collect the amounts owed under the line of credit it provided to Haven Campus Communities, LLC. In September 2019, Haven Campus Communities, LLC answered the lawsuit and filed counterclaims against the Company and its affiliates. At this time, the case is in the early stages of discovery, so the Company is unable to make any estimates on timing or amounts that may be collected by the Company on its Haven Campus Communities, LLC line of credit.

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

Interest income <i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Real estate loans:			
Current interest	\$ 30,985	\$ 31,368	\$ 32,570
Additional accrued interest	13,663	19,003	18,670
Loan origination fee amortization	1,426	1,570	1,376
Purchase option termination fee amortization	9,111	9,820	—
Default interest	91	64	—
Total real estate loan revenue	55,276	61,825	52,616
Notes and lines of credit	5,430	3,784	4,286
Bank and money market accounts	687	147	—
Agency mortgage-backed securities	95	50	—
Interest income on loans and notes receivable	\$ 61,488	\$ 65,806	\$ 56,902

The Company extends loans for purposes such as to partially finance the development of multifamily residential communities, to acquire land in anticipation of developing and constructing multifamily residential communities, and for other real estate or real estate related projects. Certain of these loans include characteristics such as exclusive options to purchase the project within a specific time window following project completion and stabilization, the sufficiency of the borrowers' investment at risk and the existence of payment and performance guaranties provided by the borrowers, any of which can cause the loans to create variable interests to the Company and require further evaluation as to whether the variable interest creates a VIE, which would necessitate consolidation of the project.

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

The Company has no decision making authority or power to direct activity, except normal lender rights, which are subordinate to the rights of the senior lenders on the projects. The Company has concluded that it is not the primary beneficiary of the borrowing entities and therefore it has not consolidated these entities in its consolidated financial statements. The Company's maximum exposure to loss from these loans is their drawn amount as of December 31, 2019 of approximately \$352.6 million. The maximum aggregate amount of loans to be funded as of December 31, 2019 was approximately \$414.3 million, which includes approximately \$61.7 million of loan committed amounts not yet funded.

The Company has evaluated its real estate loans, where appropriate, for accounting treatment as loans versus real estate development projects, as required by ASC 310. The Company evaluates the expected residual profit it expects to collect under the terms of the loan versus the expected residual profit expected to be collected by the developer (in conjunction with any equity investors, if applicable), along with the "loan versus investment" characteristics as set forth by ASC 310-25. For each loan, the characteristics and the facts and circumstances indicate that loan accounting treatment is appropriate in cases where (i) the majority of the expected residual profit is expected to be due the developer and (ii) the majority of "loan versus investment" tests indicate that the instrument is a loan.

The Company is also subject to a geographic concentration of risk that could be considered significant with regard to the Dawsonville Marketplace, Falls at Forsyth, Newbergh, Newbergh Capital, Solis Kennesaw II, 8West and Kennesaw Crossing real estate loan investments, all of which are partially supporting various real estate projects in or near Atlanta, Georgia. The drawn amount, in addition to outstanding accrued interest, for these loans as of December 31, 2019 totaled approximately \$84.0 million (with a total commitment amount of approximately \$100.8 million). The event of a total failure to perform by the borrowers and guarantors would subject the Company to a total possible loss of the drawn amount and all outstanding accrued interest.

Freddie Mac K Program investments

On May 23, 2018, the Company purchased a subordinate tranche of Series 2018-ML04, a pool of 20 multifamily mortgages with a total pool size of approximately \$276.3 million, from Freddie Mac. The purchase price of the subordinate tranche was approximately \$4.7 million. On December 10, 2019, the Company sold its investment in Series 2018-ML04 for \$6.2 million.

On March 28, 2019, the Company purchased a subordinate tranche of Series 2019-ML05, a pool of 21 multifamily mortgages with a total pool size of approximately \$295.7 million, from Freddie Mac. The Company's tranche of the 2019-ML05 pool pays monthly interest of approximately \$103,000. The purchase price of the subordinate tranche was approximately \$18.4 million. On December 17, 2019, the Company sold its investment in Series 2019-ML05 for \$20.4 million.

Agency Mortgage-Backed Securities investments

In December 2018, the Company began investing in Agency Mortgage-Backed Securities representing undivided (or "pass-through") beneficial interests in specified pools of fixed-rate mortgage loans. The investments are classified as trading securities. On December 20, 2018, the Company sold its entire position of a pool with associated premium amounts totaling \$41.1 million. At December 31, 2018, the Company held a receivable related to this sale transaction of \$41.2 million, which was collected upon the settlement of the transaction in January 2019.

5. Redeemable Preferred Stock and Equity Offerings

At December 31, 2019, the Company's active equity offerings consisted of:

- an offering of a maximum of 1,500,000 Units, with each Unit consisting of one share of Series A Redeemable Preferred Stock, par value \$0.01 per share, and one Warrant to purchase up to 20 shares of Common Stock (the "\$1.5 Billion Unit Offering");
- an offering of up to \$400 million of equity or debt securities (the "2019 Shelf Offering"), including an offering of up to \$125 million of Common Stock from time to time in an "at the market" offering (the "2019 ATM Offering"); and
- an offering of up to 1,000,000 Shares of Series A1 Redeemable Preferred Stock ("Series A1 Preferred Stock"), Series M1 Redeemable Preferred Stock ("Series M1 Preferred Stock"), or a combination of both (collectively the "Series A1/M1 Offering").

The offering of up to a maximum of 500,000 shares of Series M Redeemable Preferred Stock ("mShares"), par value \$0.01 per share (the "mShares Offering") expired on December 2, 2019. See note 17 regarding the expiration of the \$1.5 Billion Unit Offering.

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

Cumulative gross proceeds and offering costs for our equity offerings that were active during 2019 consisted of:

(In thousands)

Offering	Total offering	Gross proceeds as of December 31, 2019	Deferred Offering Costs				
			Reclassified as reductions of stockholders' equity	Recorded as deferred assets	Total	Specifically identifiable offering costs ⁽¹⁾	Total offering costs
\$1.5 Billion Unit Offering	\$ 1,500,000	\$ 1,171,116	\$ 11,979	\$ 807	\$ 12,786	\$ 109,844	\$ 122,630
mShares Offering	500,000 ⁽²⁾	105,984	3,855	—	3,855	3,911	7,766
Series A1/M1 Offering	1,000,000 ⁽³⁾	9,472	5	521	526	486	1,012
2016 Shelf Offering	300,000 ⁽⁴⁾	98,080	2,062	—	2,062	3,001	5,063
2019 Shelf Offering	400,000 ⁽⁵⁾	—	—	819	819	—	819
Total	\$ 3,700,000	\$ 1,384,652	\$ 17,901	\$ 2,147	\$ 20,048	\$ 117,242	\$ 137,290

⁽¹⁾ These offering costs specifically identifiable to offering closing transactions, such as commissions, dealer manager fees, and other registration fees, are reflected as a reduction of stockholders' equity at the time of closing.

⁽²⁾ The mShares Offering expired on December 2, 2019.

⁽³⁾ On September 27, 2019, the Company's Series A1/M1 Registration Statement was declared effective.

⁽⁴⁾ The \$300 million 2016 Shelf Offering expired in second quarter 2019, and therefore all remaining deferred offering costs were reclassified as reductions of stockholder's equity.

⁽⁵⁾ On April 25, 2019, the Company's 2019 Shelf Registration Statement was declared effective.

Aggregate offering expenses of the \$1.5 Billion Unit Offering, including selling commissions and dealer manager fees, and of the mShares Offering, including dealer manager fees, are each individually capped at 11.5% of the aggregate gross proceeds of the two offerings. The Company reimbursed its Manager up to 1.5% of the gross proceeds of such offerings for all organization and offering expenses that were incurred by the Manager through the date of the Internalization. Dealer manager fees for both offerings and sales commissions for the \$1.5 Billion Unit Offering are not reimbursable.

See note 6 for discussion regarding a termination fee agreement with and payment to Preferred Capital Securities, LLC, or PCS, an affiliate of the Company, in conjunction with the Company's winding down of the \$1.5 Billion Unit Offering.

Series A1/M1 Preferred Stock Offering

On September 27, 2019, the Company's registration statement on Form S-3 (Registration No. 333-233576) (the "Series A1/M1 Registration Statement") was declared effective by the SEC. Shares of Series A1 Preferred Stock and Series M1 Preferred Stock issued under the Series A1/M1 Registration Statement are each offered at a price of \$1,000 per share, subject to adjustment under certain conditions.

Each share of Series A1 Preferred Stock ranks senior to Common Stock with respect to dividend rights and carries a cumulative annual 6% dividend of the stated per share value of \$1,000, payable monthly as declared by the Company's board of directors. Dividends begin accruing on the date of issuance. The redemption schedule of the Series A1 Preferred Stock allows redemptions at the option of the holder from the date of issuance through the first year subject to a 13% redemption fee. After year one, the redemption fee decreases to 10%, after year two the redemption fee decreases to 5% and after year three there is no redemption fee. Any redeemed shares of Series A1 Preferred Stock are entitled to any accrued but unpaid dividends at the time of the redemption and any redemptions may be in cash or Common Stock, at the Company's discretion.

Each share of Series M1 Preferred Stock ranks senior to Common Stock with respect to dividend rights and carries a cumulative annual dividend beginning at 6.1% of the stated per share value of \$1,000, payable monthly as declared by the Company's board of directors. The annual dividend rate increases by 0.1% on each anniversary of the issuance date up to a maximum annual dividend rate of 7.1%. Dividends begin accruing on the date of issuance. The redemption schedule of the Series M1 Preferred Stock allows redemptions at the option of the holder from the date of issuance of the Series M1 Preferred Stock through the first year at the stated value per share minus dividends paid for the three most previous dividend declaration dates. After year one, the shares of

Series M1 Preferred Stock may be redeemed at 100% of the stated value per share. Any redeemed shares of Series M1 Preferred Stock are entitled to any accrued but unpaid dividends at the time of redemption and any redemptions may be in cash or Common Stock, at the Company's discretion.

Both the Series A1 Preferred Stock and the Series M1 Preferred Stock are callable by the Company after the second anniversary of the date of original issuance at 100% of the stated value per share.

Aggregate offering expenses of the Series A1/M1 Preferred Stock Offering, including selling commissions and dealer manager fees for the Series A1 Preferred Stock and only dealer manager fees for the Series M1 Preferred Stock, are capped at 12.0% of aggregate gross proceeds of the offering. The Company could reimburse its Manager up to 2.0% of the gross proceeds of such offerings for all organization and offering expenses that were incurred by the Manager through the date of the Internalization. However, upon approval by the conflicts committee of the board of directors, the Company could have reimbursed its Manager for any such organization and offering expenses incurred above the 2.0% amount as permitted by the Financial Industry Regulatory Authority, or FINRA. Dealer manager fees and sales commissions for the Series A1/M1 Preferred Stock Offering are not reimbursable.

The shares are being offered by PCS on a "reasonable best efforts" basis. The Company intends to invest substantially all the net proceeds of the Series A1/M1 Registration Statement in connection with the acquisition of multifamily communities, other real estate-related investments and general working capital purposes.

6. Related Party Transactions

On April 16, 2018, John A. Williams, the Company's Chief Executive Officer and Chairman of the Board, passed away. The Company's Haven 12 real estate loan investment and Haven Campus Communities LLC line of credit are both supported in part by a guaranty of repayment and performance by John A. Williams, Jr., John A. Williams' son. Because the terms of these loans were negotiated and agreed upon while John A. Williams was the Chief Executive Officer of the Company, these instruments will continue to be reported as related party transactions until the loans are repaid. The Company named Daniel M. DuPree as Chairman of the Board of Directors and Chief Executive Officer of the Company. Leonard A. Silverstein was named Vice Chairman of the Board of Directors. See note 17 regarding the appointment of Joel T. Murphy as Chief Executive Officer of the Company, effective January 1, 2020.

On March 27, 2019, the Company's Haven49 and Haven49 Member real estate loan investments and the Haven Campus Communities Charlotte Member LLC line of credit were deemed satisfied in full in connection with the Company's acceptance of the borrowers' membership interests in the underlying Haven49 project.

Messrs. DuPree and Silverstein were executive directors of NELL Partners, Inc., which controlled the Manager through the date of the Internalization. Mr. DuPree was the Chief Executive Officer and Mr. Silverstein was the President and Chief Operating Officer of the Manager. Trusts established, or entities owned, by the family of John A. Williams, the Company's former Chairman of the Board and Chief Executive Officer, Daniel M. DuPree, the Company's Executive Chairman of the Board and former Chief Executive Officer of the Company, and Leonard A. Silverstein, the Company's Vice Chairman of the Board, and former President and Chief Operating Officer, were the owners of NELL. Trusts established, or entities owned, by Joel T. Murphy, the Company's Chief Executive Officer and a member of the Board, the family of Mr. Williams, Mr. DuPree and Mr. Silverstein were the owners of NMA. See note 17 regarding the Company's Internalization of its Manager on January 31, 2020.

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

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

<i>(In thousands)</i>		Years ended December 31,		
Type of Compensation	Basis of Compensation	2019	2018	2017
Acquisition fees	1.0% of the gross purchase price of real estate assets	\$ 7,203	\$ 10,699	\$ 6,131
Loan origination fees	1.0% of the maximum commitment of any real estate loan, note or line of credit receivable	783	2,166	1,331
Loan coordination fees	0.6% of any assumed, new or supplemental debt incurred in connection with an acquired property	2,939	3,897	5,560
Asset management fees	Monthly fee equal to one-twelfth of 0.50% of the total book value of assets, as adjusted	15,596	14,698	12,908
Property management fees	Monthly fee up to 4% of the monthly gross revenues of the properties managed	10,274	8,934	6,382
General and administrative expense fees	Monthly fee equal to 2% of the monthly gross revenues of the Company	6,177	6,022	5,238
Construction management fees	Quarterly fee for property renovation and takeover projects	264	408	332
Disposition fees	1% of the sale price of a real estate asset	282	1,710	—
Contingent asset management fees / general and administrative fees	Recognized upon disposition of the property when exceeding the 7% IRR hurdle	11	671	—
		<u>\$ 43,529</u>	<u>\$ 49,205</u>	<u>\$ 37,882</u>

The Manager waived some of the asset management, property management, or general and administrative fees in the current period for properties owned by the Company. A cumulative total of approximately \$24.5 million of combined asset management and general and administrative fees related to acquired properties as of December 31, 2019 have been waived by the Manager. All remaining waived fees were eliminated in conjunction with the Company's Internalization transaction as described in note 17.

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

(In thousands)

Years ended December 31,		
2019	2018	2017
<u>\$ 18,054</u>	<u>\$ 16,276</u>	<u>\$ 12,329</u>

The Manager utilized its own and its affiliates' personnel to accomplish certain tasks related to raising capital that would typically be performed by third parties, including, but not limited to, legal and marketing functions. As permitted under the Management Agreement, the Manager was reimbursed \$512,324, \$477,076 and \$429,094 for the years ended December 31, 2019, 2018 and 2017, respectively and Preferred Capital Securities, LLC, or PCS, was reimbursed \$1,367,798 and \$1,412,522 and \$1,083,160 for the years ended December 31, 2019, 2018 and 2017, respectively. These costs are recorded as deferred offering costs until such time as additional closings occur on the Series A1/M1 Preferred Stock Offering, \$1.5 Billion Unit Offering, mShares Offering or

the 2019 Shelf Offering, at which time they are reclassified on a pro-rata basis as a reduction of offering proceeds within stockholders' equity. In conjunction with the winding down of the \$1.5 Billion Unit Offering, the Company has engaged PCS to perform certain termination-related services. These services began in October 2019 and will continue through April 2020. For the year ended December 31, 2019, the Company paid an additional \$3.55 million for these services, which were recorded as deferred offering costs.

At December 31, 2019, the Company held a promissory note in the amount of approximately \$650,000 due from Preferred Capital Marketing Services, LLC, or PCMS, which is a wholly-owned subsidiary of NELL Partners and a revolving line of credit with a maximum borrowing amount of \$24.0 million to its Manager. Both of these instruments were extinguished in connection with the Internalization transaction described in note 17.

Of the Company's \$25.8 million accrued interest receivable on real estate loans balance on the Consolidated Balance Sheet, approximately \$1.2 million relates to the Haven 12 real estate loan investment, which is to a related party. Interest receivable of approximately \$777,000 on its Haven Campus Communities, LLC line of credit is included in the tenant receivables and other assets line.

7. Dividends and Distributions

The Company declares and pays monthly cash dividend distributions in the amount of \$5.00 per share per month on its Series A Preferred Stock. Similarly, beginning in October 2019, the Company declares and pays monthly cash dividend distributions in the amount of \$5.00 per share per month on its Series A1 Preferred Stock. For the Company's mShares Preferred Stock, dividends are paid on an escalating scale of \$4.79 per month in the first year following share issuance, increasing each year to \$6.25 per month in year eight and beyond. Similarly, beginning in October 2019, for the Company's Series M1 Preferred Stock, dividends are paid on an escalating scale of \$5.08 per month in the first year following share issuance, increasing each year to \$5.92 per month in year ten and beyond. All preferred stock dividends are prorated for partial months at issuance as necessary.

Given the nature of the escalating dividends associated with the Company's mShares Preferred Stock and Series M1 Preferred Stock, the Company accrues dividends at the effective dividend rate in accordance with GAAP. This results in the Company recording larger dividends declared to preferred stockholders in the Company's Consolidated Statements of Operations than dividends required to be paid for the first four years after issuance with respect to the mShares and the first five years after issuance with respect to the Series M1 Preferred Stock. Similarly, this will result in the Company recording smaller dividends declared to preferred stockholders in the Company's Consolidated Statements of Operations than dividends required to be paid for the fifth through the eighth year after issuance with respect to the mShares and the sixth through the tenth year after issuance with respect to the Series M1 Preferred Stock. Following the escalation period (year eight for the mShares Preferred Stock and year ten for the Series M1 Preferred Stock), the dividends declared to preferred stockholders in the Company's Consolidated Statements of Operations will equal the dividend paid.

The Company declared aggregate quarterly cash dividends on its Common Stock of \$1.0475 and \$1.02 per share for the years ended December 31, 2019 and 2018, respectively. The holders of Class A OP Units of the Operating Partnership are entitled to equivalent distributions as the dividends declared on the Common Stock. At December 31, 2019, the Company had 856,409 Class A OP Units outstanding, which are exchangeable on a one-for-one basis for shares of Common Stock or the equivalent amount of cash.

The Company's dividend and distribution activity consisted of:

	Dividends and distributions declared	
	For the years ended December 31,	
	2019	2018
<i>(In thousands)</i>		
Series A Preferred Stock	\$ 108,950	\$ 84,841
mShares	4,807	1,900
Series A1 Preferred Stock	15	—
Common Stock	46,755	41,129
Class A OP Units	908	1,041
Total	\$ 161,435	\$ 128,911

8. Equity Compensation

Stock Incentive Plan

On May 2, 2019, the Company's board of directors adopted, and the Company's stockholders approved, the Preferred Apartment Communities, Inc. 2019 Stock Incentive Plan, or the 2019 Plan, to incentivize, compensate and retain eligible officers, consultants, and non-employee directors. The 2019 Plan increased the aggregate number of shares of Common Stock authorized for issuance under the 2011 Plan from 2,617,500 to 3,617,500. The 2019 Plan does not have a stated expiration date.

Equity compensation expense by award type for the Company was:

<i>(In thousands)</i>	Years ended December 31,			Unamortized expense as of December 31,
	2019	2018	2017	2019
Class B Unit awards:				
2016	\$ 2	\$ 271	\$ 312	\$ —
2017	312	344	2,691	3
2018	277	551	—	287
Restricted stock grants:				
2016	—	—	136	—
2017	—	120	240	—
2018	120	241	—	—
2019	281	—	—	140
Restricted stock units:				
2017	69	76	91	—
2018	74	100	—	86
2019	88	—	—	174
Total	\$ 1,223	\$ 1,703	3,470	\$ 690

Restricted Stock Grants

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

Service year	Shares	Fair value per share	Total compensation cost (in thousands)
2017	24,408	\$ 14.75	\$ 360
2018	24,810	\$ 14.51	\$ 360
2019	26,446	\$ 15.88	\$ 420

Class B OP Units

As of December 31, 2019, cumulative activity of grants of Class B Units of the Operating Partnership, or Class B OP units, was:

	Grant date	
	1/2/2018	1/3/2017
Units granted	256,087	286,392
Units forfeited:		
John A. Williams ⁽¹⁾	(38,284)	—
Voluntary forfeiture by senior executives ⁽²⁾	(128,258)	—
Other	(22,722)	(5,334)
Total forfeitures	(189,264)	(5,334)
Units earned and converted into Class A Units	—	(254,730)
Class B Units outstanding at December 31, 2019	<u>66,823</u>	<u>26,328</u>
Units unearned but vested	32,575	—
Units unearned and not yet vested	34,248	26,328
Class B Units outstanding at December 31, 2019	<u>66,823</u>	<u>26,328</u>

⁽¹⁾ Pro rata modification of award on April 16, 2018, the date of Mr. Williams' passing.

⁽²⁾ Additional Class B OP units granted to senior executives other than Mr. Williams were voluntarily forfeited at the end of 2018.

There were no grants of Class B OP Units for 2019.

The underlying valuation assumptions and results for the 2018 Class B OP Unit awards were:

Grant dates	1/2/2018
Stock price	\$ 20.19
Dividend yield	4.95%
Expected volatility	25.70%
Risk-free interest rate	2.71%
Number of Units granted:	
One year vesting period	171,988
Three year vesting period	84,099
	<u>256,087</u>
Calculated fair value per Unit	\$ 16.66
Total fair value of Units	\$ 4,266,409
Target market threshold increase	\$ 5,660,580

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

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

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

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

Restricted Stock Units

The Company, through its Operating Partnership, has granted restricted stock units, or RSUs, to certain employees of affiliates of the Company, as shown in the following table:

Grant date	1/2/2019	1/2/2018	1/3/2017
Service period	2019-2021	2018-2020	2017-2019
RSU activity:			
Granted	27,760	20,720	26,900
Forfeited	(3,480)	(5,080)	(7,037)
Units earned and converted into common stock	—	—	(14,154)
RSUs outstanding at December 31, 2019	<u>24,280</u>	<u>15,640</u>	<u>5,709</u>
RSUs unearned but vested	—	5,238	—
RSUs unearned and not yet vested	<u>24,280</u>	<u>10,402</u>	<u>5,709</u>
RSUs outstanding at December 31, 2019	<u>24,280</u>	<u>15,640</u>	<u>5,709</u>
Fair value per RSU	\$ 10.77	\$ 16.66	\$ 11.92
Total fair value of RSU grant	\$ 298,975	\$ 345,195	\$ 320,648

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

Because RSUs are valued using the identical market condition vesting requirement that determines the transition of the Vested Class B Units to Earned Class B Units, the same valuation assumptions per RSU were utilized to calculate the total fair values of the RSUs. The total fair value amounts pertaining to grants of RSUs, net of forfeitures, are amortized as compensation expense over the three one-year periods ending on the three successive anniversaries of the grant dates.

