INDEPENDENCE REALTY TRUST, INC
Form 10-Q
August 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-36041

INDEPENDENCE REALTY TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland **(State or Other Jurisdiction of** **Incorporation or Organization)**	**26-4567130** **(I.R.S. Employer** **Identification No.)**
Cira Centre **2929 Arch St., 17th Floor** **Philadelphia, PA** **(Address of Principal Executive Offices)**	**19104** **(Zip Code)**

(215) 243-9000

(Registrant s Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of August 7, 2015 there were 31,959,684 shares of the registrant s common stock issued and outstanding.

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INDEPENDENCE REALTY TRUST, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited and dollars in thousands, except share and per share data)

	As of June 30, 2015	As of December 31, 2014
ASSETS:		
Investments in real estate:		
Investments in real estate, at cost	$ 716,581	$ 689,112
Accumulated depreciation	(31,188)	(23,376)
Investments in real estate, net	685,393	665,736
Cash and cash equivalents	21,568	14,763
Restricted cash	6,335	5,206
Accounts receivable and other assets	6,689	2,270
Intangible assets, net of accumulated amortization of $7,633 and $4,346, respectively	182	3,251
Deferred costs, net of accumulated amortization of $815 and $505, respectively	2,992	2,924
Total Assets	$ 723,159	$ 694,150
LIABILITIES AND EQUITY:		
Indebtedness	$ 457,202	$ 418,901
Accounts payable and accrued expenses	10,922	8,353
Accrued interest payable	30	49
Dividends payable	1,982	1,982
Other liabilities	1,893	1,831
Total Liabilities	472,029	431,116
Equity:		
Stockholders equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized, 0 and 0 shares issued and outstanding, respectively		
Common stock, $0.01 par value; 300,000,000 shares authorized, 31,933,218 and 31,800,076 shares issued and outstanding, including 124,000 and 36,000 unvested restricted common share awards, respectively	318	318
Additional paid-in capital	267,566	267,683
Retained earnings (accumulated deficit)	(28,065)	(16,728)
Total stockholders equity	239,819	251,273

Noncontrolling interests	11,311		11,761
Total Equity	251,130		263,034
Total Liabilities and Equity	$ 723,159	$	694,150

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited and dollars in thousands, except share and per share data)

	For the Three-Month Periods Ended June 30		For the Six-Month Periods Ended June 30	
	2015	**2014**	**2015**	**2014**
REVENUE:				
Rental income	$ 20,268	$ 10,613	$ 39,711	$ 17,966
Tenant reimbursement income	991	436	1,941	802
Other income	1,553	600	2,860	1,016
Total revenue	22,812	11,649	44,512	19,784
EXPENSES:				
Property operating expenses	10,611	5,585	20,749	9,573
General and administrative expenses	423	378	922	546
Asset management fees	1,260	501	2,472	647
Acquisition expenses	168	152	201	514
Depreciation and amortization	5,720	3,232	11,758	5,355
Total expenses	18,182	9,848	36,102	16,635
Operating income	4,630	1,801	8,410	3,149
Interest expense	(4,277)	(1,930)	(8,299)	(3,229)
Interest income		1	1	5
Gain (loss) on sale of assets				2,882
Net income (loss):	353	(128)	112	2,807
(Income) loss allocated to noncontrolling interest	(16)		(8)	
Net income (loss) allocable to common shares	$ 337	$ (128)	$ 104	$ 2,807
Earnings (loss) per share:				
Basic	$ 0.01	$ (0.01)	$ 0.00	$ 0.17
Diluted	$ 0.01	$ (0.01)	$ 0.00	$ 0.17
Weighted-average shares:				
Basic	31,794,822	17,707,287	31,781,718	16,459,623
Diluted	33,066,770	17,707,287	33,060,578	16,484,357

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity

(Unaudited and dollars in thousands, except share information)

	Common Shares	Par Value Common Shares	Additional Paid In Capital	Retained Earnings (Deficit)	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2015	31,800,076	$ 318	$ 267,683	$ (16,728)	$ 251,273	$ 11,761	$ 263,034
Net income				104	104	8	112
Common dividends declared				(11,441)	(11,441)		(11,441)
Stock compensation expense			80		80		80
Common shares issued, net	133,142		(197)		(197)		(197)
Issuance of noncontrolling interests							
Distributions to noncontrolling interests						(458)	(458)
Balance, June 30, 2015	31,933,218	$ 318	$ 267,566	$ (28,065)	$ 239,819	$ 11,311	$ 251,130

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited and dollars in thousands)