9. Indebtedness

Mortgage Notes Payable

Mortgage financing of property acquisitions

The Company partially financed the real estate properties acquired during the year ended December 31, 2019 with mortgage debt as shown in the following table:

Property	Date	Initial principal amount (in thousands)	Fixed/Variable rate	Rate	Maturity date
Hanover Center	12/19/2019	32,000	Fixed	3.62%	12/19/2026
Berry Town Center	11/14/2019	12,025	Fixed	3.49%	12/1/2034
Five Oaks at Westchase	10/17/2019	31,500	Fixed	3.27%	11/1/2031
Fairfield Shopping Center	8/16/2019	19,750	Variable	1 month LIBOR + 205	8/16/2026
Artisan at Viera	8/8/2019	40,000	Fixed	3.93%	9/1/2029
CAPTRUST Tower	7/25/2019	82,650	Fixed	3.61%	8/1/2029
Disston Plaza	6/12/2019	18,038	Fixed	3.93%	7/1/2034
Polo Grounds Mall	6/12/2019	13,325	Fixed	3.93%	7/1/2034
Free State Shopping Center	5/28/2019	46,800	Fixed	3.99%	6/1/2029
Haven49 ⁽¹⁾	3/27/2019	41,550	Variable	1 month LIBOR + 375	12/22/2019
Gayton Crossing	1/17/2019	18,000	Fixed	4.71%	2/1/2029
		<u>\$ 355,638</u>			

⁽¹⁾The Company assumed the existing construction loan on this property. This construction loan was repaid in full on November 8, 2019 and the property remains unencumbered as of December 31, 2019.

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

Repayments and refinancings

The following table summarizes our mortgage debt refinancing and repayment activity for the years ended December 31, 2019 and 2018:

Date	Property	Previous balance (millions)	Previous interest rate / spread over 1 month LIBOR	Loan refinancing costs expensed	New balance (millions)	New interest rate	Total deferred loan costs subsequent to refinancing
11/8/2019	Haven49	\$ 41.6	L + 375	\$ —	\$ —	N/A	\$ —
10/1/2019	Kingwood Glen	10.9	3.48%	—	—	N/A	—
10/1/2019	Sweetgrass Corner	7.4	3.58%	—	—	N/A	—
9/17/2019	Spring Hill Plaza	9.1	3.36%	—	8.2	3.72%	195,000
9/17/2019	Parkway Town Centre	6.6	3.36%	—	8.1	3.72%	195,000
8/16/2019	Deltona Landings	6.5	3.48%	5,000	6.3	4.18%	205,000
8/16/2019	Barclay Crossing	6.1	3.48%	4,000	6.3	4.18%	209,000
8/16/2019	Parkway Center	4.3	3.48%	3,000	4.6	4.18%	148,000
8/13/2019	Powder Springs	6.9	3.48%	4,000	8.0	3.65%	236,000
7/29/2019	Citi Lakes	41.1	L + 217	155,000	41.3	3.66%	668,000
4/12/2019	Royal Lakes Marketplace	9.5	L + 250	52,000	9.7	4.29%	287,000
4/12/2019	Cherokee Plaza	24.5	L + 225	317,000	25.2	4.28%	723,000
2/28/2019	Lenox Village Town Center	29.2	3.82%	17,000	39.3	4.34%	1,153,000
		<u>\$ 203.7</u>		<u>\$ 557,000</u>	<u>\$ 157.0</u>		<u>\$ 4,019,000</u>
12/17/2018	Village at Baldwin Park	\$ 77.8	L + 230	\$ 131,000	\$ 71.5	4.16%	\$ 826,000
12/11/2018	McNeil Ranch	13.4	3.13%	147,000	—	N/A	—
10/31/2018	Sol	37.5	L + 210	158,000	36.2	4.71%	230,000
10/23/2018	Stoneridge Farms	25.6	3.18%	233,000	—	N/A	—
9/28/2018	Stone Rise	23.5	2.89%	119,000	—	N/A	—
3/29/2018	Sol	37.5	L + 200	41,000	37.5	L + 210	649,000
3/20/2018	Lake Cameron	19.7	3.13%	402,000	—	N/A	—
		<u>\$ 235.0</u>		<u>\$ 1,231,000</u>	<u>\$ 145.2</u>		<u>\$ 1,705,000</u>

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

The following table summarizes our mortgage notes payable at December 31, 2019:

(In thousands)

Fixed rate mortgage debt:	Principal balances due	Weighted- average interest rate	Weighted average remaining life (years)
Multifamily communities	\$ 1,135,030	3.89%	9.1
New Market Properties	573,940	3.95%	8.1
Preferred Office Properties	565,254	4.22%	13.5
Student housing properties	159,218	4.13%	5.6
Total fixed rate mortgage debt	2,433,442	4.00%	9.6
Variable rate mortgage debt:			
Multifamily communities	38,871	3.38%	4.6
New Market Properties	47,150	4.32%	3.8
Preferred Office Properties	—	—%	—
Student housing properties	90,366	5.21%	1.0
Total variable rate mortgage debt	176,387	4.57%	2.5
Total mortgage debt:			
Multifamily communities	1,173,901	3.87%	8.9
New Market Properties	621,090	3.98%	7.8
Preferred Office Properties	565,254	4.22%	13.5
Student housing properties	249,584	4.52%	3.9
Total principal amount	2,609,829	4.04%	9.1
Deferred loan costs	(38,185)		
Mark to market loan adjustment	(4,622)		
Mortgage notes payable, net	\$ 2,567,022		

The Company has placed interest rate caps on the variable rate mortgages on its Avenues at Creekside multifamily community and its Tradition and Bloc student housing properties. Under guidance provided by ASC 815-10, this interest rate cap is a derivative, that is embedded in its debt host. Because the interest rate cap is deemed to be clearly and closely related to its debt host, bifurcation and fair value accounting treatment is not required.

The mortgage note secured by our Independence Square property is a seven year term with an anticipated repayment date of September 1, 2022. If the Company elects not to pay its principal balance at the anticipated repayment date, the term will be extended for an additional five years, maturing on September 1, 2027. The interest rate from September 1, 2022 to September 1, 2027 will be the greater of (i) the Initial Interest Rate of 3.93% plus 200 basis points or (ii) the yield on the seven year U.S. treasury security rate plus approximately 400 basis points.

As of December 31, 2019, the weighted-average remaining life of deferred loan costs related to the Company's mortgage indebtedness was approximately 9.4 years. Our mortgage notes have maturity dates between January 5, 2020 and June 1, 2054.

Credit Facility

The Company has a credit facility, or Credit Facility, with KeyBank National Association, or KeyBank, which defines a revolving line of credit, or Revolving Line of Credit, which is used to fund investments, capital expenditures, dividends (with consent of KeyBank), working capital and other general corporate purposes on an as needed basis. On March 23, 2018, the maximum borrowing capacity on the Revolving Line of Credit was increased to \$200 million pursuant to an accordion feature. The accordion feature

permits the maximum borrowing capacity to be expanded or contracted without amending any further terms of the instrument. On December 12, 2018, the Fourth Amended and Restated Credit Agreement, or the Amended and Restated Credit Agreement, was amended to extend the maturity to December 12, 2021, with an option to extend the maturity date to December 12, 2022, subject to certain conditions described therein. The Revolving Line of Credit accrues interest at a variable rate of one month LIBOR plus an applicable margin of 2.75% to 3.50% per annum, depending upon the Company's leverage ratio. The weighted average interest rate for the Revolving Line of Credit was 5.43% for the year ended December 31, 2019. The Amended and Restated Credit Agreement also reduced the commitment fee on the average daily unused portion of the Revolving Line of Credit to 0.25% or 0.30% per annum, depending upon the Company's outstanding Credit Facility balance.

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

On December 20, 2019, the Company entered into a \$70.0 million interim term loan with KeyBank, or the 2019 Term Loan, to partially finance the acquisition of Morrocroft Centre, an office building located in Charlotte, North Carolina. The 2019 Term Loan accrues interest at a rate of LIBOR plus 1.7% per annum.

The Fourth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including negative covenants that limit or restrict secured and unsecured indebtedness, mergers and fundamental changes, investments and acquisitions, liens and encumbrances, dividends, transactions with affiliates, burdensome agreements, changes in fiscal year and other matters customarily restricted in such agreements. The amount of dividends that may be paid out by the Company is restricted to a maximum of 95% of AFFO for the trailing four quarters without the lender's consent; solely for purposes of this covenant, AFFO is calculated as earnings before interest, taxes, depreciation and amortization expense, plus reserves for capital expenditures, less normally recurring capital expenditures, less consolidated interest expense.

As of December 31, 2019, the Company was in compliance with all covenants related to the Revolving Line of Credit, as shown in the following table:

Covenant ⁽¹⁾	Requirement	Result
Net worth	Minimum \$1.9 billion ⁽²⁾	\$1.9 billion
Debt yield	Minimum 8.25%	10.31%
Payout ratio	Maximum 95% ⁽³⁾	94.3%
Total leverage ratio	Maximum 65%	58.3%
Debt service coverage ratio	Minimum 1.50x	1.87x

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

⁽²⁾ Minimum of \$686.9 million plus 75% of the net proceeds of any equity offering, which totaled approximately \$1.2 billion as of December 31, 2019.

⁽³⁾ Calculated on a trailing four-quarter basis. For the year ended December 31, 2019, the maximum dividends and distributions allowed under this covenant was approximately \$158.3 million.

Loan fees and closing costs for the establishment and subsequent amendments of the Credit Facility are amortized utilizing the straight line method over the life of the Credit Facility. At December 31, 2019, unamortized loan fees and closing costs for the Credit Facility were approximately \$1.1 million, which will be amortized over a remaining loan life of approximately 2.0 years. Loan fees and closing costs for the mortgage debt on the Company's properties are amortized utilizing the effective interest rate method over the lives of the loans.

Acquisition Facility

On February 28, 2017, the Company entered into a credit agreement, or Acquisition Credit Agreement, with Freddie Mac through KeyBank to obtain an acquisition revolving credit facility, or Acquisition Facility, with a maximum borrowing capacity of \$200 million. The purpose of the Acquisition Facility is to finance acquisitions. The maximum borrowing capacity on the Acquisition Facility may be increased at the Company's request up to \$300 million at any time prior to March 1, 2021. On March 25, 2019, the maximum borrowing capacity was decreased to \$90 million by agreement between the Company and KeyBank. The Acquisition Facility accrues interest at a variable rate of one month LIBOR plus a margin of between 1.75% per annum and 2.20% per annum, depending on the type of assets acquired and the resulting property debt service coverage ratio. The Acquisition Facility has a

maturity date of March 1, 2022 and has two one-year extension options, subject to certain conditions described therein. At December 31, 2019, unamortized loan fees and closing costs for the establishment of the Acquisition Facility were approximately \$0.2 million, which will be amortized over a remaining loan life of approximately 2.2 years.

Interest Expense

Interest expense, including amortization of deferred loan costs was:

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Multifamily communities	\$ 47,697	\$ 45,662	\$ 35,402
New Market Properties	24,566	19,188	14,895
Preferred Office Properties	22,711	12,789	7,006
Student housing properties	14,758	11,217	3,085
Interest paid to real estate loan participants	110	2,430	2,295
Total	109,842	91,286	62,683
Credit Facility and Acquisition Facility	2,122	4,278	4,785
Interest Expense	\$ 111,964	\$ 95,564	\$ 67,468

Future Principal Payments

The Company's estimated future principal payments due on its debt instruments as of December 31, 2019 were:

Period	Future principal payments (in thousands)
2020	\$ 146,328
2021	182,732
2022	222,774
2023	160,902
2024	358,597
Thereafter	1,608,496
Total	\$ 2,679,829

10. Income Taxes

The Company elected to be taxed as a REIT effective with its tax year ended December 31, 2011, and therefore, the Company will not be subject to federal and state income taxes, so long as it distributes 100% of the Company's annual REIT taxable income (which does not equal net income as calculated in accordance with GAAP and determined without regard for the deduction for dividends paid and excluding net capital gains) to its stockholders. For the Company's tax years prior to its REIT election year, its operations resulted in a tax loss. As of December 31, 2010, the Company had deferred federal and state tax assets totaling approximately \$298,100, none of which were based upon tax positions deemed to be uncertain. These deferred tax assets will most likely not be used since the Company elected REIT status; therefore, management has determined that a 100% valuation allowance is appropriate as of December 31, 2019 and December 31, 2018.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Preferred Stock:			
Ordinary income	44.7%	51.4%	64.0%
Return of capital	53.1%	—%	27.5%
Capital gains	2.2%	48.6%	8.5%
Common Stock:			
Ordinary income	—%	27.0%	—%
Return of capital	100.0%	47.4%	100.0%
Capital gains	—%	25.6%	—%

11. Commitments and Contingencies

On March 28, 2014, the Company entered into a payment guaranty in support of its Manager's eleven-year office lease, which began on October 9, 2014. As of December 31, 2019, the amount guaranteed by the Company was \$5.0 million and is reduced by \$619,304 per lease year over the term of the lease.

Certain officers and employees of the Manager have been assigned company credit cards. As of December 31, 2019, the Company guaranteed up to \$640,000 on these credit cards.

A total of approximately \$24.5 million of asset management and general and administrative fees related to acquired properties as of December 31, 2019 have been waived by the Manager. The waived fees are converted at the time of waiver into contingent fees, which are earned by the Manager as an additional disposition fee only in the event of a sales transaction, and whereby the Company's capital contributions for the property being sold exceed a 7% annual rate of return. The Company will recognize in future periods to the extent, if any, it determines that the sales transaction is probable, and that the estimated net sale proceeds would exceed the annual rate of return hurdle. A total of \$23.0 million of waived fees remained contingent as of December 31, 2019. All outstanding waived fees were eliminated in conjunction with the Company's internalization transaction as described in note 17.

At December 31, 2019, the Company had unfunded balances on its real estate loan portfolio of approximately \$61.7 million.

At December 31, 2019, the Company had unfunded contractual commitments for tenant, leasing, and capital improvements of approximately \$14.2 million.

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

12. Operating Leases

The Company's grocery-anchored shopping centers and office properties are leased to tenants under operating leases for which the terms vary. The future minimum rental income due under the remaining terms of the Company's operating leases in place, excluding tenant reimbursements of operating expenses and real estate taxes and additional percentage rent based on tenants' sales volumes, as of December 31, 2019, is presented below, assuming that all leases which expire are not renewed and tenant renewal options are not exercised (excludes rental income due from tenants of multifamily communities, which are of lease terms of twelve months or less):

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

For the year ending December 31:	Future Minimum Rents as of December 31, 2019		
<i>(In thousands)</i>	New Market Properties	Preferred Office Properties	Total
2020	\$ 76,382	\$ 81,558	\$ 157,940
2021	68,290	80,263	148,553
2022	57,629	78,421	136,050
2023	48,206	76,897	125,103
2024	37,235	73,239	110,474
Thereafter	104,744	336,842	441,586
Total	<u>\$ 392,486</u>	<u>\$ 727,220</u>	<u>\$ 1,119,706</u>

For the year ending December 31:	Future Minimum Rents as of December 31, 2018		
<i>(In thousands)</i>	New Market Properties	Preferred Office Properties	Total
2020	\$ 51,949	\$ 61,704	\$ 113,653
2021	43,152	58,805	101,957
2022	35,218	58,108	93,326
2023	29,562	57,343	86,905
Thereafter	79,747	298,469	378,216
Total	<u>\$ 297,771</u>	<u>\$ 590,993</u>	<u>\$ 888,764</u>

Tenants often have the option to extend the lease within a specified amount of time, typically for an additional term of between five and ten years, at a specified rate increase. In addition, some leases have a termination right, under which the tenant will have a specified amount of time to notify the lessor of their intention to terminate a space. Terminations often include a specified dollar amount or a percentage of the rent remaining in the lease.

The Company's grocery-anchored shopping centers are geographically concentrated within the Sunbelt and Mid-Atlantic region of the United States. The Company's retail tenant base primarily consists of national and regional supermarkets, consumer services, healthcare providers, and restaurants. Our grocery anchor tenants comprise approximately 43.4% of our gross leasable area. Our credit risk, therefore, is concentrated in the retail/grocery real estate sector. Amounts required as security deposits vary depending upon the terms of the respective leases and the creditworthiness of the tenant, with the exception of our grocer anchor tenants, who generally are not required to provide security deposits. Exposure to credit risk is limited to the extent that tenant receivables exceed security deposits. Security deposits related to tenant leases are included in security deposits and other liabilities in the accompanying consolidated balance sheets.

As of December 31, 2019, the Company's approximately 3.2 million square foot office portfolio was 96% leased to a predominantly investment grade credit (or investment grade equivalent) tenant roster. For non-credit tenants, our leases typically require a security deposit or letter of credit, which limits worst case collection exposure to amounts in excess of those protections. Additionally, some credit tenant leases will include credit enhancement provisions that require a security deposit or letter of credit in the event of a rating downgrade. We conduct thorough credit analyses not only for leasing activities within our existing portfolio but also for major tenants in properties we are considering acquiring.

13. Segment Information

The Company's Chief Operating Decision Maker, or CODM, evaluates the performance of the Company's business operations and allocates financial and other resources by assessing the financial results and outlook for future performance across five distinct segments: multifamily communities, student housing properties, real estate related financing, New Market Properties and Preferred Office Properties.

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

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

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

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

Preferred Office Properties - consists of the Company's portfolio of office buildings, which are owned by Preferred Office Properties, LLC, a wholly-owned subsidiary of the Company.

The CODM monitors net operating income ("NOI") on a segment and a consolidated basis as a key performance measure for its operating segments. NOI is a non-GAAP measure that is defined as rental and other property revenue from real estate assets plus interest income from its loan portfolio less total property operating and maintenance expenses, property management fees, real estate taxes, property insurance, and general and administrative expenses. The CODM uses NOI as a measure of operating performance because it provides a measure of the core operations, rather than factoring in depreciation and amortization, financing costs, acquisition expenses, and other expenses generally incurred at the corporate level.

The following tables present the Company's assets, revenues, and NOI results by reportable segment, as well as a reconciliation from NOI to net income (loss). The assets attributable to 'Other' primarily consist of deferred offering costs recorded but not yet reclassified as reductions of stockholders' equity and cash balances at the Company and Operating Partnership levels.

<i>(In thousands)</i>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Assets:		
Multifamily communities	\$ 1,561,787	\$ 1,503,648
Student housing properties	486,118	411,102
Financing	409,226	448,617
New Market Properties	1,125,230	883,594
Preferred Office Properties	1,123,212	884,648
Other ⁽¹⁾	64,987	279,349
Consolidated assets	<u>\$ 4,770,560</u>	<u>\$ 4,410,958</u>

⁽¹⁾ Other Assets at December 31, 2018 included \$264,886 of assets owned by other pool participants within the Freddie Mac K Program that were consolidated by the Company. The Company disposed of its investments in the Freddie Mac K Program in December 2019.

Total capitalized expenditures (inclusive of additions to construction in progress, but exclusive of the purchase price of acquisitions) for the years ended December 31, 2019, 2018 and 2017 were as follows:

<i>(In thousands)</i>	<u>Years ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capitalized expenditures:			
Multifamily communities	\$ 11,067	\$ 16,497	\$ 10,972
Student housing properties	3,444	3,382	799
New Market Properties	8,913	6,901	3,494
Total	<u>\$ 23,424</u>	<u>\$ 26,780</u>	<u>\$ 15,265</u>

Second-generation capital expenditures exclude those expenditures made in our office building portfolio (i) to lease space to "first generation" tenants (i.e. leasing capital for existing vacancies and known move-outs at the time of acquisition), (ii) to bring recently acquired properties up to our Class A ownership standards (and which amounts were underwritten into the total investment

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

at the time of acquisition), (iii) for property redevelopments and repositionings (iv) to newly leased space which had been vacant for more than one year and (v) for building improvements that are recoverable from future operating cost savings.

Total revenues by reportable segment of the Company were:

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Revenues			
Rental revenues:			
Multifamily communities	\$ 166,388	\$ 157,437	\$ 127,942
Student housing properties	45,551	32,383	11,618
New Market Properties	94,064	74,519	56,354
Preferred Office Properties ⁽¹⁾	89,118	58,913	35,981
Total rental revenues	<u>395,121</u>	<u>323,252</u>	<u>231,895</u>
Other revenues:			
Multifamily communities	5,836	5,605	4,120
Student housing properties	1,097	646	233
New Market Properties	2,325	2,724	2,296
Preferred Office Properties	4,298	1,249	317
Total other revenues	<u>13,556</u>	<u>10,224</u>	<u>6,966</u>
Financing revenues	59,727	63,795	55,144
Miscellaneous revenues	2,023	—	—
Consolidated revenues	<u>\$ 470,427</u>	<u>\$ 397,271</u>	<u>294,005</u>

(1) Included in rental revenues for our Preferred Office Properties segment is the amortization of deferred revenue for tenant-funded leasehold improvements from a major tenant in our Three Ravinia and Westridge office buildings. As of December 31, 2019, the Company has deferred revenue in an aggregate amount of \$47.0 million in connection with such improvements. The remaining balance to be recognized is approximately \$39.7 million which is included in the deferred revenues line on the consolidated balance sheets at December 31, 2019. These total costs will be amortized over the lesser of the useful lives of the improvements or the individual lease terms. The Company recorded non-cash revenue of approximately \$3.8 million and \$2.7 million for the years ended December 31, 2019 and 2018, respectively.

The chief operating decision maker utilizes segment net operating income, or Segment NOI, in evaluating the performance of its operating segments. Segment NOI represents total property revenues less total property operating expenses, excluding depreciation and amortization, for all properties held during the period. Segment NOI for the Company's financing segment consists of interest revenues from the Company's real estate loan investments and notes and lines of credit receivable, as well as revenues from terminated property purchase options. Management believes that Segment NOI is a helpful tool in evaluating the operating performance of the segments because it measures the core operations of property performance by excluding corporate level expenses and other items not directly related to property operating performance.

Segment NOI for each reportable segment for the years ended December 31, 2019, 2018 and 2017 were as follows:

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

<i>(In thousands)</i>	Years ended December 31,		
	2019	2018	2017
Segment net operating income (Segment NOI)			
Multifamily communities	\$ 99,009	\$ 93,084	\$ 73,439
Student housing properties	24,533	16,151	6,100
Financing	59,750	63,795	55,144
New Market Properties	69,002	55,013	42,041
Preferred Office Properties	66,021	41,800	25,987
Consolidated segment net operating income	318,315	269,843	202,711
Interest expense:			
Multifamily communities	47,696	45,661	35,402
Student housing properties	14,759	11,217	3,085
New Market Properties	24,566	19,188	14,895
Preferred Office Properties	22,869	12,789	7,006
Financing	2,074	6,709	7,080
Depreciation and amortization:			
Multifamily communities	77,384	80,927	64,869
Student housing properties	22,007	25,179	8,348
New Market Properties	44,786	39,269	30,088
Preferred Office Properties	40,888	25,761	13,472
Professional fees	6,157	2,480	2,568
Management fees, net of forfeitures	21,752	20,885	18,497
Loan loss allowance	2,038	2,533	—
Equity compensation to directors and executives	1,223	1,703	3,470
Gain on land condemnation	(207)	—	—
Gain on sale of real estate	—	(69,643)	(37,635)
Gain on non-cash net assets of consolidated VIEs	(1,831)	(320)	—
Gain loss on sale of real estate loan investment	(747)	—	—
Loss on extinguishment of debt	84	—	888
Gain on trading investment, net	(1,567)	(62)	—
Other	1,842	1,029	2,011
Net income (loss)	<u>\$ (7,458)</u>	<u>\$ 44,538</u>	<u>\$ 28,667</u>

14. Income (Loss) Per Share

The following is a reconciliation of weighted average basic and diluted shares outstanding used in the calculation of income (loss) per share of Common Stock:

<i>(In thousands, except per-share figures)</i>	Years ended December 31,		
	2019	2018	2017
Numerator:			
Operating income before gains on sales of real estate and trading investment	\$ 100,238	\$ 70,077	\$ 59,388
Gains on sales of real estate and trading investment	1,567	69,705	37,635
Operating income	101,805	139,782	97,023
Interest expense	111,964	95,564	67,468
Change in fair value of net assets of consolidated VIEs from mortgage-backed pools	1,831	320	—
Less: loss on extinguishment of debt	(84)	—	(888)
Gains on sale of real estate loan investment and land condemnation	954	—	—
Net (loss) income	(7,458)	44,538	28,667
Consolidated net loss (income) attributable to non-controlling interests	214	(1,071)	(986)
Net (loss) income attributable to the Company	(7,244)	43,467	27,681
Dividends declared to preferred stockholders	(113,772)	(86,741)	(63,651)
Earnings attributable to unvested restricted stock	(17)	(16)	(15)
Net loss attributable to common stockholders	<u>\$ (121,033)</u>	<u>\$ (43,290)</u>	<u>\$ (35,985)</u>
Denominator:			
Weighted average number of shares of Common Stock - basic	44,265	40,032	31,926
Effect of dilutive securities: ^(D)	—	—	—
Weighted average number of shares of Common Stock - basic and diluted	<u>44,265</u>	<u>40,032</u>	<u>31,926</u>
Net loss per share of Common Stock attributable to common stockholders, basic and diluted	<u>\$ (2.73)</u>	<u>\$ (1.08)</u>	<u>\$ (1.13)</u>

^(A) The Company's outstanding Class A Units of the Operating Partnership (856, 877 and 885 Units at December 31, 2019, 2018 and 2017, respectively) contain rights to distributions in the same amount per unit as for dividends declared on the Company's Common Stock. The impact of the Class A Unit distributions on earnings per share has been calculated using the two-class method whereby earnings are allocated to the Class A Units based on dividends declared and the Class A Units' participation rights in undistributed earnings.

^(B) The Company's shares of Series A Preferred Stock outstanding accrue dividends at an annual rate of 6% of the stated value of \$1,000 per share, payable monthly. The Company had 2,028, 1,608 and 1,222 outstanding shares of Series A Preferred Stock at December 31, 2019, 2018 and 2017, respectively and 5 outstanding shares of Series A1 Preferred Stock at December 31, 2019. The Company's shares of Series M preferred stock, or mShares, accrue dividends at an escalating rate of 5.75% in year one to 7.50% in year eight and thereafter. The Company had 103, 44 and 15 mShares outstanding at December 31, 2019, 2018 and 2017, respectively.

^(C) The Company's outstanding unvested restricted share awards (13, 12 and 12 shares of Common Stock at December 31, 2019, 2018 and 2017, respectively) contain non-forfeitable rights to distributions or distribution equivalents. The impact of the unvested restricted share awards on earnings per share has been calculated using the two-class method whereby earnings are allocated to the unvested restricted share awards based on dividends declared and the unvested restricted shares' participation rights in undistributed earnings. Given the Company's unvested restricted share awards are defined as participating securities, the dividends declared for that period are adjusted in determining the calculation of loss per share of Common Stock.

^(D) Potential dilution from (i) warrants outstanding from issuances of Units from our Series A Preferred Stock offerings that are potentially exercisable into 30,574 shares of Common Stock; (ii) 93 Class B Units; (iii) 13 shares of unvested restricted common stock; and (iv) 46 outstanding Restricted Stock Units are excluded from the diluted shares calculations because the effect was antidilutive. Class A Units were excluded from the denominator because earnings were allocated to non-controlling interests in the calculation of the numerator.

15. Selected Quarterly Financial Data (unaudited)

Quarterly financial information was as follows:

(in thousands, except per-share data)

	Three months ended:			
	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Revenues	\$ 111,506	\$ 113,852	\$ 120,203	\$ 124,866
Operating income before gain/(loss) on sales of real estate and trading investments	\$ 24,348	\$ 24,655	\$ 26,086	\$ 25,149
Net income (loss)	\$ (2,280)	\$ (1,677)	\$ (2,137)	\$ (1,364)
Net income (loss) attributable to common stockholders	\$ (28,313)	\$ (28,655)	\$ (31,529)	\$ (32,536)
Net income (loss) per share of Common Stock available to Common stockholders:				
Basic	\$ (0.66)	\$ (0.66)	\$ (0.71)	\$ (0.71)
Diluted	\$ (0.66)	\$ (0.66)	\$ (0.71)	\$ (0.71)
Weighted average shares outstanding:				
Basic	42,680	43,703	44,703	45,934
Diluted	42,680	43,703	44,703	45,934

(in thousands, except per-share data)

	Three months ended:			
	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Revenues	\$ 90,370	\$ 96,389	\$ 104,232	\$ 106,280
Operating income before gain/(loss) on sales of real estate and trading investments	\$ 14,877	\$ 17,013	\$ 15,275	\$ 22,912
Net (loss) income	\$ 14,263	\$ (5,278)	\$ 8,354	\$ 27,199
Net (loss) income attributable to common stockholders	\$ (5,636)	\$ (26,068)	\$ (14,227)	\$ 2,641
Net (loss) income per share of Common Stock available to Common stockholders:				
Basic	\$ (0.14)	\$ 0.66	\$ 0.35	\$ 0.06
Diluted	\$ (0.14)	\$ 0.66	\$ 0.35	\$ 0.06
Weighted average shares outstanding:				
Basic	39,098	39,383	40,300	41,320
Diluted	39,098	39,383	40,300	42,046

16. Fair Values of Financial Instruments

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

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

As of December 31, 2019					
<i>(In thousands)</i>	Carrying value	Fair Value	Fair value measurements using fair value hierarchy		
			Level 1	Level 2	Level 3
Financial Assets:					
Real estate loans	\$ 349,482	\$ 382,373	\$ —	\$ —	\$ 382,373
Notes receivable and line of credit receivable	41,917	41,917	—	—	41,917
	\$ 391,399	\$ 424,290	\$ —	\$ —	\$ 424,290
Financial Liabilities:					
Mortgage notes payable	\$ 2,609,829	\$ 2,659,242	\$ —	\$ —	\$ 2,659,242
Revolving line of credit	—	—	—	—	—
Term note payable	70,000	70,000	—	—	70,000
	\$ 2,679,829	\$ 2,729,242	\$ —	\$ —	\$ 2,729,242

As of December 31, 2018					
<i>(In thousands)</i>	Carrying value	Fair Value	Fair value measurements using fair value hierarchy		
			Level 1	Level 2	Level 3
Financial Assets:					
Real estate loans ⁽¹⁾	\$ 334,211	\$ 366,328	\$ —	\$ —	\$ 366,328
Notes receivable and line of credit receivable	47,307	47,307	—	—	47,307
	\$ 381,518	\$ 413,635	\$ —	\$ —	\$ 413,635
Financial Liabilities:					
Mortgage notes payable	\$ 2,339,752	2,313,405	\$ —	\$ —	\$ 2,313,405
Revolving credit facility	57,000	57,000	—	—	57,000
Loan participation obligations	5,181	5,181	—	—	5,181
	\$ 2,401,933	\$ 2,375,586	\$ —	\$ —	\$ 2,375,586

⁽¹⁾ The carrying value of real estate assets at December 31, 2018 included the Company's balance of the Palisades real estate loan investment, which included the amounts funded by an unrelated participant. On March 13, 2019, the Company repurchased the loan participant's 25% balance in the loan from the loan participant and at December 31, 2019, carried the entire loan balance on its consolidated balance sheet without reflection of any liability to any third party.

The fair value of the real estate loans within the level 3 hierarchy are comprised of estimates of the fair value of the notes, which were developed utilizing a discounted cash flow model over the remaining terms of the notes until their maturity dates and utilizing discount rates believed to approximate the market risk factor for notes of similar type and duration. The fair values also contain a separately-calculated estimate of any applicable additional interest payment due the Company at the maturity date of the loan, based on the outstanding loan balances at December 31, 2019, discounted to the reporting date utilizing a discount rate believed to be appropriate for multifamily development projects.

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

Preferred Apartment Communities, Inc.
Notes to Consolidated Financial Statements - (continued)
December 31, 2019

The following table presents activity of the two mortgage pools from the Freddie Mac K Program as of and for the year ended December 31, 2019:

<i>(In thousands)</i>	<u>Assets</u>	<u>Liabilities</u>	
	Multifamily mortgage loans held in VIEs at fair value	VIE liabilities, at fair value	
			Net
Balance as of December 31, 2018	\$ 269,946	\$ 264,886	\$ 5,060
Initial consolidation of ML-05 trust:	289,233	270,670	18,563
Gains (losses) included in net income due to change in fair value of net assets of VIE:	52,216	49,721	2,495
Repayments of underlying mortgage principal amounts and repayments to Class A holders:	(6,570)	(6,570)	—
Deconsolidation upon sale of ML-04 and ML-05 trusts:	(604,825)	(578,707)	(26,118)
Balance as of December 31, 2019	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The changes in the fair value of the net assets of consolidated VIEs from mortgage-backed pools were:

<i>(In thousands)</i>	<u>Years ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest earned	\$ 903	\$ —	\$ —
Unrealized gain	—	320	—
Realized gain	2,495	—	—
Change in fair value of net assets of consolidated VIEs from mortgage-backed pools and gain on sales of trading investments	<u>\$ 3,398</u>	<u>\$ 320</u>	<u>\$ —</u>

The following table presents the estimated fair values of the consolidated assets and liabilities from the ML-04 VIEs for which the Company has elected the fair value option as of December 31, 2018.

<i>(In thousands)</i>	<u>December 31, 2018</u>				
	<u>Carrying value</u>	<u>Fair Value</u>	<u>Fair value measurements using fair value hierarchy</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:					
VIE assets from mortgage-backed pools	\$ 269,946	\$ 269,946	\$ —	\$ —	\$ 269,946
Financial Liabilities:					
VIE liabilities from mortgage-backed pools	\$ 264,886	\$ 264,886	\$ —	\$ —	\$ 264,886

Disclosure guidance under GAAP requires the Company to determine whether the fair value of the financial assets or the fair value of the financial liabilities of the mortgage pools is more observable. The VIE assets within the two mortgage pools consist of mortgage loans which financed 20 multifamily communities at December 31, 2018. The fair value of the VIE assets within the level 3 hierarchy are comprised of the fair value of the mortgages as estimated by the Company, which were developed utilizing a discounted cash flow model over the remaining terms of the mortgages until their maturity dates and utilizing discount rates believed to approximate the market risk factor for instruments of similar type and duration. The fair values of the notes are categorized within the level 3 hierarchy of fair value estimation as the discount rate primary input assumption is unobservable.

17. Subsequent Events

Between January 1, 2020 and February 14, 2020, the Company issued 65,298 Units under its \$1.5 Billion Unit Offering and collected net proceeds of approximately \$58.8 million after commissions and fees; issued 8,067 shares of Series A1 Redeemable Preferred Stock and collected net proceeds of \$7.3 million after commissions and fees; issued 469 shares of Series M1 Redeemable Preferred Stock and collected net proceeds of approximately \$0.5 million after commissions and fees.

On January 1, 2020, Joel T. Murphy became Chief Executive Officer of the Company. Mr. Murphy will continue as a member of the board, where he has served since May 2019. Mr. Murphy was the CEO of our New Market Properties subsidiary for the last five years, and since June 2018 has been the chairman of the Company's investment committee. Mr. Murphy succeeded our previous CEO and Chairman of the Board, Daniel M. DuPree, who will remain with us as Executive Chairman of the Board.

On January 31, 2020, the Company completed the Internalization of the functions performed by its Manager. The transaction consisted of the acquisition by the Company of Preferred Apartment Advisors, LLC and NMP Advisors, LLC, for aggregate consideration of \$154.0 million and resulted in the elimination of the previous fee structure between the Company and the Manager. An additional \$25.0 million of consideration will be due the sellers upon the earlier to occur of (i) attainment of at least \$1.55 annual FFO per share or (ii) on the 36-month anniversary of the closing date. Up to \$15.0 million of the \$154.0 million purchase price will be held back and paid to the sellers upon the settlement of certain specified matters. In addition, all previously waived fees to the Manager through January 31, 2020 were eliminated as part of this transaction. Trusts established, or entities owned, by the family of John A. Williams, the Company's former Chairman of the Board and Chief Executive Officer, Daniel M. DuPree, the Company's Executive Chairman of the Board and former Chief Executive Officer of the Company, and Leonard A. Silverstein, the Company's Vice Chairman of the Board, and former President and Chief Operating Officer, were the owners of NELL. Trusts established, or entities owned, by Joel T. Murphy, the Company's Chief Executive Officer and a member of the Board, the family of Mr. Williams, Mr. DuPree and Mr. Silverstein were the owners of NMA Holdings, Inc., ("NMA"), the parent company of NMP Advisors, LLC.

On February 20, 2020, our board of directors declared a quarterly dividend on our Common Stock of \$0.2625 per share, payable on April 15, 2020 to stockholders of record on March 13, 2020.

On February 3, 2020, the borrower of the Dawson Marketplace real estate loan repaid all amounts due under the loan, including principal of approximately \$12.9 million and accrued interest of approximately \$2.7 million, the latter of which will be additive to our first quarter 2020 AFFO result.

The \$1.5 Billion Unit Offering expired on February 14, 2020.

On March 2, 2020, the Company closed on a real estate loan investment of up to approximately \$13.4 million in connection with the development of a 256-unit Class A multifamily community to be located in Charlotte, North Carolina.

Leonard A. Silverstein has resigned from his position as President and Chief Operating Officer of the Company pursuant to a consulting agreement with the Company entered into on March 3, 2020, or the Consulting Agreement. Joel Murphy, our current Chief Executive Officer, will assume the additional role of President following Mr. Silverstein's departure. The Consulting Agreement with Mr. Silverstein is for three years and provides annual compensation of \$250,000 and a lump sum cash payment in the gross amount of \$10,000. Mr. Silverstein's Consulting Agreement includes a general release in favor of the Company. The Consulting Agreement further provides for access to certain welfare benefits of the Company. The foregoing description of the terms of the Consulting Agreement does not purport to be complete and is qualified in its entirety by reference to the Consulting Agreement, a copy of which is filed as Exhibit 10.20 to this Annual Report on Form 10-K and incorporated by reference herein.

Item 16. Form 10-K Summary

None.

Schedule III
Preferred Apartment Communities, Inc.
Real Estate Investments and Accumulated Depreciation
December 31, 2019

Property name	Location (MSA)	Related Encumbrances	Initial Costs		Gross Amount at Which Carried at Close of Period			Year Constructed/Renovated	Accumulated Depreciation	Date Acquired	Depreciable Lives - Years
			Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements				
Summit Crossing	Atlanta, GA	\$37,651	\$3,450	\$27,705	\$2,104	\$3,450	\$34	\$29,775	\$33,259	4/21/2011	5 - 40
Summit Crossing II	Atlanta, GA	13,221	3,220	15,852	465	3,220	15	16,302	19,537	12/31/2013	5 - 40
Vineyards	Houston, TX	33,382	5,456	46,201	1,936	5,456	—	48,137	53,593	9/26/2014	5 - 35
Avenues at Cypress	Houston, TX	20,704	3,242	30,093	598	3,242	—	30,691	33,933	2/13/2015	5 - 40
Avenues at Northpointe	Houston, TX	26,313	3,921	37,203	805	3,921	—	38,008	41,929	2/13/2015	5 - 40
Venue at Lakewood Ranch	Sarasota, FL	28,076	3,791	42,950	716	3,791	18	43,648	47,457	5/21/2015	5 - 40
Aster at Lely Resort	Naples, FL	31,094	7,675	43,794	1,038	7,675	80	44,752	52,507	6/24/2015	5 - 40
CityPark View	Charlotte, NC	20,089	3,559	28,360	389	3,559	1	28,748	32,308	6/30/2015	5 - 40
Avenues at Creekside	San Antonio, TX	38,871	5,984	48,989	1,435	5,984	—	50,424	56,408	7/31/2015	5 - 40
Citi Lakes	Orlando, FL	41,079	5,558	56,828	1,122	5,558	122	57,828	63,508	9/3/2015	5 - 40
Stone Creek	Houston, TX	19,800	2,211	22,916	85	2,211	—	23,001	25,212	11/12/2015	5 - 40
Regent at Lenox	Nashville, TN	—	301	3,493	58	301	—	3,551	3,852	12/21/2015	5 - 40
Retreat at Lenox	Nashville, TN	17,114	2,965	24,211	181	2,860	5	24,492	27,357	12/21/2015	5 - 40
Lenox Village Town Center	Nashville, TN	38,813	4,612	39,911	1,353	4,355	12	41,509	45,876	12/21/2015	5 - 40
Village at Baldwin	Orlando, FL	70,607	17,403	90,464	7,001	17,403	1,669	95,796	114,868	1/5/2016	5 - 37
Crosstown Walk	Tampa, FL	30,246	5,178	39,332	564	5,178	—	39,896	45,074	1/15/2016	5 - 49
Overton Rise	Atlanta, GA	38,428	8,511	50,996	684	8,511	—	51,680	60,191	2/1/2016	5 - 49
525 Avalon Park	Orlando, FL	64,519	7,410	82,349	3,308	7,410	316	85,341	93,067	5/31/2016	5 - 45
City Vista	Pittsburgh, PA	33,674	4,082	41,486	292	4,082	69	41,709	45,860	7/1/2016	5 - 49
Sorrel	Jacksonville, FL	31,449	4,412	42,217	895	4,412	—	43,112	47,524	8/24/2016	5 - 48
Citrus Village	Tampa, FL	28,796	4,809	40,481	1,465	4,809	73	41,873	46,755	03/03/17	5 - 44

Property name	Location (MSA)	Related Encumbrances	Initial Costs			Gross Amount at Which Carried at Close of Period				Year Constructed/Renovated	Date Acquired	Depreciable Lives - Years		
			Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	Total (1)					
			Accumulated Depreciation	Total (1)										
Retreat at Greystone	Birmingham, AL	34,053	4,077	44,462	779	4,077	45,241	—	49,318	\$(7,664)	2015	03/24/17	5 - 49	
Founder's Village	Williamsburg, VA	30,202	5,315	38,761	791	5,315	39,540	12	44,867	(5,292)	2014	03/31/17	5 - 47	
Clairborne Crossing	Louisville, KY	25,948	2,147	37,579	1,275	2,147	38,854	—	41,001	(7,987)	2014	04/26/17	5 - 47	
Luxe at Lakewood Ranch	Sarasota, FL	37,662	4,852	51,033	496	4,852	51,529	—	56,381	(5,992)	2016	07/26/17	5 - 48	
Adara Overland Park	Kansas City, KS	30,624	2,854	42,030	372	2,854	42,402	—	45,256	(6,917)	2016	09/27/17	5 - 49	
Reserve at Summit Crossing	Atlanta, GA	19,276	4,375	25,939	324	4,375	26,263	—	30,638	(3,411)	2016	09/29/17	5 - 48	
Aldridge at Town Village	Atlanta, GA	36,569	7,122	45,418	381	7,122	45,799	—	52,921	(6,900)	2016	09/29/17	5 - 49	
Overlook at Crosstown Walk	Tampa, FL	21,450	3,309	28,014	168	3,309	28,182	—	31,491	(3,332)	2016	11/21/17	5 - 48	
Colony at Centerpointe	Richmond, VA	32,120	7,259	38,199	986	7,259	39,185	—	46,444	(4,653)	2016	12/20/17	5 - 48	
Lux at Sorrel	Jacksonville, FL	30,474	5,332	42,531	559	5,332	43,090	—	48,422	(4,593)	2017	1/9/2018	5 - 49	
Green Park	Atlanta, GA	38,525	7,478	49,211	378	7,478	49,589	—	57,067	(6,676)	2017	2/28/2018	5 - 48	
Lodge at Hidden River	Tampa, FL	40,903	5,600	52,930	282	5,600	53,209	3	58,812	(3,398)	2017	9/27/2018	5 - 48	
Vestavia Reserve	Birmingham, AL	37,130	4,140	54,206	615	4,140	54,807	14	58,961	(3,266)	2016	11/9/2018	5 - 48	
CityPark View South	Charlotte, NC	23,767	5,816	27,528	321	5,816	27,840	9	33,665	(1,876)	2017	11/15/2018	5 - 49	
Artisan at Viera	Melbourne, FL	39,824	4,839	58,791	161	4,839	58,815	137	63,791	(1,101)	2018	8/8/2019	5 - 50	
Five Oaks at Westchase	Tampa, FL	31,448	4,425	48,113	194	4,425	48,128	179	52,732	(655)	2019	9/18/2019	5 - 50	
		1,173,901	186,690	1,540,576	34,576	186,328	1,572,746	2,768	1,761,842	(238,827)				

Property name	Location (MSA)	Related Encumbrances	Initial Costs		Gross Amount at Which Carried at Close of Period					Year Constructed/Renovated	Date Acquired	Depreciable Lives - Years	
			Land	Building and Improvements	Capitalized Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	Total (1)				Accumulated Depreciation
Woodstock Crossing	Atlanta, GA	2,877	1,751	3,800	657	1,751	4,457	—	6,208	(1,145)	1994	2/12/2014	5 - 30
Spring Hill Plaza	Nashville, TN	8,167	4,376	8,104	139	4,376	8,238	5	12,619	(2,226)	2005	9/5/2014	5 - 40
Parkway Town Centre	Nashville, TN	8,067	3,054	6,694	577	3,054	7,271	—	10,325	(1,470)	2005	9/5/2014	5 - 40
Barclay Crossing	Tampa, FL	6,233	2,856	7,572	248	2,856	7,820	—	10,676	(1,580)	1998	9/30/2014	5 - 30
Deltona Landings	Orlando, FL	6,289	2,256	8,344	330	2,256	8,674	—	10,930	(1,750)	1999	9/30/2014	5 - 30
Kingwood Glen	Houston, TX	—	5,021	12,930	664	5,021	13,480	114	18,615	(2,764)	1998	9/30/2014	5 - 30
Parkway Centre	Columbus, GA	4,530	2,071	4,516	325	2,071	4,837	4	6,912	(1,039)	1999	9/30/2014	5 - 30
Powder Springs	Atlanta, GA	7,951	1,832	8,246	255	1,832	8,501	—	10,333	(1,835)	1999	9/30/2014	5 - 30
Sweetgrass Corner	Charleston, SC	—	3,076	12,670	142	3,076	12,808	4	15,888	(2,616)	1999	9/30/2014	5 - 30
The Market at Salem Cove	Nashville, TN	9,075	2,427	10,272	171	2,427	10,443	—	12,870	(1,767)	2010	10/6/2014	5 - 40
Independence Square	Dallas, TX	11,455	4,115	13,690	1,933	4,115	15,618	5	19,738	(2,997)	1977	7/1/2015	5 - 30
Royal Lakes Marketplace	Atlanta, GA	9,572	4,874	10,439	479	4,924	10,861	7	15,792	(1,959)	2008	9/4/2015	5 - 30
Summit Point	Atlanta, GA	11,494	7,064	11,430	426	7,064	11,849	7	18,920	(2,181)	2004	10/30/2015	5 - 30
The Overlook at Hamilton Place	Chattanooga, TN	19,509	6,787	25,244	505	6,787	25,749	—	32,536	(4,353)	1992	12/22/2015	5 - 30
Wade Green Village	Atlanta, GA	7,655	1,840	8,410	495	1,840	8,901	4	10,745	(1,599)	1993	2/29/2016	5 - 35
Anderson Central	Greenville Spartanburg, SC	11,539	5,059	13,278	347	5,059	13,625	—	18,684	(2,697)	1999	4/29/2016	5 - 30

Property name	Location (MSA)	Related Encumbrances	Initial Costs		Gross Amount at Which Carried at Close of Period					Year Constructed/Renovated	Date Acquired	Depreciable Lives - Years	
			Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	Total (1)				Accumulated Depreciation
East Gate Shopping Center	Augusta, GA	5,277	1,653	7,391	56	1,653	7,447	—	9,100	(1,183)	1995	4/29/2016	5 - 30
Fairview Market	Greenville Spartanburg, SC	—	1,353	5,179	972	1,353	6,129	22	7,504	(905)	1998	4/29/2016	5 - 30
Fury's Ferry Rosewood Shopping Center	Augusta, GA	6,096	2,084	8,107	214	2,084	8,321	—	10,405	(1,193)	1996	4/29/2016	5 - 35
Southgate Village	Columbia, SC	4,095	1,671	5,347	115	1,671	5,459	3	7,133	(679)	2002	4/29/2016	5 - 40
The Market at Victory Village	Birmingham, AL	7,279	2,262	10,290	239	2,262	10,490	39	12,791	(1,468)	1988	4/29/2016	5 - 35
Lakeland Plaza	Nashville, TN	8,911	2,271	12,275	114	2,271	12,389	—	14,660	(1,661)	2007	5/16/2016	5 - 40
Cherokee Plaza	Atlanta, GA	27,459	7,079	33,087	505	7,079	33,586	6	40,671	(4,781)	1990	7/15/2016	5 - 35
Heritage Station	Atlanta, GA	24,867	8,392	32,249	505	8,392	32,709	45	41,146	(3,370)	1958	8/8/2016	5 - 35
Oak Park Village	Raleigh, NC	8,585	1,684	9,883	1,604	1,684	11,476	11	13,171	(1,448)	2004	8/8/2016	5 - 40
Sandy Plains Exchange	San Antonio, TX	8,859	5,745	10,779	143	5,745	10,922	—	16,667	(1,465)	1970	8/8/2016	5 - 40
Shoppes of Parkland	Atlanta, GA	8,676	4,788	9,309	295	4,788	9,599	5	14,392	(1,392)	1997	8/8/2016	5 - 32
Thompson Bridge Commons	Miami - Ft. Lauderdale, FL	15,702	10,779	16,543	420	10,779	16,945	18	27,742	(2,873)	2000	8/8/2016	5 - 35
University Palms	Atlanta, GA	11,599	1,478	16,047	37	1,478	16,079	5	17,562	(1,729)	2001	8/8/2016	5 - 40
Champions Village	Orlando, FL	12,421	4,854	16,706	809	4,854	17,515	—	22,369	(2,087)	1993	8/8/2016	5 - 37
Castleberry - Southard	Houston, TX	27,400	12,813	33,399	3,150	12,813	36,549	—	49,362	(5,580)	1973	10/18/2016	5 - 40
Rockbridge Village	Atlanta, GA	10,959	3,024	14,142	142	3,024	14,284	—	17,308	(1,420)	2006	4/21/2017	5 - 39
	Atlanta, GA	13,597	3,141	15,944	515	3,141	16,459	—	19,600	(1,293)	2005	6/6/2017	5 - 40

Property name	Location (MSA)	Related Encumbrances	Initial Costs		Gross Amount at Which Carried at Close of Period					Year Constructed/Renovated	Date Acquired	Depreciable Lives - Years	
			Land	Building and Improvements	Capitalized Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	Total (1)				Accumulated Depreciation
Irmo Station	Columbia, SC	10,038	3,602	11,859	984	3,602	12,842	2	16,446	(1,339)	1980	7/26/2017	5 - 33
Maynard Crossing	Raleigh, NC	17,449	6,304	22,566	673	6,304	23,239	—	29,543	(2,611)	1996	8/25/2017	5 - 30
Woodmont Village	Atlanta, GA	8,320	2,713	10,030	336	2,713	10,366	—	13,079	(1,108)	2002	9/8/2017	5 - 30
West Town Market	Charlotte, NC	8,503	1,937	12,298	—	1,937	12,298	—	14,235	(1,030)	2004	9/22/2017	5 - 37
Crossroads Market	Naples, FL	18,112	7,044	22,627	126	7,044	22,753	—	29,797	(1,485)	1993	12/5/2017	5 - 40
Roswell Wiecua Shopping Center	Atlanta, GA	—	12,006	18,485	56	12,006	18,537	4	30,547	(1,243)	2007	11/30/2017	5 - 40
Greensboro Village	Nashville, TN	8,250	3,134	10,771	311	3,134	11,082	—	14,216	(915)	2005	4/27/2018	5 - 40
Governors Towne Square	Atlanta, GA	10,976	2,766	13,027	39	2,766	13,066	—	15,832	(821)	2004	4/27/2018	5 - 40
Neopolitan Way	Naples, FL	—	14,401	20,524	472	14,401	20,944	52	35,397	(1,638)	1985	6/26/2018	5 - 35
Conway Plaza	Orlando, FL	9,549	4,202	9,782	823	4,202	10,598	7	14,807	(1,003)	1966	6/29/2018	5 - 30
Brawley Commons	Charlotte, NC	17,963	8,786	18,716	141	8,786	18,857	—	27,643	(1,385)	1997	7/6/2018	5 - 40
Hollymead Town Center	Charlottesville, VA	26,758	7,503	33,009	28	7,503	33,035	2	40,540	(1,189)	2005	12/21/2018	5 - 40
Gayton Crossing	Richmond, VA	17,679	9,109	17,791	341	9,109	18,106	26	27,241	(786)	1983	1/17/2019	5 - 30
Free State Shopping Center	Washington D.C.	46,391	21,443	44,831	23	21,443	44,851	3	66,297	(1,230)	1970	5/28/2019	5 - 35
Polo Grounds Mall	West Palm Beach, FL	13,227	9,057	10,907	68	9,057	10,975	—	20,032	(342)	1966	6/12/2019	5 - 30
Disston Plaza	Tampa-St Petersburg, FL	17,905	5,579	22,048	4	5,579	22,052	—	27,631	(493)	1954	6/12/2019	5 - 35

Property name	Location (MSA)	Related Encumbrances	Initial Costs			Gross Amount at Which Carried at Close of Period					Year Constructed/Renovated	Date Acquired	Depreciable Lives - Years
			Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	Total (1)	Accumulated Depreciation			
Fairfield Shopping Center	Virginia Beach, VA	19,750	12,728	14,526	20	12,728	14,546	—	27,274	(483)	1985	8/16/2019	5 - 30
Berry Town Center	Orlando, FL	12,025	3,062	13,628	—	3,062	13,628	—	16,690	(84)	2003	11/14/2019	5 - 30
Hanover Center	Wilmington, NC	32,000	16,634	40,393	5	16,634	40,392	5	57,031	(95)	1954	12/19/2019	5 - 30
		<u>621,090</u>	<u>285,540</u>	<u>790,134</u>	<u>21,978</u>	<u>285,590</u>	<u>811,657</u>	<u>405</u>	<u>1,097,652</u>	<u>(87,785)</u>			
Brookwood Office Center	Birmingham, AL	\$30,716	\$1,745	\$42,661	\$230	\$1,745	\$42,889	\$2	\$44,636	\$(4,151)	2007	8/29/2016	5 - 50
Galleria 75	Atlanta, GA	5,340	15,156	1,512	319	15,156	1,823	8	16,987	(705)	1988	11/4/2016	5 - 25
Three Ravinia	Atlanta, GA	115,500	9,785	154,023	62,065	11,083	213,976	814	225,873	(24,867)	1991	12/30/2016	7 - 39
Westridge	San Antonio, TX	51,834	15,778	58,496	5,617	15,778	64,039	74	79,891	(5,491)	2016	11/13/2017	13 - 50
Armour Yards 150	Atlanta, GA	40,000	6,756	54,534	318	6,756	54,852	—	61,608	(3,684)	2016	1/29/2018	9 - 50
Fayetteville Capitol Towers	Raleigh, NC	114,400	16,072	140,467	11,921	16,072	145,155	7,233	168,460	(7,138)	1990	7/31/2018	8 - 50
CAPTRUST Tower	Charlotte, NC	124,814	13,445	174,029	2,421	13,445	176,450	—	189,895	(4,822)	2015	12/20/2018	7 - 50
251 Armour Drive	Raleigh, NC	82,650	9,629	115,629	—	9,629	115,629	—	125,258	(1,749)	2009	7/25/2019	5 - 50
Morrocroft Centre	Atlanta, GA	—	3,658	1,675	26	3,658	1,674	27	5,359	—	1996	7/31/2019	12 - 45
	Charlotte, NC	—	9,367	89,145	—	9,367	89,145	—	98,512	(130)	2013 - 2017	12/20/2019	5 - 50
		<u>565,254</u>	<u>101,391</u>	<u>832,171</u>	<u>82,917</u>	<u>102,689</u>	<u>905,632</u>	<u>8,158</u>	<u>1,016,479</u>	<u>(52,737)</u>			
North by Northwest	Tallahassee, FL	\$31,209	\$8,281	\$36,980	\$1,238	\$8,281	\$38,218	\$—	\$46,499	\$(5,390)	2012	06/01/16	5 - 46
SoL	Tempe, AZ	35,656	7,441	43,830	1,193	7,441	45,006	17	52,464	(6,028)	2010	02/28/17	5 - 42
Stadium Village	Atlanta, GA	45,228	7,930	60,793	716	7,930	61,495	14	69,439	(6,638)	2015	10/27/17	5 - 48
Ursa	Waco, TX	31,400	7,060	48,006	1,037	7,060	49,041	2	56,103	(4,957)	2016	12/18/17	5 - 49

Property name	Location (MSA)	Initial Costs			Gross Amount at Which Carried at Close of Period					Year Constructed/Renovated	Date Acquired	Depreciable Lives - Years		
		Related Encumbrances	Land	Building and Improvements	Costs Capitalized Subsequent to Acquisition	Land	Building and Improvements	Construction in Progress	Total (1)				Accumulated Depreciation	
The Tradition	College Station, TX	30,000	7,061	67,749	784	7,061	68,512	21	75,594	(6,117)	2017	05/10/18	5 - 44	
The Retreat at Orlando	Orlando, FL	47,125	12,317	68,977	1,942	12,317	70,919	—	83,236	(6,319)	2014	05/31/18	5 - 46	
The Bloc	Lubbock, TX	28,966	3,771	37,219	908	3,771	37,685	442	41,898	(3,723)	2017	06/27/18	5 - 47	
Haven49	Charlotte, NC	—	7,289	85,129	591	7,289	85,654	66	93,009	(3,030)	2019	3/27/2019	5 - 50	
		<u>249,584</u>	<u>61,150</u>	<u>448,683</u>	<u>8,409</u>	<u>61,150</u>	<u>456,530</u>	<u>562</u>	<u>518,242</u>	<u>(42,202)</u>				
		<u>\$ 2,609,829</u>	<u>\$ 634,771</u>	<u>\$ 3,611,564</u>	<u>\$ 147,880</u>	<u>\$ 635,757</u>	<u>\$ 3,746,565</u>	<u>\$ 11,893</u>	<u>\$ 4,394,215</u>	<u>\$ (421,551)</u>				
(1) The aggregate cost for federal income tax purposes to the Company was approximately \$4.3 billion at December 31, 2019.														
(2) The costs capitalized subsequent to acquisition amount includes approximately \$6.9 million of assets in 2017 which were written off due to damages from Hurricane Harvey.														
<i>(in thousands)</i>														
For the years ended December 31,														
2019														
2018														
2017														
Real estate investments				\$ 3,672,715	\$ 2,735,342	\$ 1,965,487								
Balance at the beginning of the year														
Acquisitions				679,423	1,003,791	855,115								
Improvements				39,259	56,007	39,908								
Construction in progress				3,628	(123)	8,388								
Write-off of assets no longer in service				(261)	(438)	(7,719)								
Disposal of assets				(549)	(121,864)	(125,837)								
Balance at the end of the year				<u>\$ 4,394,215</u>	<u>\$ 3,672,715</u>	<u>\$ 2,735,342</u>								
Accumulated depreciation														
Balance at the beginning of the year				\$ (272,042)	\$ (172,756)	\$ (103,815)								
Depreciation (a)				(149,884)	(125,849)	(86,018)								
Write-off of assets no longer in service				261	438	2,185								
Disposal of assets				114	26,125	14,892								
Balance at the end of the year				<u>\$ (421,551)</u>	<u>\$ (272,042)</u>	<u>\$ (172,756)</u>								

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

Schedule IV
Preferred Apartment Communities, Inc.
Mortgage Loans on Real Estate
December 31, 2019

Description	Property Name	Location (MSA)	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages (in thousands)	Carrying Amount of Mortgages (in thousands)	Principal Amount of Mortgages Subject to Delinquent Principal or Interest
Real Estate Construction Loan on Multifamily Community	Palisades	Northern VA	8.0%	5/17/2020	(9) 8.0 / 0	\$ —	\$ 17,270	\$ 17,250	\$ —
Real Estate Construction Loan on Multifamily Community	Wiregrass	Tampa, FL	15.0%	5/15/2020	(5) 8.5 / 6.5	—	14,976	14,976	—
Real Estate Construction Loan on Multifamily Community	Wiregrass Capital	Tampa, FL	15.0%	5/15/2020	(5) 8.5 / 6.5	—	4,244	4,240	—
Real Estate Construction Loan on Multifamily Community	Berryessa	San Jose, CA	11.5%	2/13/2021	(1) 8.5 / 3.0	—	137,616	115,819	—
Real Estate Construction Loan on Multifamily Community	The Anson	Nashville, TN	13.0%	11/24/2021	(7) 8.5 / 4.5	—	6,240	6,240	—
Real Estate Construction Loan on Multifamily Community	The Anson Capital	Nashville, TN	13.0%	11/24/2021	(7) 8.5 / 4.5	—	5,659	4,440	—
Real Estate Construction Loan on Multifamily Community	Sanibel Straits	Fort Myers, FL	14.0%	2/3/2021	(3) 8.5 / 5.5	—	9,416	8,846	—
Real Estate Construction Loan on Multifamily Community	Sanibel Straits Capital	Fort Myers, FL	14.0%	2/3/2021	(3) 8.5 / 5.5	—	6,193	5,930	—
Real Estate Construction Loan on Multifamily Community	Falls of Forsyth	Atlanta, GA	14.0%	7/11/2020	(3) 8.5 / 5.5	—	22,412	21,513	—
Real Estate Construction Loan on Multifamily Community	Newbergh	Atlanta, GA	14.0%	1/31/2021	(3) 8.5 / 5.5	—	11,749	11,699	—
Real Estate Construction Loan on Multifamily Community	Newbergh Capital	Atlanta, GA	14.0%	1/31/2021	(3) 8.5 / 5.5	—	6,176	5,653	—
Real Estate Construction Loan on Multifamily Community	V & Three	Charlotte, NC	13.5%	8/15/2021	(2) 8.5 / 5.0	—	10,336	10,336	—
Real Estate Construction Loan on Multifamily Community	V & Three Capital	Charlotte, NC	13.5%	8/18/2021	(2) 8.5 / 5.0	—	7,338	6,571	—
Real Estate Construction Loan on Multifamily Community	Hidden River II	Tampa, FL	12.0%	10/11/2022	(4) 8.5 / 3.5	—	4,462	3,012	—
Real Estate Construction Loan on Multifamily Community	Hidden River II Capital	Tampa, FL	12.0%	10/11/2022	(4) 8.5 / 3.5	—	2,763	2,258	—
Real Estate Construction Loan on Multifamily Community	Vintage Destin	Destin, FL	12.5%	3/24/2022	(6) 8.5 / 4.0	—	10,763	8,932	—

Description	Property Name	Location (MSA)	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages (in thousands)	Carrying Amount of Mortgages (in thousands)	Principal Amount of Mortgages Subject to Delinquent Principal or Interest
Real Estate Construction Loan on Multifamily Community	Cameron Park	Alexandria, VA	11.5%	10/11/2021	(1) 8.5 / 3.0	—	21,340	18,582	—
Real Estate Construction Loan on Multifamily Community	Cameron Park Capital	Alexandria, VA	11.5%	10/11/2021	(1) 8.5 / 3.0	—	8,850	8,235	—
Real Estate Construction Loan on Multifamily Community	Southpoint	Fredericksburg, VA	12.5%	2/28/2022	(6) 8.5 / 4.0	—	7,348	7,348	—
Real Estate Construction Loan on Multifamily Community	Southpoint Capital	Fredericksburg, VA	12.5%	2/28/2022	(6) 8.5 / 4.0	—	4,962	4,245	—
Real Estate Construction Loan on Multifamily Community	E-Town	Jacksonville, FL	12.0%	6/14/2022	(4) 8.5 / 3.5	—	16,697	14,550	—
Real Estate Construction Loan on Multifamily Community	Vintage Horizon West	Orlando, FL	14.0%	10/11/2022	(3) 8.5 / 5.5	—	10,900	8,275	—
Real Estate Construction Loan on Multifamily Community	Kennesaw Crossing	Atlanta, GA	14.0%	09/01/2023	(3) 8.5 / 5.5	—	14,810	7,616	—
Real Estate Construction Loan on Student Housing Community	Haven 12	Starkville, MS	8.5%	11/30/2020	(8) 8.5 / 0.0	—	6,116	6,116	6,116
Real Estate Construction Loan on Student Housing Community	Solis Kennesaw II	Atlanta, GA	12.5%	5/5/2022	(6) 8.5 / 4.0	—	13,613	12,489	—
Real Estate Construction Loan on Office Property	8 West	Atlanta, GA	13.5%	11/29/2022	(2) 8.5 / 5.0	—	19,193	4,554	—
Real Estate Construction Loan on Grocery Anchored Shopping	Dawson Marketplace	Atlanta, GA	13.5%	1/31/20	(2) 8.5 / 5.0	—	12,857	12,857	—
Total						—	414,299	352,582	6,116
Unamortized loan origination fees						—	—	(1,476)	—
Allowance for loan losses						—	—	(1,624)	—
Carrying amount						\$ —	\$ 414,299	\$ 349,482	\$ 6,116

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

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

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

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

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

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

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

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

(9) Fixed rate, interest only, 8.0% payable monthly and 0.0% accrued

Index to Exhibits

The following exhibits are included, or incorporated by reference, in this Annual Report on Form 10-K (and are numbered in accordance with Item 601 of Regulation S-K):

Exhibit No.	Reference	Description
2.1	(30)	<u>Stock Purchase Agreement, dated as of January 31, 2020, by and among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P., PAC Carveout, LLC, NELL Partners, Inc., NMA Holdings, Inc., Mortwat, LLC, Northside Partners Trust, Nancy Ann Richardson Williams 2017 Children’s Trust, Caitboo Family Trust, Fairmont Green Trust, and Murphy Capital and Advisory Group LLC.</u>
3.1	(2)	<u>Articles of Amendment and Restatement of Preferred Apartment Communities, Inc.</u>
3.2	(23)	<u>Fourth Amended and Restated By-laws of Preferred Apartment Communities, Inc.</u>
4.1	(9)	<u>Sixth Amended and Restated Partnership Agreement, dated June 3, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Advisors, LLC and the other limited partners party thereto</u>
4.2	(5)	<u>Articles Supplementary for the Series A Redeemable Preferred Stock</u>
4.3	(6)	<u>Articles Supplementary for the Series M Redeemable Preferred Stock</u>
4.4	(10)	<u>Articles Supplementary classifying an additional 900,000 shares of the Series A Redeemable Preferred Stock</u>
4.5	(8)	<u>Articles Supplementary classifying an additional 2,000,000 shares of the Series A Redeemable Preferred Stock</u>
4.7	(11)	<u>Form of Series A Subscription Agreement</u>
4.8	(12)	<u>First Amendment to the Sixth Amended and Restated Partnership Agreement, dated as of January 25, 2017, entered into by Preferred Apartment Communities, Inc.</u>
4.9	(13)	<u>Articles of Amendment Amending the Holder Redemption Options of the Company's Series A Redeemable Preferred Stock</u>
4.10	(18)	<u>Amended and Restated Warrant Agreement dated as of March 14, 2012 between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent</u>
4.11	(5)	<u>Form of Global Warrant Certificate</u>
4.12	(19)	<u>Second Amended and Restated Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent dated as of October 11, 2013</u>
4.13	(20)	<u>Warrant Agreement between Preferred Apartment Communities, Inc. and Computershare Trust Company, N.A., as Warrant Agent dated as of February 23, 2017</u>
4.14	(25)	<u>Articles Supplementary for the Series A1 Redeemable Preferred Stock</u>
4.15	(25)	<u>Articles Supplementary for the Series M1 Redeemable Preferred Stock</u>
4.16	(26)	<u>Second Amendment to the Sixth Amended and Restated Partnership Agreement, dated as of November 7, 2019, entered into by Preferred Apartment Communities, Inc.</u>
4.17	(27)	<u>Form of Series A1 and M1 Subscription Agreement</u>
4.18	(1)	<u>Description of Common Stock</u>
4.19	(1)	<u>Description of Series A Redeemable Preferred Stock</u>

4.20	(1)	<u>Description of Warrant to Purchase Common Stock</u>
4.21	(1)	<u>Description of Series M Redeemable Preferred Stock</u>
4.22	(1)	<u>Description of Series A1 Redeemable Preferred Stock</u>
4.23	(1)	<u>Description of Series M1 Redeemable Preferred Stock</u>
10.1	(9)	<u>Sixth Amended and Restated Management Agreement, dated June 3, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC</u>
10.2	(16)	<u>First Amendment to the Sixth Amended and Restated Management Agreement, entered into as of October 5, 2016, effective as of August 29, 2016, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC</u>
10.3	(22)	<u>Amendment No. 2 to the Sixth Amended and Restated Management Agreement, effective as of July 1, 2017 and entered into as of August 31, 2017, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC</u>
10.4	(24)	<u>Amendment No. 3 to the Sixth Amended and Restated Management Agreement, effective as of May 3, 2018, among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P. and Preferred Apartment Advisors, LLC</u>
10.5	(28) *	<u>The Company's 2019 Stock Incentive Plan</u>
10.6	(3)	<u>Trademark License and Assignment Agreement dated September 17, 2010, but effective as of July 29, 2010, between Preferred Apartment Communities, Inc. and Preferred Apartment Advisors, LLC</u>
10.7	(2) *	<u>Form of Restricted Stock Agreement pursuant to the Preferred Apartment Communities, Inc. 2011 Stock Incentive Plan</u>
10.8	(4)	<u>Form of Indemnification Agreement</u>
10.9	(17) *	<u>Form of Preferred Apartment Communities, Inc. 2017 Class B Unit Award Agreement (3 year)</u>
10.10	(21) *	<u>Form of Preferred Apartment Communities, Inc. 2018 Class B Unit Award Agreement (3 year)</u>
10.11	(7)	<u>Intellectual Property Assignment and License Agreement dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc.</u>
10.12	(7)	<u>Trademark License Agreement dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc.</u>
10.13	(7)	<u>Trademark Assignment dated March 14, 2012 between Preferred Apartment Advisors, LLC and Preferred Apartment Communities, Inc.</u>
10.14	(29)	<u>Sales Agreement dated June 21, 2019 by and between Preferred Apartment Communities, Inc. and RBC Capital Markets, LLC, JonesTrading Institutional Services LLC, B. Riley FBR, Inc., Compass Point Research & Trading, LLC, D.A. Davidson & Co., JMP Securities LLC, and National Securities Corporation.</u>
10.15	(14)	<u>Fourth Amended and Restated Credit Agreement dated as of August 5, 2016 among Preferred Apartment Communities, Inc., Preferred Apartment Communities Operating Partnership, L.P., the lenders party thereto and KeyBank National Association</u>
10.16	(14)	<u>Fourth Amended and Restated Pledge and Security Agreement dated as of August 5, 2016 among Preferred Apartment Communities Operating Partnership, L.P., (the "Borrower"), each of the subsidiaries of the Borrower party thereto and KeyBank National Association</u>
10.17	(14)	<u>Fourth Amended and Restated Guaranty dated as of August 5, 2016 by and among Preferred Apartment Communities, Inc., each of the guarantors party thereto and KeyBank National Association</u>
10.18	(15)	<u>Form of Buy-Sell Agreement with KeyBank National Association</u>
10.19	(27)	<u>Form of Escrow Agreement for Series A1 and M1</u>

10.20	(1)	<u>Consulting Agreement Between Leonard A. Silverstein and Preferred Apartment Communities, Inc.</u>
21	(1)	<u>Subsidiaries of Preferred Apartment Communities, Inc.</u>
23.1	(1)	<u>Consent of PricewaterhouseCoopers LLP</u>
31.1	(1)	<u>Certification of Daniel M. DuPree, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	(1)	<u>Certification of John A. Isakson, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	(1)	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	(1)	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101	(1)	XBRL (eXtensible Business Reporting Language). The following materials for the period ended December 31, 2019, formatted in XBRL: (i) Consolidated balance sheets at December 31, 2019 and December 31, 2018, (ii) consolidated statements of operations for the years ended December 31, 2019, December 31, 2018 and December 31, 2017, (iii) consolidated statements of equity and accumulated deficit, (iv) consolidated statements of cash flows and (v) notes to consolidated financial statements.

* Management contract or compensatory plan, contract or arrangement.

- (1) Filed herewith
- (2) Previously filed with the Pre-effective Amendment No. 6 to Form S-11 Registration Statement (Registration No. 333-168407) filed by the Registrant with the Securities and Exchange Commission on March 4, 2011
- (3) Previously filed with the Pre-effective Amendment No. 1 to Form S-11 Registration Statement (Registration No. 333-168407) filed by the Registrant with the Securities and Exchange Commission on October 4, 2010
- (4) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on April 7, 2011
- (5) Previously filed with the Pre-effective Amendment No. 1 to Form S-11 Registration Statement (Registration No.: 333-176604) filed by the Registrant with the Securities and Exchange Commission on November 2, 2011
- (6) Previously filed with the Form S-3 Registration Statement (Registration No.: 333-214531) filed by the Registrant with the Securities and Exchange Commission on November 9, 2016
- (7) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on March 15, 2012
- (8) Previously filed with the Form S-3 Registration Statement (Registration No.: 333-211924) filed by the Registrant with the Securities and Exchange Commission on June 9, 2016
- (9) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 6, 2016
- (10) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 28, 2013
- (11) Previously filed with the Pre-effective Amendment No. 2 to Form S-3 Registration Statement (Registration No. 333-211924) filed by the Registrant with the Securities and Exchange Commission on November 8, 2016
- (12) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 26, 2017
- (13) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 26, 2014
- (14) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on August 10, 2016
- (15) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 17, 2015
- (16) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 5, 2016
- (17) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 9, 2017
- (18) Previously filed with the Annual Report on Form 10-K filed by the Registrant with the Securities and Exchange Commission on March 15, 2012
- (19) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 15, 2013

- (20) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 24, 2017
- (21) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 29, 2018
- (22) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on July 10, 2017
- (23) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on December 21, 2018
- (24) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on May 3, 2018
- (25) Previously filed with the Form S-3 Registration Statement (Registration No.: 333-233576) filed by the Registrant with the Securities and Exchange Commission on August 30, 2019
- (26) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on November 7, 2019
- (27) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on October 2, 2019
- (28) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on May 2, 2019
- (29) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 24, 2019
- (30) Previously filed with the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on February 3, 2020

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PREFERRED APARTMENT COMMUNITIES, INC.

Date: March 3, 2020 By: /s/ Joel T. Murphy
Joel T. Murphy
Chief Executive Officer
(Principal Executive Officer)

Date: March 3, 2020 By: /s/ John A. Isakson
John A. Isakson
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Joel T. Murphy</u> Joel T. Murphy	Chief Executive Officer, President and Director (Principal Executive Officer)	<u>March 3, 2020</u>
<u>/s/ John A. Isakson</u> John A. Isakson	Chief Financial Officer (Principal Financial Officer)	<u>March 3, 2020</u>
<u>/s/ Michael J. Cronin</u> Michael J. Cronin	Executive Vice President, Chief Accounting Officer and Treasurer (Principal Accounting Officer)	<u>March 3, 2020</u>
<u>/s/ Steve Bartkowski</u> Steve Bartkowski	Director	<u>March 3, 2020</u>
<u>/s/ Gary B. Coursey</u> Gary B. Coursey	Director	<u>March 3, 2020</u>
<u>/s/ Daniel M. DuPree</u> Daniel M. DuPree	Director	<u>March 3, 2020</u>
<u>/s/ William J. Gresham, Jr.</u> William J. Gresham, Jr.	Director	<u>March 3, 2020</u>
<u>/s/ Howard A. McLure</u> Howard A. McLure	Director	<u>March 3, 2020</u>
<u>/s/ Leonard A. Silverstein</u> Leonard A. Silverstein	Director	<u>March 3, 2020</u>
<u>/s/ Timothy A. Peterson</u> Timothy A. Peterson	Director	<u>March 3, 2020</u>
<u>/s/ John Wiens</u> John Wiens	Director	<u>March 3, 2020</u>
<u>/s/ Sara J. Finley</u> Sara J. Finley	Director	<u>March 3, 2020</u>

Description of Common Stock

The following description of the common stock ("Common Stock") of Preferred Apartment Communities, Inc. (the "Company") summarizes material terms and provisions that apply to our Common Stock. The summary may not contain all of the information that is important to you and is subject to and qualified in its entirety by reference to our Articles of Amendment and Restatement of the Company (our "charter"), and our Fourth Amended and Restated Bylaws (our "bylaws"), each of which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part. References in this Exhibit to "we," "us" and "our" refer to the Company, unless the context otherwise requires.

General

Our charter authorizes us to issue up to 400,066,666 shares of common stock, \$0.01 par value per share and 15,000,000 shares of preferred stock, \$0.01 par value per share.

Listing

Our common stock is listed on the New York Stock Exchange under the symbol "APTS."

Common Stock

Subject to the preferential rights of our outstanding preferred stock and any preferential rights of any other class or series of stock and to the provisions of our charter regarding the restrictions on the ownership and transfer of stock, the holders of common stock are entitled to such distributions as may be authorized from time to time by our Board of Directors and declared by us out of legally available funds and, upon our liquidation, are entitled to receive all assets available for distribution to our stockholders. Holders of common stock will not have preemptive rights, which means that they will not have an automatic option to purchase any new shares that we issue, or preference, conversion, exchange, sinking fund or redemption rights. Holders of common stock generally will have no appraisal rights.

The holders of common stock shall vote together as a single class on all matters. Holders of shares of common stock shall be entitled to vote for the election of directors. Directors may be removed from office, with or without cause, by the affirmative vote of the holders of not less than 66 2/3% of the total voting power of all outstanding common stock. Vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors may be filled by a majority of the directors then in office (although less than a quorum). Any such director elected to fill a vacancy will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualifies or until his or her earlier death, resignation or removal.

Meetings and Special Voting Requirements

Subject to our charter restrictions on ownership and transfer of our stock and except as may otherwise be specified in our charter, each holder of common stock is entitled at each meeting of stockholders to one vote per share owned by such stockholder on all matters submitted to a vote of stockholders. There is no cumulative voting in the election of our Board of Directors. In an uncontested election of directors, each director is elected by a majority of total votes cast for and against such director nominee at a meeting of stockholders duly called and at which a quorum is present. A plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a director in a contested election.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, convert, sell all or substantially all its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless declared advisable by the Board of Directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all the votes entitled to be cast on the matter. Our charter does not provide for a lesser percentage in these situations.

An annual meeting of our stockholders will be held each year. Special meetings of stockholders may be called upon the request of a majority of our directors, the chairman of the Board, the president or the chief executive officer and must be called by our secretary to act on any matter that may properly be considered at a meeting of stockholders upon the written request of stockholders entitled to cast at least a majority of the votes entitled to be cast on such matter at the meeting (subject to the stockholders' compliance with certain procedures set forth in our bylaws). The presence of stockholders entitled to cast

at least a majority of all the votes entitled to be cast at such meeting on any matter, either in person or by proxy, will constitute a quorum.

One or more persons who together are and for at least six months have been stockholders of record of at least five percent of the outstanding shares of any class of our stock are entitled to receive a copy of our stockholder list upon request in accordance with Maryland law. The list provided by us will include each stockholder's name and address and the number of shares owned by each stockholder and will be made available within 20 days of the receipt by us of the request. Stockholders and their representatives shall also be given access to our bylaws, the minutes of stockholder proceedings, our annual statements of affairs and any voting trust agreements on file at our principal office during usual business hours. We have the right to request that a requesting stockholder represent to us that the list and records will not be used to pursue commercial interests.

Advance Notice of Director Nominations and New Business

Proposals to elect directors or conduct other business at an annual or special meeting must be brought in accordance with our bylaws. The bylaws provide that any business may be transacted at the annual meeting without being specifically designated in the notice of meeting. However, with respect to special meetings of stockholders, only the business specified in the notice of the special meeting may be brought at that meeting.

Our bylaws also provide that nominations of individuals for election to the Board of Directors may be made at an annual meeting (1) pursuant to the Company's notice of meeting, (2) by or at the direction of our Board of Directors, or (3) by any stockholder who is a stockholder of record both at the time of giving of notice pursuant to the bylaws and at the time of the annual meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice procedures set forth in our bylaws. Our bylaws further provide that the proposal of other business to be considered by stockholders may be made at an annual meeting (x) pursuant to the notice of meeting, (y) by or at the direction of our Board of Directors, or (z) by any stockholder of record both at the time of giving notice pursuant to the bylaws and at the time of the annual meeting, who is entitled to vote at the meeting on any such other business and who has complied with the advance notice provisions set forth in our bylaws.

A notice of a director nomination or stockholder proposal to be considered at an annual meeting must be delivered to our secretary at our principal executive offices:

- not later than 5:00 p.m., Eastern Time, on the 120th day nor earlier than 150 days prior to the first anniversary of the date of release of the proxy statement for the previous year's annual meeting; or
- if the date of the meeting is advanced or delayed by more than 30 days from the anniversary date, not earlier than 150 days prior to the annual meeting or not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

Nominations of individuals for election to the Board of Directors may be made at a special meeting, (A) by or at the direction of our Board of Directors, (B) by a stockholder that has requested that a special meeting be called for the purpose of electing directors in compliance with the procedures set forth in our bylaws and that has supplied the information required by our bylaws about each individual whom such stockholder proposes to nominate for election as a director, or (C) provided that the special meeting has been called for the purpose of electing directors, by any stockholder who is a stockholder of record both at the time of giving of notice and at the time of the special meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who complies with the notice procedures set forth in our bylaws.

A notice of a director nomination to be considered at a special meeting must be delivered to our secretary at our principal executive offices:

- not earlier than 120 days prior to the special meeting; and
- not later than 5:00 p.m., Eastern Time, on the later of either:
 - ninety days prior to the special meeting; or
 - ten days following the day of our first public announcement of the date of the special meeting and the nominees proposed by our Board of Directors to be elected at the meeting.

Restrictions on Ownership and Transfer

In order for us to continue to qualify as a REIT under the Code, we must meet the following criteria regarding our stockholders' ownership of our shares:

we cannot be "closely held" under Section 856(h) of the Code; that is, five or fewer individuals (as specially defined in the Code to include specified private foundations, employee benefit plans and trusts and charitable trusts and subject to certain constructive ownership rules) may not own, directly or indirectly, more than 50% in value of our outstanding shares during the last half of a taxable year, other than our first REIT taxable year; and

100 or more persons must beneficially own our shares during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year, other than our first REIT taxable year.

Our charter provides (subject to certain exceptions) that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% in value of the aggregate of our outstanding shares of stock or more than 9.8% (in value or number of shares, whichever is more restrictive) of any class or series of shares of our stock. Our Board of Directors, in its sole discretion, may waive this ownership limit (prospectively or retroactively) if evidence satisfactory to our directors, including certain representations and undertakings required by our charter, is presented that such ownership will not then or in the future jeopardize our status as a REIT. Also, these restrictions on transferability and ownership will not apply if our directors determine that it is no longer in our best interests to continue to qualify as a REIT or that compliance with such restrictions is no longer required in order for us to qualify as a REIT.

In addition to prohibiting the transfer or ownership of our stock that would result in any person owning, directly or indirectly, shares of our stock in excess of the foregoing ownership limitations, our charter prohibits the transfer or ownership of our stock if such transfer or ownership would:

- with respect to transfers only, result in our stock being beneficially owned by fewer than 100 persons, determined without reference to any rules of attribution;
- result in our being "closely held" within the meaning of Section 856(h) of the Code (regardless of whether the ownership interest is held during the last half of a taxable year);
- result in our owning, directly or indirectly, more than 9.8% of the ownership interests in any tenant or subtenant; or
- otherwise result in our disqualification as a REIT.

If any attempted transfer of our stock, if effective, would result in a violation of these limitations, then the number of shares causing the violation (rounded up to the nearest whole share) will be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries (or, in the case of a transfer that would result in our stock being beneficially owned by fewer than 100 persons, be void), and the proposed transferee will not acquire any rights in the shares. To avoid confusion, these shares so transferred to a beneficial trust will be referred to here as "Excess Securities." Excess Securities will remain issued and outstanding shares and will be entitled to the same rights and privileges as all other shares of the same class or series. The trustee of the beneficial trust, as holder of the Excess Securities, will be entitled to receive all distributions authorized by the Board of Directors on such securities for the benefit of the charitable beneficiary. Our charter further entitles the trustee of the beneficial trust to vote all Excess Securities and, subject to Maryland law, to rescind as void any vote cast by the proposed transferee of Excess Securities prior to our discovery of the Excess Securities and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote. If a transfer to the trust would be ineffective for any reason to prevent a violation of any of the foregoing restrictions, the transfer resulting in such violation will be void from the time of such purported transfer.

The trustee of the beneficial trust will select a transferee to whom the Excess Securities may be sold as long as such sale does not violate the 9.8% ownership limit or the other restrictions on ownership and transfer. Upon sale of the Excess Securities, the intended transferee (the transferee of the Excess Securities whose ownership would have violated the 9.8% ownership limit or the other restrictions on ownership and transfer) will receive from the trustee of the beneficial trust the lesser of such sale proceeds, or the price per share the intended transferee paid for the Excess Securities (or, in the case of a gift or devise to the intended transferee, the price per share equal to the market value per share on the date of the event causing the shares to be held in the beneficial trust). The trustee may reduce the amount payable to the intended transferee by the amount of dividends and other distributions which have been paid to the intended transferee and are owed by the intended transferee to the trustee. The trustee of the beneficial trust will distribute to the charitable beneficiary any amount the trustee receives in excess of the amount to be paid to the intended transferee.

In addition, we have the right to purchase any Excess Securities at the lesser of (i) the price per share paid in the transfer that created the Excess Securities (or, in the case of a devise or gift, the market price at the time of such devise or gift), and (ii) the market price on the date we, or our designee, exercise such right. We may reduce the amount payable to the intended transferee by the amount of dividends and other distributions which have been paid to the intended transferee and are owed by the intended transferee to the trustee. We will have the right to purchase the Excess Securities until the trustee has sold the shares. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the intended transferee.

Any person who (i) acquires or attempts or intends to acquire shares in violation of the foregoing ownership limitations, or (ii) would have owned shares that resulted in a transfer to a charitable trust, is required to give us immediate written notice or, in the case of a proposed or intended transaction, 15 days' written notice. In both cases, such persons must provide to us such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT. The foregoing restrictions will continue to apply until our Board of Directors determines it is no longer in our best interest to continue to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to qualify as a REIT.

The 9.8% ownership limit does not apply to the underwriters in a public offering of shares. Any person who owns more than 5% (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding shares during any taxable year will be asked to deliver a statement or affidavit setting forth the name and address of such owner, the number of shares beneficially owned, directly or indirectly, and a description of the manner in which such shares are held. Each such person also must provide us with such additional information as we may request in order to determine the effect of such ownership on our status as a REIT and to ensure compliance with the 9.8% ownership limit.

Transfer Agent and Registrar

The transfer agent and registrar for our shares of our Common Stock is Computershare Trust Company, N.A.

Business Combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation's outstanding voting stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding stock of the corporation.

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

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

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

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our

Board of Directors has adopted a resolution exempting any business combination with our manager or any affiliate of our manager. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and our manager or any affiliate of our manager. As a result, our manager or any affiliate of our manager may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Control Share Acquisitions

Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of holders of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are directors of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of any meeting of stockholders at which the voting rights of the shares are considered and not approved or, if no such meeting is held, as of the date of the last control share acquisition by the acquiror. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply: (i) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction; or (ii) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. This provision may be amended or eliminated at any time in the future.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act, and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in its charter or bylaws, to any or all of five provisions:

- a classified board;
- a two-thirds vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the directors;

- a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a majority requirement for the calling of a stockholder-requested special meeting of stockholders.

Our charter and bylaws provide that vacancies on our Board of Directors may be filled by the remaining directors. Any such director elected to fill a vacancy will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualifies or until his or her earlier death, resignation or removal. Our charter also vests in the Board of Directors the exclusive power to fix the number of directorships. In addition, our charter provides that any director may be removed from office, with or without cause, by the affirmative vote of the holders of not less than 66-2/3% of the total voting power of all outstanding common stock. Our bylaws require, unless called by our chairman of the Board of Directors, president, chief executive officer or Board of Directors, the request of holders of a majority of outstanding shares to call a special meeting to act on any matter that may properly be considered at a meeting of stockholders. We have not elected to be subject to the other provisions of Subtitle 8.

Amendments to Our Charter and Bylaws

As provided in the MGCL, amendments to our Charter must be advised by our board of directors and approved by the affirmative vote of two-thirds of the votes entitled to be cast on the matter. Pursuant to both our Charter and our Bylaws, our board of directors has the exclusive authority to amend our Bylaws.

Exhibit 4.19

Description of Series A Redeemable Preferred Stock

The following description of our Series A Redeemable Preferred Stock ("Series A Redeemable Preferred Stock") of Preferred Apartment Communities, Inc. (the "Company") summarizes material terms and provisions that apply to our Series A Redeemable Preferred Stock. The summary may not contain all of the information that is important to you and is subject to and qualified in its entirety by reference to our Articles Supplementary for the Series A Redeemable Preferred Stock, which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part. References in this Exhibit to "we," "us" and "our" refer to the Company, unless the context otherwise requires.

Our Board of Directors, including our independent directors, has created out of the authorized and unissued shares of our preferred stock, a series of redeemable preferred stock, designated as the Series A Redeemable Preferred Stock. Our shares of Series A Redeemable Preferred Stock are not listed on an exchange and we do not intend to apply to have any such shares listed on an exchange in the future.

Rank. Our Series A Redeemable Preferred Stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

- senior to our common stock and any other class or series of our capital stock, the terms of which expressly provide that our Series A Redeemable Preferred Stock ranks senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- on parity with any class or series of our capital stock, the terms of which expressly provide that such class or series ranks on parity with our Series A Redeemable Preferred Stock as to dividend rights and rights on our liquidation, winding up and dissolution;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

Investors in the Series A Redeemable Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A Redeemable Preferred Stock receive a return of their capital.

Stated Value. Each share of Series A Redeemable Preferred Stock has an initial "Stated Value" of \$1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series A Redeemable Preferred Stock, as set forth in the Series A Articles Supplementary.

Dividends. Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our Series A Redeemable Preferred Stock, if any such class or series is authorized in the future, the holders of Series A Redeemable Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A Redeemable Preferred Stock begin accruing on, and are cumulative from, the date of issuance. We expect to continue to pay dividends on the Series A Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the shares of Series A Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Holders of our shares of Series A Redeemable Preferred Stock are not entitled to any dividend in excess of full cumulative dividends on our shares of Series A Redeemable Preferred Stock. Unless full cumulative dividends on our shares of Series A Redeemable Preferred Stock for all past dividend periods have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

- declare and pay or declare and set apart for payment dividends and we will not declare and make any other distribution of cash or other property (other than dividends or distributions paid in shares of stock ranking

junior to the Series A Redeemable Preferred Stock as to the dividend rights or rights on our liquidation, winding-up or dissolution, and options, warrants or rights to purchase such shares), directly or indirectly, on or with respect to any shares of our common stock or any class or series of our stock ranking junior to or on parity with the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution for any period; or

- except by conversion into or exchange for shares of stock ranking junior to the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution, or options, warrants or rights to purchase such shares, redeem, purchase or otherwise acquire (other than a redemption, purchase or other acquisition of common stock made for purposes of an employee incentive or benefit plan) for any consideration, or pay or make available any monies for a sinking fund for the redemption of, any common stock or any class or series of our stock ranking junior to or on parity with the Series A Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution.

To the extent necessary to preserve our status as a REIT, the foregoing sentence, however, will not prohibit declaring or paying or setting apart for payment any dividend or other distribution on the common stock.

Redemption at the Option of a Holder. During the period beginning on the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed and ending on the date immediately preceding the first anniversary of such original issuance, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 13% redemption fee, plus any accrued but unpaid dividends.

During the period beginning one year from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the third anniversary of such original issuance, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 10% redemption fee, plus any accrued but unpaid dividends.

During the period beginning three years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the fourth anniversary of such original issuance, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 5% redemption fee, plus any accrued but unpaid dividends.

During the period beginning four years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the fifth anniversary of such original issuance, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 3% redemption fee, plus any accrued but unpaid dividends.

Beginning five years from the date of original issuance of the shares of our Series A Redeemable Preferred Stock to be redeemed, the holder will have the right to require the company to redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, plus any accrued but unpaid dividends.

If a holder of Series A Redeemable Preferred Stock causes the company to redeem such shares of Series A Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption.

Our obligation to redeem any shares of our Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Optional Redemption Following Death of a Holder. Subject to restrictions, beginning on the date of original issuance and ending two years thereafter, we will redeem shares of Series A Redeemable Preferred Stock held by a natural person upon his or her death at the written request of the holder's estate at a redemption price equal to the Stated Value, plus accrued and unpaid dividends thereon through and including the date of redemption; provided, however, that our obligation to redeem any of the shares of Series A Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption. Upon any such redemption request from a holder's estate, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption.

Optional Redemption by the Company. We will have the right to redeem any or all shares of our Series A Redeemable Preferred Stock beginning on the tenth anniversary of the date of original issuance of the shares of Series A Redeemable Preferred Stock to be redeemed. We will redeem such shares of Series A Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value per share of Series A Redeemable Preferred Stock, plus any accrued but unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price of our common stock for the 20 trading days prior to the redemption, in exchange for the Series A Redeemable Preferred Stock.

We may exercise our redemption right by delivering a written notice thereof to all, but not less than all, of the holders of Series A Redeemable Preferred Stock. A notice of redemption shall be irrevocable. Each such notice will state the date on which the redemption by us shall occur, which date will be 30 days following the notice date.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series A Redeemable Preferred Stock, the holders of shares of Series A Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our shares of Series A Redeemable Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of our stock or otherwise, is permitted under the Maryland General Corporation Law, or the MGCL, amounts that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of holders of the Series A Redeemable Preferred Stock will not be added to our total liabilities.

Voting Rights. Our Series A Redeemable Preferred Stock has no voting rights.

Exhibit 4.20

Description of Common Stock Warrants

The following description of our Common Stock Warrants ("Warrants") of Preferred Apartment Communities, Inc. (the "Company") summarizes material terms and provisions that apply to our Warrants. The summary may not contain all of the information that is important to you and is subject to and qualified in its entirety by reference to our warrant agreements for the Warrants, which are filed as exhibits to the Annual Report on Form 10-K of which this Exhibit is a part. References in this Exhibit to "we," "us" and "our" refer to the Company, unless the context otherwise requires.

The following is a brief summary of the Warrants and is subject to, and qualified in its entirety by, the terms set forth in the Warrant Agreement (as defined below) and global warrant certificate filed with the SEC.

Warrant Agreement. The Warrants issued are governed by a warrant agreement, or the Warrant Agreement. The Warrants were issued either in certificated form or by "book-entry" form, in either case to DTC, and evidenced by one or more global warrants. Those investors who own beneficial interests in a global warrant do so through participants in DTC's system, and the rights of these indirect owners will be governed solely by the Warrant Agreement and the applicable procedures and requirements of the DTC. The Warrants may be exercised by the holders of beneficial interest in the Warrants by delivering to the warrant agent, through a broker who is a DTC participant, prior to the expiration of such Warrants, a duly signed exercise notice and payment of the exercise price for the shares of our common stock for which such Warrants are being exercised, as described in more detail below.

Exercisability. Holders may exercise the Warrants at any time beginning one year from the date of issuance up to 5:00 p.m., New York time, on the date that is the fourth anniversary of the date of issuance. The Warrants are exercisable, at the option of each holder, in whole, but not in part, by delivering to the warrant agent a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise (except in the case of a cashless exercise in the circumstances discussed below). Each Warrant is exercisable for 20 shares of our common stock (subject to adjustment, as discussed below). A holder of Warrants does not have the right to exercise any portion of a Warrant to the extent that, after giving effect to the issuance of shares of our common stock upon such exercise, the holder (together with its affiliates and any other persons acting as a group together with such holder or any of its affiliates) would beneficially own in excess of 9.8% in value of the shares of our capital stock outstanding or in excess of 9.8% (in value or number of shares, whichever is more restrictive) of the shares of our common stock outstanding, in each case, immediately after giving effect to the issuance of shares of our common stock upon exercise of the Warrant.

Cashless Exercise. If, on the date of any exercise of any Warrant, a registration statement covering the issuance of the shares of common stock issuable upon exercise of the Warrant is not effective and an exemption from registration is not available for the resale of such shares of common stock issuable upon exercise of the Warrant, the holder may satisfy its obligation to pay the exercise price upon the exercise of its Warrant on a cashless basis in accordance with the terms of the Warrant Agreement. When exercised on a cashless basis, a portion of the Warrant is cancelled in payment of the purchase price payable in respect of the number of shares of our common stock purchasable upon such exercise. Any Warrant that is outstanding on the termination date of the Warrant shall be automatically terminated.

Exercise Price. The exercise price of the common stock purchasable upon exercise of the Warrants equals a 20% premium to the current market price per share of our common stock on the date of issuance of such Warrant, subject to, in the case of Warrants issued on and after February 27, 2017, a minimum exercise price of \$19.50 per share. The current market price per share is determined using the closing market price of the common stock immediately preceding the issuance of the Warrant. The exercise price and the number of shares of common stock issuable upon exercise of the Warrants are subject to appropriate adjustment from time to time in relation to the following events or actions in respect of the Company: (i) we declare a dividend or make a distribution on our outstanding common stock in common stock; (ii) we subdivide or reclassify our outstanding common stock into a greater number of shares of our common stock; (iii) we combine or reclassify our outstanding common stock into a smaller number of shares of our common stock; or (iv) we enter into any transaction whereby the outstanding shares of our common stock are at any time changed into or exchanged for a different number or kind of shares or other securities of the Company or of another entity through reorganization, merger, consolidation, liquidation or recapitalization.

Transferability. Subject to applicable law, the Warrants may be transferred at the option of the holder upon surrender of the Warrants with the appropriate instruments of transfer.

Exchange Listing. We do not plan on making an application to list the Warrants on NYSE, any other national securities exchange or other nationally recognized trading system. Our common stock is listed on NYSE.

Rights as Stockholder. Except as otherwise provided in the Warrants or by virtue of such holder's ownership of shares of our common stock, the holders of the Warrants will not have the rights or privileges of holders of our common stock, including any voting rights, until they exercise their Warrants.

Fractional Shares. No fractional shares of common stock will be issued upon the exercise of the Warrants. Rather, we shall, at our election, either pay a cash adjustment in respect of such fraction in an amount equal to such fraction multiplied by the exercise price or round up the number of shares of common stock to be issued to the nearest whole number.

Exhibit 4.21

Description of Series M Redeemable Preferred Stock

The following description of our Series M Redeemable Preferred Stock ("mShares") of Preferred Apartment Communities, Inc. (the "Company") summarizes material terms and provisions that apply to our Series M Redeemable Preferred Stock. The summary may not contain all of the information that is important to you and is subject to and qualified in its entirety by reference to our Articles Supplementary for the Series M Redeemable Preferred Stock, which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part. References in this Exhibit to "we," "us" and "our" refer to the Company, unless the context otherwise requires.

Our Board of Directors, including our independent directors, has created out of the authorized and unissued shares of our preferred stock, a series of redeemable preferred stock, designated as mShares. Our mShares are not listed on an exchange and we do not intend to apply to have any such shares listed on an exchange in the future.

Rank. Our mShares rank with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

- senior to our common stock and any other class or series of our capital stock, the terms of which expressly provide that our mShares rank senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- on parity with our Series A Redeemable Preferred Stock and any other class or series of our capital stock, the terms of which expressly provide that such class or series ranks on parity with our mShares as to dividend rights and rights on our liquidation, winding up and dissolution;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the mShares as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

Investors in mShares should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of mShares receive a return of their capital.

Stated Value. Each mShare has an initial "Stated Value" of \$1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our mShares, as set forth in the mShares Articles Supplementary.

Dividends. Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our mShares, if any such class or series is authorized in the future, the holders of mShares are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each mShare at an annual rate, which we refer to as the Dividend Rate. The Dividend Rate will initially be set at five and three fourths percent (5.75%) of the Stated Value. Beginning one year from the date of original issuance of each mShare, and on each one year anniversary thereafter for such mShare, the articles supplementary for the mShares provides that the Dividend Rate shall increase by 0.25% per annum for such mShare; *provided, however*, that the Dividend Rate for any mShares shall not exceed seven and one half percent (7.5%) per annum. Dividends on each mShare begin accruing on, and are cumulative from, the date of issuance. We expect to pay dividends on the mShares monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to continue to authorize and declare dividends on the mShares on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Holders of our mShares are not entitled to any dividend in excess of full cumulative dividends on our mShares. Unless full cumulative dividends on our mShares for all past dividend periods have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

- declare and pay or declare and set apart for payment dividends and we will not declare and make any other distribution of cash or other property (other than dividends or distributions paid in shares of stock ranking junior to the mShares as to the dividend rights or rights on our liquidation, winding-up or dissolution, and options, warrants or rights to purchase such shares), directly or indirectly, on or with respect to any shares of

- our common stock or any class or series of our stock ranking junior to or on parity with the mShares as to dividend rights or rights on our liquidation, winding-up or dissolution for any period; or
- except by conversion into or exchange for shares of stock ranking junior to the mShares as to dividend rights or rights on our liquidation, winding-up or dissolution, or options, warrants or rights to purchase such shares, redeem, purchase or otherwise acquire (other than a redemption, purchase or other acquisition of common stock made for purposes of an employee incentive or benefit plan) for any consideration, or pay or make available any monies for a sinking fund for the redemption of, any common stock or any class or series of our stock ranking junior to or on parity with the mShares as to dividend rights or rights on our liquidation, winding-up or dissolution.

To the extent necessary to preserve our status as a REIT, the foregoing sentence, however, will not prohibit declaring or paying or setting apart for payment any dividend or other distribution on the common stock.

Redemption at the Option of a Holder. During the period beginning on the date of original issuance of the mShares to be redeemed and ending on the date immediately preceding the first anniversary of such original issuance, the holder will have the right to require the Company to redeem such mShares at a redemption price equal to the Stated Value, less a 2% redemption fee, plus any accrued but unpaid dividends.

During the period beginning one year from the date of original issuance of the mShares to be redeemed and ending on the day immediately preceding the second anniversary of such original issuance, the holder will have the right to require the Company to redeem such mShares at a redemption price equal to the Stated Value, less a 1% redemption fee, plus any accrued but unpaid dividends.

Beginning two years from the date of original issuance of the shares of our mShares to be redeemed, the holder will have the right to require the Company to redeem such mShares at a redemption price equal to 100% of the Stated Value, plus any accrued but unpaid dividends.

If a holder of mShares causes the Company to redeem such mShares, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price per share of our common stock for the 20 trading days prior to the redemption.

Our obligation to redeem any mShares is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Optional Redemption by the Company. We will have the right to redeem any or all mShares beginning on the tenth anniversary of the date of original issuance of the mShares to be redeemed. We will redeem such mShares at a redemption price equal to 100% of the Stated Value per mShare, plus any accrued but unpaid dividends. We have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, based on the volume weighted average price per share of our common stock for the 20 trading days prior to the redemption, in exchange for mShares.

We may exercise our redemption right by delivering a written notice thereof to all, but not less than all, of the holders of mShares. A notice of redemption shall be irrevocable. Each such notice will state the date on which the redemption by us shall occur, which date will be 30 days following the notice date.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our mShares, the holders of mShares will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per mShare, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our mShares will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of our stock or otherwise, is permitted under the Maryland General Corporation Law, or the

MGCL, amounts that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of holders of mShares will not be added to our total liabilities.

Voting Rights. Our mShares have no voting rights.

Exhibit 4.22

Description of Series A1 Redeemable Preferred Stock

The following description of our Series A1 Redeemable Preferred Stock (“Series A1 Redeemable Preferred Stock”) of Preferred Apartment Communities, Inc. (the “Company”) summarizes material terms and provisions that apply to our Series A1 Redeemable Preferred Stock. The summary may not contain all of the information that is important to you and is subject to and qualified in its entirety by reference to our Articles Supplementary for the Series A1 Redeemable Preferred Stock, which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part. References in this Exhibit to “we,” “us” and “our” refer to the Company, unless the context otherwise requires.

Our Board of Directors, including our independent directors, has created out of the authorized and unissued shares of our preferred stock, a series of redeemable preferred stock, designated as the Series A1 Redeemable Preferred Stock. Our shares of Series A1 Redeemable Preferred Stock are not listed on an exchange and we do not intend to apply to have any such shares listed on an exchange in the future.

Rank. Our Series A1 Redeemable Preferred Stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

- senior to our common stock and any other class or series of our capital stock, the terms of which expressly provide that our Series A1 Redeemable Preferred Stock ranks senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- on parity with our mShares, Series A Redeemable Preferred Stock, Series M1 Redeemable Preferred Stock and any other class or series of our capital stock, the terms of which expressly provide that such class or series ranks on parity with our Series A1 Redeemable Preferred Stock as to dividend rights and rights on our liquidation, winding up and dissolution;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the Series A1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

Investors in the Series A1 Redeemable Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series A1 Redeemable Preferred Stock receive a return of their capital.

Stated Value. Each share of Series A1 Redeemable Preferred Stock will have an initial "Stated Value" of \$1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series A Redeemable Preferred Stock, as set forth in the Series A1 Redeemable Preferred Stock Articles Supplementary.

Dividends. Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our Series A1 Redeemable Preferred Stock, if any such class or series is authorized in the future, the holders of Series A Redeemable Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series A1 Redeemable Preferred Stock at an annual rate of six percent (6%) of the Stated Value. Dividends on each share of Series A1 Redeemable Preferred Stock begin accruing on, and are cumulative from, the date of issuance. We expect to pay dividends on the Series A1 Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to authorize and declare dividends on the shares of Series A1 Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Holders of our shares of Series A1 Redeemable Preferred Stock are not entitled to any dividend in excess of full cumulative dividends on our shares of Series A1 Redeemable Preferred Stock. Unless full cumulative dividends on our shares of Series A1 Redeemable Preferred Stock for all past dividend periods have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

- declare and pay or declare and set apart for payment dividends and we will not declare and make any other distribution of cash or other property (other than dividends or distributions paid in shares of stock ranking

junior to the Series A1 Redeemable Preferred Stock as to the dividend rights or rights on our liquidation, winding-up or dissolution, and options, warrants or rights to purchase such shares), directly or indirectly, on or with respect to any shares of our common stock or any class or series of our stock ranking junior to or on parity with the Series A1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution for any period; or

- except by conversion into or exchange for shares of stock ranking junior to the Series A1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution, or options, warrants or rights to purchase such shares, redeem, purchase or otherwise acquire (other than a redemption, purchase or other acquisition of common stock made for purposes of an employee incentive or benefit plan) for any consideration, or pay or make available any monies for a sinking fund for the redemption, purchase or acquisition of, any common stock or any class or series of our stock ranking junior to or on parity with the Series A1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution.

To the extent necessary to preserve our status as a REIT, the foregoing sentence, however, will not prohibit declaring or paying or setting apart for payment any dividend or other distribution on the common stock.

Redemption at the Option of a Holder. During the period beginning on the date of original issuance of the shares of our Series A1 Redeemable Preferred Stock to be redeemed and ending on the date immediately preceding the first anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A1 Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 13% redemption fee, plus an amount equal to any accumulated, accrued and unpaid dividends through and including the Redemption Date.

During the period beginning one year from the date of original issuance of the shares of our Series A1 Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the second anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A1 Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 10% redemption fee, plus an amount equal to any accumulated, accrued and unpaid dividends through and including the Redemption Date.

During the period beginning two years from the date of original issuance of the shares of our Series A1 Redeemable Preferred Stock to be redeemed and ending on the day immediately preceding the third anniversary of such original issuance, the holder will have the right to require the Company to redeem such shares of Series A1 Redeemable Preferred Stock at a redemption price equal to the Stated Value, less a 5% redemption fee, plus an amount equal to any accumulated, accrued and unpaid dividends through and including the Redemption Date.

Beginning three years from the date of original issuance of the shares of our Series A1 Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such shares of Series A1 Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, plus an amount equal to any accumulated, accrued and unpaid dividends through and including the Redemption Date.

If a holder of Series A1 Redeemable Preferred Stock causes the Company to redeem such shares of Series A1 Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, calculated based on the closing price of our common stock for the trading day immediately prior to the Redemption Date, in exchange for the Series A1 Redeemable Preferred Stock through and including the Redemption Date.

Optional Redemption Following Death of a Holder. Subject to restrictions, beginning on the date of original issuance and ending three years thereafter, we will redeem shares of Series A1 Redeemable Preferred Stock held by a natural person upon his or her death at the written request of the holder's estate at a redemption price equal to the Stated Value, plus an amount equal to any accumulated, accrued and unpaid dividends thereon through and including the Redemption Date; provided, however, that our obligation to redeem any of the shares of Series A1 Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption. Upon any such redemption request from a holder's estate, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, calculated based on the closing price of our common stock for the trading day immediately prior to the Redemption Date, in exchange for the Series A1 Redeemable Preferred Stock.

Our obligation to redeem any shares of our Series A1 Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption we are restricted by applicable law from making such redemption.

Optional Call by the Company. We will have the right to call any or all shares of our Series A1 Redeemable Preferred Stock beginning on the second anniversary of the date of original issuance of the shares of Series A1 Redeemable Preferred Stock to be called. We will call such shares of Series A1 Redeemable Preferred Stock at a call price equal to 100% of the Stated Value per share of Series A1 Redeemable Preferred Stock, plus an amount equal to any accumulated, accrued and unpaid dividends through the Call Date. If fewer than all the outstanding shares of Series A1 Redeemable Preferred Stock that are eligible to be called are to be called, we shall select those shares to be called *pro rata* or in any such manner as our Board of Directors may determine. We have the right, in our sole discretion, to pay the call price in cash or in equal value of our common stock, calculated based on the closing price of our common stock for the trading day immediately prior to the Call Date, in exchange for the Series A1 Redeemable Preferred Stock.

We may exercise our call right by delivering a written notice thereof to all, but not less than all, of the holders of Series A1 Redeemable Preferred Stock currently eligible to be called. A call notice shall be irrevocable. Each such notice will state the date on which the call by us shall occur, which date will be 30 days following the notice date.

If full cumulative dividends on all outstanding shares of Series A1 Redeemable Preferred Stock have not been declared and paid or declared and set apart for payment for all past dividend periods, no shares of the Series A1 Redeemable Preferred Stock may be called, unless all outstanding shares of the Series A1 Redeemable Preferred Stock eligible to be called are simultaneously called, and neither us nor any of our affiliates may purchase or otherwise acquire shares of the Series A1 Redeemable Preferred Stock otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of the Series A1 Redeemable Preferred Stock.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series A1 Redeemable Preferred Stock, the holders of shares of Series A1 Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per share, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our shares of Series A1 Redeemable Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, call, redemption or other acquisition of shares of our stock or otherwise, is permitted under the Maryland General Corporation Law, or the MGCL, amounts that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of holders of the Series A1 Redeemable Preferred Stock will not be added to our total liabilities.

Voting Rights. Our Series A1 Redeemable Preferred Stock has no voting rights.

Exhibit 4.23

Description of Series M1 Redeemable Preferred Stock

The following description of our Series M1 Redeemable Preferred Stock ("Series M1 Redeemable Preferred Stock") of Preferred Apartment Communities, Inc. (the "Company") summarizes material terms and provisions that apply to our Series M1 Redeemable Preferred Stock. The summary may not contain all of the information that is important to you and is subject to and qualified in its entirety by reference to our Articles Supplementary for the Series M1 Redeemable Preferred Stock, which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part. References in this Exhibit to "we," "us" and "our" refer to the Company, unless the context otherwise requires.

Our Board of Directors, including our independent directors, has created out of the authorized and unissued shares of our preferred stock, a series of redeemable preferred stock, designated as Series M1 Redeemable Preferred Stock. Our shares of Series M1 Redeemable Preferred Stock are not listed on an exchange and we do not intend to apply to have any such shares listed on an exchange in the future.

Rank. Our Series M1 Redeemable Preferred Stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

- senior to our common stock and any other class or series of our capital stock, the terms of which expressly provide that our Series M1 Redeemable Preferred Stock ranks senior to such class or series as to dividend rights or rights on our liquidation, winding-up and dissolution;
- on parity with our Series A Redeemable Preferred Stock, mShares, Series A1 Redeemable Preferred Stock and any other class or series of our capital stock, the terms of which expressly provide that such class or series ranks on parity with our Series M1 Redeemable Preferred Stock as to dividend rights and rights on our liquidation, winding up and dissolution;
- junior to each class or series of our capital stock, including capital stock issued in the future, the terms of which expressly provide that such class or series ranks senior to the Series M1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding up and dissolution; and
- junior to all our existing and future debt obligations.

Investors in Series M1 Redeemable Preferred Stock should note that holders of common stock will receive additional distributions from the sale of a property (in excess of their capital attributable to the asset sold) before the holders of Series M1 Redeemable Preferred Stock receive a return of their capital.

Stated Value. Each share of Series M1 Redeemable Preferred Stock will have an initial "Stated Value" of \$1,000, subject to appropriate adjustment in relation to certain events, such as recapitalizations, stock dividends, stock splits, stock combinations, reclassifications or similar events affecting our Series M1 Redeemable Preferred Stock, as set forth in the Series M1 Redeemable Preferred Stock Articles Supplementary.

Dividends. Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to our Series M1 Redeemable Preferred Stock, if any such class or series is authorized in the future, the holders of Series M1 Redeemable Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of Series M1 Redeemable Preferred Stock at an annual rate, which we refer to as the Dividend Rate. The Dividend Rate will initially be set at six and one tenth percent (6.10%) of the Stated Value. Beginning one year from the date of original issuance of each share of Series M1 Redeemable Preferred Stock, and on each one year anniversary thereafter for such shares of Series M1 Redeemable Preferred Stock, the articles supplementary for the Series M1 Redeemable Preferred Stock provides that the Dividend Rate shall increase by 0.10% per annum for such shares of Series M1 Redeemable Preferred Stock; *provided, however*, that the Dividend Rate for any share of Series M1 Redeemable Preferred Stock shall not exceed seven and one tenth percent (7.10%) per annum. Dividends on each share of Series M1 Redeemable Preferred Stock will begin accruing on, and are cumulative from, the date of issuance. We expect to pay dividends on the Series M1 Redeemable Preferred Stock monthly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of Maryland law or other factors make it imprudent to do so. We also expect to authorize and declare dividends on the Series M1 Redeemable Preferred Stock on a monthly basis payable on the 20th day of the month following the month for which the dividend was declared (or the next business day if the 20th day is not a business day). The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time.

Holders of our Series M1 Redeemable Preferred Stock are not entitled to any dividend in excess of full cumulative dividends on our Series M1 Redeemable Preferred Stock. Unless full cumulative dividends on our Series M1 Redeemable Preferred Stock for all past dividend periods have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment, we will not:

- declare and pay or declare and set apart for payment dividends and we will not declare and make any other distribution of cash or other property (other than dividends or distributions paid in shares of stock ranking junior to the Series M1 Redeemable Preferred Stock as to the dividend rights or rights on our liquidation, winding-up or dissolution, and options, warrants or rights to purchase such shares), directly or indirectly, on or with respect to any shares of our common stock or any class or series of our stock ranking junior to or on parity with the Series M1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution for any period; or
- except by conversion into or exchange for shares of stock ranking junior to the Series M1 Redeemable Preferred Stock as to dividend rights or rights on our liquidation, winding-up or dissolution, or options, warrants or rights to purchase such shares, redeem, purchase or otherwise acquire (other than a redemption, purchase or other acquisition of common stock made for purposes of an employee incentive or benefit plan) for any consideration, or pay or make available any monies for a sinking fund for the redemption of, any common stock or any class or series of our stock ranking junior to or on parity with the mShares as to dividend rights or rights on our liquidation, winding-up or dissolution.

To the extent necessary to preserve our status as a REIT, the foregoing sentence, however, will not prohibit declaring or paying or setting apart for payment any dividend or other distribution on the common stock.

Redemption at the Option of a Holder. During the period beginning on the date of original issuance of the Series M1 Redeemable Preferred Stock to be redeemed and ending on the date immediately preceding the first anniversary of such original issuance, the holder will have the right to require the Company to redeem such Series M1 Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, plus an amount equal to any accumulated, accrued and unpaid dividends through and including the Redemption Date, but less the amount of the dividends previously paid for the most recent three record dates, if any; *provided however*, to the extent the holder has held the Series M1 Redeemable Preferred Stock for less than three record dates, then the reduction amount will be equal to the amount of the dividends previously paid.

Beginning one year from the date of original issuance of the shares of our Series M1 Redeemable Preferred Stock to be redeemed, the holder will have the right to require the Company to redeem such Series M1 Redeemable Preferred Stock at a redemption price equal to 100% of the Stated Value, plus an amount equal to any accumulated, accrued and unpaid dividends through and including the Redemption Date.

If a holder of Series M1 Redeemable Preferred Stock causes the Company to redeem such Series M1 Redeemable Preferred Stock, we have the right, in our sole discretion, to pay the redemption price in cash or in equal value of our common stock, calculated based on the closing price of our common stock for the trading day immediately prior to the Redemption Date, in exchange for the Series M1 Redeemable Preferred Stock.

Our obligation to redeem any Series M1 Redeemable Preferred Stock is limited to the extent that we do not have sufficient funds available to fund any such redemption or we are restricted by applicable law from making such redemption.

Optional Call by the Company. We will have the right to call any or all Series M1 Redeemable Preferred Stock beginning on the second anniversary of the date of original issuance of the Series M1 Redeemable Preferred Stock to be called. We will call such Series M1 Redeemable Preferred Stock at a call price equal to 100% of the Stated Value per Series M1 Redeemable Preferred Stock, plus any accrued but unpaid dividends through the Call Date. If fewer than all the outstanding shares of Series M1 Redeemable Preferred Stock that are eligible to be called are to be called, we shall select those shares to be called *pro rata* or in any such manner as our Board of Directors may determine. We have the right, in our sole discretion, to pay the call price in cash or in equal value of our common stock, calculated based on the closing price of our common stock for the trading day immediately prior to the Redemption Date, in exchange for the Series M1 Redeemable Preferred Stock.

We may exercise our call right by delivering a written notice thereof to all, but not less than all, of the holders of Series M1 Redeemable Preferred Stock currently eligible to be called. A call notice shall be irrevocable. Each such notice will state the date on which the call by us shall occur, which date will be 30 days following the notice date.

If full cumulative dividends on all outstanding shares of Series M1 Redeemable Preferred Stock have not been declared and paid or declared and set apart for payment for all past dividend periods, no shares of the Series M1 Redeemable

Preferred Stock may be called, unless all outstanding shares of the Series M1 Redeemable Preferred Stock eligible to be called are simultaneously called, and neither us nor any of our affiliates may purchase or otherwise acquire shares of the Series M1 Redeemable Preferred Stock otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of the Series M1 Redeemable Preferred Stock.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our Series M1 Redeemable Preferred Stock, the holders of shares of Series M1 Redeemable Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the Stated Value per Series M1 Redeemable Preferred Stock, plus an amount equal to any accrued and unpaid dividends (whether or not declared) to and including the date of payment.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of our shares of Series M1 Redeemable Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, the consolidation or merger of any other corporation, trust or entity with or into us, the sale or transfer of any or all our assets or business, or a statutory share exchange will not be deemed to constitute a liquidation, dissolution or winding-up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, call redemption or other acquisition of shares of our stock or otherwise, is permitted under the Maryland General Corporation Law, or the MGCL, amounts that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of holders of Series M1 Redeemable Preferred Stock will not be added to our total liabilities.

Voting Rights. Our Series M1 Redeemable Preferred Stock has no voting rights.

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (the "Agreement") is entered into as of the Effective Date, as defined in Paragraph 6 hereof, by and between Preferred Apartment Advisors, LLC (the "Company"), Preferred Apartment Communities, Inc. ("PAC"), and Leonard A. Silverstein ("Consultant"). Together, the Company and Consultant may be referred to hereinafter as the "Parties."

WHEREAS, Consultant has been employed by the Company as its President and Chief Operating Officer and has also been serving as a member of the Board of Directors (the "Board") of PAC and as PAC's President and Chief Operating Officer; and

WHEREAS, the Consultant desires to resign his employment with the Company and from his service on the Board, and the Parties desire to transition Consultant's relationship with the Company from employee to independent contractor; and

WHEREAS, the Company desires to retain Consultant to provide certain consulting services, and Consultant desires to provide such consulting services to the Company, in accordance with the terms and conditions of this Agreement;

NOW THEREFORE, for and in consideration of the premises, the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the Parties hereby agree as follows:

1. Separation of Employment.

a. Resignations. In order to effect Consultant's separation from the Company, Consultant hereby resigns (i) his position as PAC's President and Chief Operating Officer effective as of the date Consultant executes this Agreement, and (ii) his employment with the Company, as well as his position as a member of the Board, and all other positions Consultant holds with the Company, PAC, and any of their affiliates, effective as of May 7, 2020 (the "Separation Date"). Following the date Consultant executes this Agreement, Consultant shall not hold himself out as an officer of PAC, the Company, or any of their affiliates. Notwithstanding anything herein to the contrary, in the event that Consultant signs this Agreement but then revokes it pursuant to Paragraph 6 below, Consultant's resignation of his position as PAC's President and Chief Operating Officer and his position as a member of the Board shall remain effective and shall not be undone by such revocation.

b. Use of Paid Vacation Time. Between the date Consultant executes this Agreement and the Separation Date, Consultant will continue to receive his full salary and will continue to receive employee benefits in place immediately prior to his execution of this Agreement; provided, however, that, during such period, Consultant will use up all of his accumulated paid vacation days and will not accrue any additional paid vacation days.

c. Armada Care. For a period of two (2) years following the Separation Date, Consultant will be permitted to continue to participate in the Company's Armada Care plan to the same extent and on the same terms that the Company keeps such plan (or any similar, comparable, or replacement plan) in place for other executives, at Consultant's sole expense, provided that Consultant timely elects COBRA continuation coverage and otherwise remains eligible to participate in such plan pursuant to its terms; provided further, however, that nothing in this Agreement shall require the Company to maintain the Armada Care plan for any particular period of time or on any particular terms, and nothing in this Agreement shall prohibit the Company from cancelling or modifying terms of such plan in accordance with applicable law, other than to take any action or inaction that could or would cause Consultant (but not other executives) to no longer be eligible for such plan (or any similar, comparable, or replacement plan). Notwithstanding the foregoing, the Company agrees that it shall not terminate, modify or otherwise change the terms of such Armada Care plan prior to January 1, 2021.

d. Company Car. Effective as of the Separation Date, Consultant will forfeit use of the leased car currently being provided to him by the Company unless, prior to such date, (i) Consultant enters into a written agreement with the Company pursuant to which the Company assigns and Consultant assumes the lease, insurance, fuel costs, maintenance costs, and all other costs and obligations associated with leasing, using, and maintaining such vehicle, and (ii) the company from which the Company is currently leasing the car provides written approval of such lease assignment.

e. Press Release. The Company and Consultant will jointly prepare and issue a press release announcing Consultant's retirement from the Company and PAC on a date to be mutually agreed by the parties; provided, however,

that nothing in this Agreement shall limit the Company's ability or PAC's ability to make, without Consultant's input or approval, any filings or announcements required by applicable securities law, stock exchange requirements, or similar requirements.

f. Marketing Materials. Anything in this Agreement to the contrary notwithstanding, to the extent that any Company or PAC marketing materials, press releases, or website content make reference to John Williams as a "Founder" or "Co-Founder," such materials, presentations, or filings will also reference Consultant as a "Co-Founder."

g. PAC Directors' Slate. Consultant will not be placed on the slate of proposed directors of PAC in connection with the election of members of the Board to be conducted during PAC's 2020 annual meeting of stockholders.

h. Acknowledgements. Consultant agrees and acknowledges that he has been paid all outstanding wages through and including the date of Consultant's most recent paycheck, less customary and applicable payroll deductions. Consultant confirms and agrees that he has received all wages, commissions, reimbursements, payments, or other benefits to which Consultant is entitled as a result of his employment with the Company, other than those that have not yet become due or have not yet been submitted for reimbursement or payment pursuant to the Company's normal payroll or payment schedule, which shall be paid or reimbursed in accordance with such normal schedule. Consultant will submit all outstanding business expenses for reimbursement in accordance with the Company's applicable policies and procedures within ten (10) business days after the Effective Date. Other than the payments set forth in this Agreement or not yet due to be paid or not yet submitted for payment or reimbursement, the parties agree that neither the Company nor PAC owe any additional amounts to Consultant for wages, back pay, severance pay, bonuses, accrued vacation, benefits, insurance, sick leave, other leave, or any other reason. This Agreement is intended to and does settle and resolve all claims of any nature that Consultant might have against the Company, PAC, and all of the Releasees (as defined below) arising out of Consultant's employment relationship or the termination of employment.

i. Acknowledgement by PAC and the Company. As of the date Consultant executes this Agreement, neither PAC, the Company, nor any of their respective affiliates have any knowledge of any claim that any of them could assert against Consultant personally.

2. Consideration for Release. In consideration of Consultant's promises and the General Release of Claims and Covenant Not To Sue contained in Paragraph 3 of this Agreement, the Company agrees to do the following (collectively, the "Consideration"):

a. enter into the consulting arrangement as detailed in this Agreement;

b. pay Consultant a gross total amount of Ten Thousand Dollars and Zero cents (\$10,000.00), less customary and applicable payroll deductions, payable in a lump sum within three (3) business days after the Separation Date;

c. provide reasonable assistance to Consultant in vacating his office at the Company, and reimburse Consultant for moving fees actually incurred by Consultant in vacating his office at the Company, up to a maximum of Two-Thousand Five Hundred Dollars and Zero cents (\$2,500.00), subject to Consultant providing sufficient documentation of such expenses, within three (3) business days following Consultant providing to the Company such documentation;

d. allow Consultant to keep his Company-issued computer, keyboard, printer, and other directly related peripheral devices following the Separation Date, provided that all confidential information related to the Company and/or any of the Releasees (as defined below) (excluding contact lists, related data/information, and calendars) must be removed from such devices by an authorized representative of the Company on or prior to the Separation Date and stored on a separate hard drive or other device (to be maintained in accordance with the Company's document retention policies and practices in effect from time to time) so that such information may be retrieved in the future;

e. use reasonable efforts, for three (3) months following the Effective Date, to monitor Consultant's existing PAC e-mail address (lsilverstein@pacapts.com) and forward or otherwise provide access to Consultant to any e-mails received at that e-mail address that are of a completely personal nature for Consultant;

f. allow Consultant to keep all furniture and furnishings currently located in his Company office, whether such property was purchased by the Company or by Consultant, including the file safe and file cabinets located at the Company and historically used by Consultant (but Consultant shall not be permitted to keep the originals or any copies

of any non-public documents located in such file safe or file cabinets, or otherwise located in his office and that relate to the Company or any of the Releasees (as defined below)), and Consultant shall have twenty (20) business days following the Effective Date to remove such furniture and furnishings from the Company's office and shall do so only at a time that has been pre-arranged with the Company on a weekend or after normal business hours and when the Company can monitor such removal; and

g. reimburse Consultant for legal fees actually incurred in negotiating this Agreement, up to a maximum of Five-Thousand Dollars and Zero cents (\$5,000.00), subject to Consultant providing sufficient documentation of such fees.

The Company's agreement to provide the Consideration is specifically contingent upon Consultant (x) executing this Agreement and not revoking this Agreement, as set forth in Paragraph 6 below; and (y) complying with his obligations under this Agreement and any other continuing contractual or fiduciary obligations he owes to the Company and/or any of the Releasees (as defined below).

3. General Release of Claims and Covenant Not To Sue.

a. General Release of Claims. In consideration of the payments made to Consultant by the Company and the promises contained in this Agreement, Consultant on behalf of himself and his agents and successors in interest, hereby UNCONDITIONALLY RELEASES AND DISCHARGES the Company, PAC, and each of their successors, subsidiaries, parent companies, assigns, joint ventures, and affiliated companies, and each such entity's respective agents, legal representatives, shareholders, attorneys, employees, members, managers, officers and directors (collectively, the "Releasees") from ALL CLAIMS, LIABILITIES, DEMANDS AND CAUSES OF ACTION which he may by law release, as well as all contractual obligations not expressly set forth in this Agreement, whether known or unknown, fixed or contingent, that he may have or claim to have against any Releasee for any reason as of the date of execution of this Agreement. This General Release and Covenant Not To Sue includes, but is not limited to, claims arising under federal, state or local laws prohibiting employment discrimination; claims arising under severance plans and contracts; and claims growing out of any legal restrictions on the Company's rights to terminate its employees or to take any other employment action, whether statutory, contractual or arising under common law or case law. Consultant specifically acknowledges and agrees that he is releasing any and all rights under federal, state and local employment laws including without limitation the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 1981, the Americans With Disabilities Act, the Family and Medical Leave Act, the Genetic Information Nondiscrimination Act, the anti-retaliation provisions of the Fair Labor Standards Act, the Consultant Retirement Income Security Act, the Equal Pay Act, the Occupational Safety and Health Act, the Worker Adjustment and Retraining Notification Act, the Consultant Polygraph Protection Act, the Fair Credit Reporting Act, and any and all other local, state, and federal law claims arising under statute or common law. It is agreed that this is a general release and it is to be broadly construed as a release of all claims, except as set forth in Paragraph 3(d) below.

b. Covenant Not to Sue. Except as expressly set forth in Paragraph 4 below, Consultant further hereby AGREES NOT TO FILE A LAWSUIT or other legal claim or charge to assert against any of the Releasees any claim released by this Agreement.

c. Representations and Acknowledgements. This Agreement is intended to and does settle and resolve all claims of any nature that Consultant might have against the Company and the Releasees arising out of Consultant's employment relationship or the termination of employment or relating to any other matter, except as set forth in Paragraph 3(d) below. By signing this Agreement, Consultant acknowledges that he is doing so knowingly and voluntarily, that he understands that he may be releasing claims he may not know about, and that he is waiving all rights he may have had under any law that is intended to protect him from waiving unknown claims. This Agreement shall not in any way be construed as an admission by the Company or any of the Releasees of wrongdoing or liability or that Consultant has any rights against the Company or any of the Releasees. Consultant represents and agrees that he has not transferred or assigned, to any person or entity, any claim that he is releasing in this Paragraph 3.

d. Exceptions to General Release. Nothing in this Agreement is intended as, or shall be deemed or operate as, a release by Consultant of (i) any rights of Consultant under this Agreement; (ii) any vested benefits under any Company-sponsored benefit plans; (iii) any rights under COBRA or similar state law; (iv) any recovery to which Consultant may be entitled pursuant to workers' compensation and unemployment insurance laws; (v) Consultant's right to challenge the validity of his release of claims under the ADEA; (vi) any rights or claims under federal, state, or local law that cannot, as a matter of law, be waived by private agreement; and (vii) any claims arising after the date on which Consultant executes this Agreement.

4. Protected Rights. Consultant understands that nothing contained in this Agreement limits his ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission (“Government Agencies”) or any self-regulatory organization. Consultant further understands that this Agreement does not limit Consultant’s ability to communicate or share information with any Government Agencies or self-regulatory organizations or otherwise participate in any investigation or proceeding that may be conducted by any Government Agencies or self-regulatory organizations. However, based on Consultant’s release of claims set forth in Paragraph 3 of this Agreement, Consultant understands that Consultant is releasing all claims and causes of action that Consultant might personally pursue or that might be pursued in Consultant’s name and, to the extent permitted by applicable law, Consultant’s right to recover monetary damages or obtain injunctive relief that is personal to Consultant in connection with such claims and causes of action.
5. Acknowledgment. **Consultant shall have until the twenty-first (21st) day after he receives this Agreement to execute this Agreement. If he does not execute the Agreement by that date, the offer contained in this Agreement shall be revoked by the Company. The Company hereby advises Consultant to consult with an attorney prior to executing this Agreement and Consultant acknowledges and agrees that the Company has advised, and hereby does advise, him of his opportunity to consult an attorney or other advisor and has not in any way discouraged him from doing so. Consultant expressly acknowledges and agrees that he has been offered at least twenty-one (21) days to consider this Agreement before signing it, that he has read this Agreement and Release carefully, that he has had sufficient time and opportunity to consult with an attorney or other advisor of his choosing concerning the execution of this Agreement. Consultant acknowledges and agrees that he fully understands that the Agreement is final and binding, that it contains a full release of all claims and potential claims, and that the only promises or representations he has relied upon in signing this Agreement are those specifically contained in the Agreement itself. Consultant acknowledges and agrees that he is signing this Agreement voluntarily, with the full intent of releasing the Company and the Releasees from all claims covered by Paragraph 3.**
6. Revocation and Effective Date. The Parties agree Consultant may revoke the Agreement at will within seven (7) days after he executes the Agreement by giving written notice of revocation to Company. Such notice must be delivered to Jeff Sprain, PAC’s General Counsel, and must actually be received by such person at or before the above-referenced seven-day deadline. The Agreement may not be revoked after the expiration of the seven-day deadline. In the event that Consultant revokes the Agreement within the revocation period described in this Paragraph, this Agreement shall not be effective or enforceable, and all rights and obligations hereunder shall be void and of no effect, except as set forth in Paragraph 1(a) above. Assuming that Consultant does not revoke this Agreement within the revocation period described above, the effective date of this Agreement (the “Effective Date”) shall be the eighth (8th) day after the day on which Consultant executes this Agreement.
7. Survival of Confidential Information and Restrictive Covenant Agreement. The Confidential Information and Restrictive Covenant Agreement dated as of February 12, 2015 between Consultant and Preferred Apartment Advisors, LLC (the “Covenant Agreement”) shall remain in full force and effect in accordance with its terms and nothing in this Agreement shall alter the terms of the Covenant Agreement.
8. Return of Property. Consultant agrees that within twenty (20) business days after the Effective Date, he will return to the Company all non-public documents, materials, equipment, keys, access cards, recordings, confidential client-related information, sales information, workforce information, production information, computer data, and other confidential materials and information relating to Company or any of the other Releasees, or the business of the Company or any of the other Releasees (“Company Property”), and that he will not retain or provide to anyone else any copies, excerpts, transcripts, descriptions, portions, abstracts, or other representations of Company Property. To the extent that Consultant has any Company Property in electronic form (including, but not limited to, Company-related e-mail), Consultant agrees that, after returning such electronic Company Property as described in this Paragraph, he will permanently delete such Company Property from all non-Company-owned computers, mobile devices, electronic media, cloud storage, or other media devices, or equipment. Consultant further represents and warrants that he has not, to his knowledge, provided and will not provide any Company Property to any third party (other than to PAC’s or the Company’s or its affiliates’ attorneys, accountants, authorized agents, consultants, due diligence providers, broker dealers, registered investment advisors, and others in connection with the sale or proposed sale of PAC’s securities and the activities leading up to that certain Stock Purchase Agreement dated as of January 31, 2020 by and among PAC, Preferred Apartment Communities Operating Partnership, L.P., PAC Carveout, LLC, NELL Partners, Inc., NMA Holdings, Inc. et al.), including any documents, equipment, or other tangible property, but with the exception of non-confidential materials related Company. Notwithstanding the foregoing, the Company shall, with respect to such Company Property or returned (electronic or

otherwise), retain or otherwise store or archive such Company Property so that such Company Property may be retrieved in the future, subject to the Company's document retention policies and practices in effect from time to time.

9. Engagement as an Independent Contractor; Consulting Services. The Company hereby engages Consultant as an independent contractor effective as of the Separation Date, and Consultant hereby accepts such engagement as an independent contractor, upon the terms and conditions set forth in this Agreement. Consultant shall manage, perform, and provide professional consulting services and advice (the "Consulting Services") as the Company's Chief Executive Officer (or his or her designee) may request from time to time, but in no event shall such Consulting Services exceed five (5) hours for any week during the Consulting Period (as defined below). During Consultant's engagement with the Company, and so long as not in violation of applicable law, Consultant shall: (a) perform the Consulting Services in a professional, ethical, and competent manner; (b) promote the best interest of the Company and PAC and take no actions that Consultant in good faith believes will in any way damage the public image or reputation of the Company, PAC, or their affiliates; and (c) abide by the Company's and PAC's then-current policies or guidelines while at the Company's facilities or performing the Consulting Services.
10. Independent Contractor Relationship. The parties acknowledge and intend that the relationship of Consultant to the Company under this Agreement shall be that of an independent contractor. In performing the Consulting Services under this Agreement, Consultant shall undertake the Consulting Services according to Consultant's own means and methods of work, which shall be in the exclusive charge and control of Consultant, and which shall not be subject to the control or supervision of the Company, except as to the objectives of those Consulting Services. Consultant shall determine Consultant's own working hours and schedule and shall not be subject to the Company's personnel policies and procedures as to hours and schedule. Consultant shall be entirely and solely responsible for Consultant's actions or inactions and the actions or inactions of any agents, employees or subcontractors, if any, while performing Consulting Services hereunder. Consultant shall not, in any form or fashion, maintain, hold out, represent, state or imply to any other individual or entity that an employer/employee relationship exists between the Company and Consultant, Consultant's agents or employees. Consultant is not granted, nor shall Consultant represent that Consultant is or has been granted, any right or authority to make any representation or warranty or assume or create any obligation or responsibility, express or implied, for, on behalf or in the name of the Company, to incur debts for the Company, or to bind the Company in any manner whatsoever.
11. Term of the Agreement and Engagement; Termination. The term of Consultant's engagement with the Company under this Agreement shall begin on the Separation Date and continue until the third (3rd) anniversary of such date (the "Consulting Period"). Following the third (3rd) anniversary of the Separation Date, either party may terminate this Agreement and Consultant's engagement hereunder by providing 30 days' advance written notice to the other party. In addition, the Company may terminate Consultant's engagement hereunder immediately at any time (whether before or after the third anniversary of the Separation Date) with Cause. For purposes of this Agreement, "Cause" means the occurrence of any of the following: (a) Consultant's final, non-appealable conviction of, or entry of a plea of guilty or *nolo contendere* or no contest with respect to: (i) any felony, or any misdemeanor involving dishonesty or moral turpitude (including pleading guilty or *nolo contendere* to a felony or lesser charge which results from plea bargaining), whether or not such felony, crime or lesser offense is connected with the business of the Company, or (ii) any crime connected with the business of the Company; (b) Consultant's engaging in any illegal conduct, gross negligence, or gross misconduct in connection with the performance of the Consulting Services; (c) Consultant's commission of or engagement in any act of fraud or material misappropriation, dishonesty or embezzlement; or (d) Consultant's breach of any material duty owed to the Company, or material breach of this Agreement. Consultant's engagement hereunder shall terminate automatically upon Consultant's death during the term of this Agreement, in which case, the Company shall pay any earned but unpaid Consulting Fee (as defined below) to Consultant's estate and reimburse any outstanding expenses incurred in accordance with this Agreement and shall have no further obligations under this Agreement. Upon proper termination of this Agreement, Consultant shall be entitled to payment of any earned but unpaid compensation for the Consulting Services as of the termination date, and any unpaid portion of the benefits set forth in Paragraph 2, payable in accordance with and subject to the terms of Paragraph 2. Consultant shall not be entitled to any additional or future compensation or any benefits whatsoever. Consultant acknowledges and agrees that, as an independent contractor, he is not entitled to receive unemployment insurance benefits. Upon the termination of Consultant's engagement hereunder for any reason, he agrees not to file or pursue a claim for unemployment insurance benefits. Notwithstanding the foregoing, in no event shall "Cause" mean, include or relate to, directly or indirectly, any matter, claim, event, allegation or otherwise arising out of or relating to any of those matters set forth on Schedule 1 hereto.
12. Compensation and Expenses.

a. Compensation. During the Consulting Period, the Company will pay Consultant a consulting fee (the “Consulting Fee”) of \$20,833.34 per calendar month, prorated for any calendar month(s) in which Consultant only provides Consulting Services hereunder for part of the month. Payment shall be made by the Company to Consultant via ACH or direct deposit within five (5) business days after the end of each calendar month.

b. Expenses. In addition to payment of the Consulting Fee, the Company shall reimburse Consultant for all reasonable expenses that are incurred by Consultant in connection with the Consulting Services and approved in writing by the Company’s Chief Financial Officer or Chief Executive Officer, which approval shall not be unreasonably withheld, including expenses for non-local travel, meals and lodging, rental cars, long distance calls, telecopy charges, and copying costs, after Consultant’s presentation of an invoice containing a complete account of such expenditures and all reasonable documentation as may be required by the Company in connection therewith. All invoices for expenses properly submitted by Consultant hereunder shall be paid by the Company within thirty (30) days after receipt thereof. All invoices shall be delivered to the Company’s Chief Financial Officer or Chief Executive Officer for approval.

c. Taxes and Employee Benefits. During the Consulting Period, Consultant shall be serving as an independent contractor of the Company, and therefore unless required by law, the Company shall not deduct any federal, state or local taxes or other withholdings from any sums paid Consultant hereunder, and Consultant hereby agrees to indemnify and hold harmless the Company and each of its affiliates from any liability for any and all federal, state and local taxes or assessments of any kind arising out of any payment made by the Company to Consultant hereunder. Consultant shall be responsible for all tax reporting, tax payments, withholdings, insurance and other payments, expenses and filings required to be made or paid by Consultant or Consultant’s agents or employees. Further, neither Consultant nor any of Consultant’s agents or employees on account of having rendered Consulting Services hereunder shall be entitled to any benefits provided by the Company to any of its employees, including, without limitation, any retirement plan, insurance program, disability plan, medical benefits plan or any other fringe benefit program sponsored and maintained by the Company for its employees.

13. Protection of Confidential Information; Use of Company Materials. Consultant agrees that the terms of Section 2 of the Covenant Agreement are incorporated herein by reference, and that he will abide by the terms of Section 2 of the Covenant Agreement with respect to any Confidential Information (as defined in the Covenant Agreement) he learns in connection with providing the Consulting Services under this Agreement. With respect to any such information, Consultant agrees that his obligations under Section 2(a)(i) of the Covenant Agreement shall be in effect during the Consulting Period and for two (2) years thereafter. Consultant acknowledges and agrees that any and all materials provided by the Company to Consultant that are to be used in connection with Consultant’s provision of the Consulting Services under this Agreement are the property of the Company and may not be used outside of the scope, terms, and conditions of this Agreement or in providing services to or on behalf of any person or entity other than the Company. Consultant agrees that he will immediately return all such materials to the Company on or prior to the end of the Consulting Period, or at any other time the Company requests such return.
14. Non-Disparagement. Within one (1) business day after Consultant executes this Agreement, the Company will instruct the Named Executive Officers (as defined by applicable securities laws) and Directors of PAC not to make any public statement, whether written or oral, that is derogatory or disparaging of Consultant or of his management or services in any capacity, commencing on the date Consultant executes this Agreement and for a period ending twenty-four (24) months after the Separation Date. The foregoing obligation shall not be deemed to prohibit the Company, PAC, or any individual from testifying truthfully as required by law, nor shall this obligation be deemed to prohibit the Company, PAC, or any individual from communicating with any Government Agency or self-regulatory organization.
15. Final Agreement. Subject to Paragraph 7, this Agreement contains the entire agreement between the Company and Consultant with respect to the subject matter hereof. The Parties agree that this Agreement may not be modified except by a written document signed by both Parties. The Parties agree that this Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.
16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the state of Georgia without giving effect to its conflict of law principles.
17. Severability. With the exception of the release contained in Paragraph 3, the provisions of this Agreement are severable and if any part of it is found to be unenforceable the other paragraphs shall remain fully and validly enforceable. If the general release and covenant not to sue set forth in Paragraph 3 of this Agreement is found to be unenforceable, this Agreement shall be null and void and Consultant will be required to return to the Company all Consideration already

paid to Consultant. The language of all valid parts of this Agreement shall in all cases be construed as a whole, according to fair meaning, and not strictly for or against any of the parties.

18. Waiver. The failure of either party to enforce any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision. Any waiver of any provision of this Agreement must be in a writing signed by the party making such waiver. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.
19. No Reemployment. Consultant agrees that by signing this Agreement, he relinquishes any right to employment or reemployment with the Company or any of the Releasees. Consultant agrees that he will not seek, apply for, accept, or otherwise pursue employment with the Company or any of the Releasees, and acknowledges that if he reapplies for or seeks employment with the Company or any of the Releasees, the Company's or any of the Releasees' refusal to hire Consultant based on this Paragraph 18 shall provide a complete defense to any claims arising from Consultant's attempt to obtain employment.
20. Internal Revenue Code Section 409A. This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements Section 409A of the Internal Revenue Code of 1986, as amended and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder. If Consultant is entitled to be paid or reimbursed for any taxable expenses under this Agreement, and such payments or reimbursements are includible in Consultant's federal gross taxable income, the amount of such expenses reimbursable in any one calendar year shall not affect the amount reimbursable in any other calendar year, and the reimbursement of an eligible expense must be made no later than December 31 of the year after the year in which the expense was incurred. No right of Consultant to reimbursement of expenses under this Agreement shall be subject to liquidation or exchange for another benefit. Notwithstanding anything in this Agreement to the contrary, the expenses subject to reimbursement pursuant to Section 2(c) and (f) hereof shall be incurred by Consultant and reimbursed by the Company in calendar year 2020.
21. Attorneys' Fees. If the Parties become involved in legal action regarding the enforcement of this Agreement, the prevailing Party in such action will be entitled, in addition to any other remedy, to recover from the non-prevailing Party its or his reasonable costs and attorneys' fees incurred in such action.
22. Continuation of Directors and Officers Liability Insurance. The Company shall maintain in full force and effect the Company's directors' and officers' liability insurance coverage in effect immediately prior to the date of execution of this Agreement, which covers Consultant to the same extent as all other current and former executive officers and directors of the Company and any Releasees. In the event the Company chooses to renew, modify or replace the directors' and officers' liability insurance coverage (including, without limitation, acquiring tail insurance coverage) currently in effect, then the Company represents, warrants and covenants that such renewed, modified or replaced policy shall continue to cover Consultant as a former director and officer of the Company and its affiliates to the same extent as such policy shall cover then existing and former directors and officers of the Company and its affiliates. The Company shall be solely responsible for any premiums for such coverage.

The Parties hereby signify their agreement to these terms by their signatures below.

Preferred Apartment Advisors, LLC

By: /s/ Joel T. Murphy
Joel T. Murphy, Chief Executive Officer

Date: March 3, 2020

Leonard A. Silverstein

/s/ Leonard A. Silverstein

Date: March 3, 2020

Preferred Apartment Communities, Inc.

By: /s/ Joel T. Murphy
Joel T. Murphy, Chief Executive Officer

Date: March 3, 2020



[This page intentionally left blank.]

Subsidiaries of Preferred Apartment Communities, Inc.

Name	Jurisdiction of Formation
360 Forsyth Lending, LLC	Delaware
360 Ft. Myers Lending, LLC	Delaware
360 Ft Myers Capital Lending, LLC	Delaware
525 Avalon Park, LLC	Delaware
Altman Pasco Capital Lending, LLC	Delaware
Altman Pasco Lending, LLC	Delaware
Barclay Crossing, LLC	Delaware
Berryessa Lending, LLC	Delaware
Bristol Birmingham Lending, LLC	Delaware
CDP Duval Lending, LLC	Delaware
Claiborne Crossing, LLC	Delaware
Deltona Landing, LLC	Delaware
Haven Campus Communities Kennesaw Member, LLC	Georgia
Haven Campus Communities Kennesaw, LLC	Delaware
Haven Campus Communities - Charlotte, LLC	Georgia
Haven Charlotte Lending, LLC	Delaware
Main Street Apartment Homes, LLC	Maryland
Main Street Baldwin, LLC	Delaware
Main Street Stone Creek, LLC	Delaware
Manassas Mezzanine Lending, LLC	Georgia
Mulberry Alexandria Lending, LLC	Delaware
Mulberry Alexandria Capital Lending, LLC	Delaware
New Market - Anderson, LLC	Delaware
New Market - Berry, LLC	Delaware
New Market Brawley GP, LLC	Delaware
New Market - Brawley, L.P.	Delaware
New Market - Castleberry, LLC	Delaware
New Market - Champions, LLC	Delaware
New Market - Cherokee, LLC	Delaware
New Market - Conway, LLC	Delaware
New Market - Crossroads, LLC	Delaware
New Market - Cumming, LLC	Delaware
New Market - Disston, LLC	Delaware
New Market - East Gate, LLC	Delaware
New Market - Fairfield, LLC	Delaware
New Market - Fairview, LLC	Delaware
New Market - Free State, LLC	Delaware
New Market - Furys Ferry, LLC	Delaware
New Market - Gallatin, LLC	Delaware
New Market - Gayton, LLC	Delaware

New Market - Governors, LLC	Delaware
New Market Hanover GP, LLC	Delaware
New Market - Hanover, L.P.	Delaware
New Market Heritage GP, LLC	Delaware
New Market - Heritage, L.P.	Delaware
New Market - Hollymead, LLC	Delaware
New Market - Irmo, LLC	Delaware
New Market Maynard GP, LLC	Delaware
New Market - Maynard, L.P.	Delaware
New Market - Midway, LLC	Delaware
New Market - Neapolitan, LLC	Delaware
New Market - Oak Park, LLC	Delaware
New Market - Overlook, LLC	Delaware
New Market - Parkland, LLC	Delaware
New Market - Parkland Outparcel, LLC	Delaware
New Market - Plano, LLC	Delaware
New Market - Polo Grounds, LLC	Delaware
New Market Properties, LLC	Maryland
New Market - Rockbridge, LLC	Delaware
New Market - Rosewood, LLC	Delaware
New Market - Royal Lakes, LLC	Delaware
New Market -RW, LLC	Delaware
New Market - Sandy Plains, LLC	Delaware
New Market - Southgate, LLC	Delaware
New Market - Summit Point, LLC	Delaware
New Market - Thompson Bridge, LLC	Delaware
New Market - University Palms, LLC	Delaware
New Market - Victory Village, LLC	Delaware
New Market - Wade Green, LLC	Delaware
New Market Wakefield GP, LLC	Delaware
New Market - Wakefield, L.P.	Delaware
New Market - West Town, LLC	Delaware
New Market - Woodmont, LLC	Delaware
Newport Morosgo Lending, LLC	Delaware
Newport Morosgo Capital Lending, LLC	Delaware
NMP Kingwood Glen, LLC	Delaware
Oxford Brentwood Lending, LLC	Delaware
Oxford Brentwood Capital Lending, LLC	Delaware
Oxford City Vista Development, LLC	Georgia
Oxford City Vista Apartments, LLC	Delaware
Oxford Gateway Lending, LLC	Delaware
Oxford Gateway Capital Lending, LLC	Delaware
Oxford Kingson Lending, LLC	Delaware
Oxford Kingson Capital Lending, LLC	Delaware
PAC 5 Oaks, LLC	Delaware
PAC Adara, LLC	Delaware

PAC Aldridge at Town Village, LLC	Delaware
PAC Artisan at Viera, LLC	Delaware
PAC Brookwood Center, LLC	Delaware
PAC Carveout, LLC	Delaware
PAC Chestnut Farm Lending, LLC	Delaware
PAC Citilakes, LLC	Delaware
PAC Citrus Village, LLC	Delaware
PAC Citypark View, LLC	Delaware
PAC City Park View II, LP	Delaware
PAC City Vista Apartments, LLC	Delaware
PAC Creekside, LLC	Delaware
PAC Crosstown Walk, LLC	Delaware
PAC Cypress, LLC	Delaware
PAC Dawson Lending, LLC	Delaware
PAC Finance, LLC	Maryland
PAC Founders Village, LLC	Delaware
PAC Galleria 75, LLC	Delaware
PAC Galleria 75 II, LLC	Delaware
PAC Green Park, LLC	Delaware
PAC Hidden River, LLC	Delaware
PAC Hidden River Lending II, LLC	Delaware
PAC Hidden River Capital Lending II, LLC	Delaware
PAC Lending, LLC	Delaware
PAC Lenox, LLC	Delaware
PAC Lenox Regent, LLC	Delaware
PAC Lenox Retreat, LLC	Delaware
PAC Lenox Village, LLC	Delaware
PAC Luxe, LLC	Delaware
PAC MBS, LLC	Delaware
PAC Midlothian, LLC	Delaware
PAC Naples, LLC	Delaware
PAC NC GP, LLC	Delaware
PAC Newport Kennesaw Lending, LLC	Delaware
PAC Overlook at Crosstown Walk, LLC	Delaware
PAC Overton Rise, LLC	Delaware
PAC Northpointe, LLC	Delaware
PAC Palisades, LLC	Delaware
PAC POGF Investor, LLC	Delaware
PAC Reserve at Summit Crossing, LLC	Delaware
PAC Retreat at Greystone, LLC	Delaware
PAC Sarasota, LLC	Delaware
PAC Sorrel, LLC	Delaware
PAC Sorrel II, LLC	Delaware
PAC Summit Crossing, LLC	Georgia
PAC Summit Crossing II, LLC	Delaware
PAC Vestavia, LLC	Delaware

PAC Vineyards, LLC	Delaware
PAC Vintage Destin Lending, LLC	Delaware
PAC Vintage Horizon Lending, LLC	Delaware
PACOP Special Member, Inc.	Delaware
Parkway Centre, LLC	Delaware
Parkway Town Centre, LLC	Delaware
PCC College Station, LLC	Delaware
PCC Lubbock, LLC	Delaware
PCC Orlando, LLC	Delaware
PCC Stadium Village, LLC	Delaware
PCC Tallahassee, LLC	Delaware
PCC Tempe, LLC	Delaware
PCC Waco, LLC	Delaware
POP 150 Fayetteville, LP	Delaware
POP 150 GP, LLC	Delaware
POP 251 Armour Yards, LLC	Delaware
POP 3 Ravinia, LLC	Delaware
POP 4208 Six Forks Road, L.P.	Delaware
POP 8 West Mezzanine Lending, LLC	Delaware
POP Armour Yards, LLC	Delaware
POP CapTrust GP, LLC	Delaware
POP Capitol Towers, LP	Delaware
POP Carveout, LLC	Delaware
POP Morrocroft GP, LLC	Delaware
POP Morrocroft, L.P.	Delaware
POP NC GP, LLC	Delaware
POP Westridge, LLC	Delaware
Powder Springs-Maclang Retail, LLC	Delaware
Preferred Apartment Advisors, LLC	Delaware
Preferred Apartment Communities Operating Partnership, L.P.	Delaware
Preferred Campus Communities, LLC	Maryland
Preferred Office Fund Manager, LLC	Delaware
Preferred Office Properties, LLC	Maryland
Salem Cove, LLC	Delaware
SE Grocery LLC	Delaware
Spring Hill Plaza, LLC	Delaware
Starkville Mezzanine Lending, LLC	Georgia
Stone Rise Apartments, LLC	Delaware
Sunbelt Retail, LLC	Delaware
Sweetgrass Corner, LLC	Delaware
TP Kennesaw Lending, LLC	Delaware
TP Kennesaw II Lending, LLC	Delaware
TP Kennesaw Capital Lending, LLC	Delaware
Woodstock Crossing Center, LLC	Georgia

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-230457, No. 333-233576) and Form S-8 (No. 333-181165, No. 333-191418, No. 333-210281, No. 333-231394) of Preferred Apartment Communities, Inc. of our report dated March 3, 2020 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Atlanta, GA
March 3, 2020

CERTIFICATIONS

I, Joel T. Murphy, certify that:

1. I have reviewed this annual report on Form 10-K of Preferred Apartment Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2020

/s/ Joel T. Murphy

Joel T. Murphy

Chief Executive Officer

CERTIFICATIONS

I, John A. Isakson, certify that:

1. I have reviewed this annual report on Form 10-K of Preferred Apartment Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2020

/s/ John A. Isakson

John A. Isakson
Chief Financial Officer

Furnished (but not filed) as an exhibit to the periodic report identified in the Certification.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Preferred Apartment Communities, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Joel T. Murphy, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 3, 2020

/s/ Joel T. Murphy

Joel T. Murphy

Chief Executive Officer

Furnished (but not filed) as an exhibit to the periodic report identified in the Certification.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Preferred Apartment Communities, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, John A. Isakson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 3, 2020

/s/ John A. Isakson

John A. Isakson
Chief Financial Officer



[This page intentionally left blank.]

PREFERRED APARTMENT COMMUNITIES, INC.

3284 NORTHSIDE PARKWAY NW, SUITE 150, ATLANTA, GA 30327

BOARD OF DIRECTORS

DANIEL M. DUPREE
Executive Chairman

HOWARD A. MCLURE
Lead Independent Director

STEVE BARTKOWSKI
Independent Director

GARY B. COURSEY
Founder, Gary B. Coursey &
Associates Architects

SARA J. FINLEY
Principal, Threshold
Corporate Consulting, LLC

WILLIAM J. GRESHAM, JR.
Consultant, Gresham
Real Estate Advisors, Inc.

JOEL T. MURPHY
President and Chief Executive Officer

TIMOTHY A. PETERSON
COO & CIO,
Altman Development Corporation

LEONARD A. SILVERSTEIN
Vice Chairman

JOHN M. WIENS
Independent Director

EXECUTIVE MANAGEMENT & LEADERSHIP TEAM

JOEL T. MURPHY
President and Chief Executive Officer

JOHN ISAKSON
Chief Financial Officer

MICHAEL J. CRONIN
EVP, Chief Accounting Officer
and Treasurer

JEFFREY R. SPRAIN
EVP, General Counsel & Secretary

PAUL CULLEN
EVP, Investor Relations

JEFFREY D. SHERMAN
President – Multifamily

KIMBERLY HODGE
EVP, Chief Property Management
Officer – Multifamily

RANDY FORTH
EVP, Chief Asset Management
Officer – Multifamily

MICHAEL AIDE
President – Retail

STEPHANIE HART
EVP, Chief Operating Officer – Retail

BOONE DUPREE
President – Office

CARL Y. DICKSON
EVP, Asset Management – Office

JASON FROST
EVP, Development – Office

LEGAL COUNSEL

JEFFREY R. SPRAIN
EVP, General Counsel & Secretary –
Preferred Apartment Communities

JARED A. SEFF
Assistant General Counsel –
Preferred Apartment Communities

PROSKAUER ROSE LLP
New York, NY

AUDITOR

**PRICEWATERHOUSE
COOPERS LLP**
Atlanta, GA

TAX ADVISORS

ERNST & YOUNG LLP
Atlanta, GA

TRANSFER AGENT

**COMPUTERSHARE TRUST
COMPANY, N.A.**
Canton, MA

INVESTOR RELATIONS

InvestorRelations@pacapts.com



Scan to access
APTS website

SAFE HARBOR NOTICE

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this Annual Report, including in the section entitled "Forward-Looking Statements" included elsewhere in this Annual Report. You should also review the section of this Annual Report entitled "Risk Factors" for a discussion of various risks that could adversely affect us.

On September 27, 2019, the Securities and Exchange Commission (the "SEC") declared effective our registration statement on Form S-3 (Registration No. 333-233576, the "Series A1/M1 Registration Statement") for our offering of up to 1,000,000 shares of Series A1 Redeemable Preferred Stock, Series M1 Redeemable Preferred Stock or a combination of both (the "Series A1/M1 Offering"), which is offered by the dealer manager on a "reasonable best efforts" basis. This Annual Report shall not constitute an offer to sell or the solicitation of an offer to buy the securities offered by the Company pursuant to the Series A1/M1 Registration Statement, nor shall there be any offer or sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The offering will be made only by means of a prospectus which is part of the Series A1/M1 Registration Statement.

Created by PAC Marketing Department.



PAC RECYCLES



Member of
Nareit



Russell Indexes

3284 Northside Parkway NW
Suite 150,
Atlanta, GA 30327

pacapts.com