	For the Six-Month Periods Ended June 30	
	2015	**2014**
Cash flows from operating activities:		
Net income	$ 112	$ 2,807
Adjustments to reconcile net income to cash flow from operating activities:		
Depreciation and amortization	11,758	5,355
Amortization of deferred financing costs and premium on indebtedness, net	(315)	(265)
Stock compensation expense	80	143
(Gain) loss on assets		(2,882)
Changes in assets and liabilities:		
Accounts receivable and other assets	(332)	(630)
Accounts payable and accrued expenses	2,081	1,455
Accrued interest payable	(19)	(33)
Other liabilities	(49)	(66)
Net cash provided by operating activities	13,316	5,884
Cash flows from investing activities:		
Acquisition of real estate properties	(24,746)	(97,913)
Capital expenditures	(3,088)	(1,283)
(Increase) in restricted cash	(1,129)	(1,255)
Cash flow used in investing activities	(28,963)	(100,451)
Cash flows from financing activities:		
Debt borrowings	58,275	50,421
Debt repayments	(19,362)	(8,093)
(Payments related to) proceeds from issuance of common stock	(197)	62,799
(Payments) for deferred financing costs	(365)	
Financing commitment fee	(4,000)	
Distributions on common stock	(11,441)	(5,827)
Distributions to noncontrolling interests	(458)	(13)
Cash flow provided by financing activities	22,452	99,287
Net change in cash and cash equivalents	6,805	4,720
Cash and cash equivalents, beginning of period	14,763	3,334
Cash and cash equivalents, end of the period	$ 21,568	$ 8,054
Supplemental cash flow information:		

Cash paid for interest	$ 8,615	$ 3,527
Mortgage debt assumed	$	$ 66,963

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

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2015

(Unaudited and dollars in thousands, except share and per share data)

NOTE 1: Organization

Independence Realty Trust, Inc. was formed on March 26, 2009 as a Maryland corporation that has elected to be taxed as a real estate investment trust, or REIT, commencing with the taxable year ended December 31, 2011. We are externally managed by a subsidiary of RAIT Financial Trust, or RAIT, a publicly traded Maryland REIT whose common shares are listed on the New York Stock Exchange under the symbol RAS. As used herein, the terms IRT, we, our and us refer to Independence Realty Trust, Inc. and, as required by context, Independence Realty Operating Partnership, LP, which we refer to as our operating partnership, and their subsidiaries. We own apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We own substantially all of our assets and conduct our operations through our operating partnership, of which we are the sole general partner.

On May 11, 2015, IRT entered into a definitive merger agreement, or the IRT TSRE merger agreement, to acquire the common stock of Trade Street Residential, Inc., or TSRE, at $7.60 per share (NASDAQ: TSRE). After completing the merger, we will have over $1.4 billion of total capitalization and will own 14,044 units across 50 properties. Please see our Registration Statement on Form S-4 for further information. The merger is expected to close during the third quarter of 2015, subject to customary approvals.

NOTE 2: Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles, or GAAP. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2014 included in our Annual Report on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations and cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

b. Principles of Consolidation

The consolidated financial statements reflect our accounts and the accounts of our operating partnership and other wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

c. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

d. Investments in Real Estate

Allocation of Purchase Price of Acquired Assets

We account for acquisitions of properties that meet the definition of a business pursuant to Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 805, Business Combinations . The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases for acquired in-place leases and the value of tenant relationships, based in each case on their fair values. Purchase accounting is applied to assets and liabilities associated with the real estate acquired. Transaction costs and fees incurred related to acquisitions are expensed as incurred. Transaction costs and fees incurred related to the loan financing of an acquisition are capitalized and amortized over the life of the loan.

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Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets and liabilities (consisting of above and below-market leases, in-place leases and tenant relationships), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months of the acquisition date. During the three and six month period ended June 30, 2015, we did not make any adjustments to purchase price allocations.

In determining the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the differences 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 term of the lease. The capitalized above-market lease values and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term. During the three and six month period ended June 30, 2015, we acquired above-market in-place leases with a value of $219 related to our acquisition that is discussed further in *NOTE 3: Investments in Real Estate*.

The aggregate value of in-place leases is determined by evaluating various factors, including an estimate of carrying costs during the expected lease-up periods, current market conditions and similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, legal and other related costs. The value assigned to this intangible asset is amortized over the assumed lease up period, typically six months. For the three and six-months ended June 30, 2015 we recorded $1,380 and $3,289 of amortization expense for intangible assets, respectively. For the three and six-months ended June 30, 2014 we recorded $1,214 and $1,944 of amortization expense for intangible assets, respectively. As of June 30, 2015, we expect to record additional amortization expense on current in-place lease intangible assets of $182 for the remainder of 2015.

Impairment of Long-Lived Assets

Management evaluates the recoverability of its investment in real estate assets, including related identifiable intangible assets, in accordance with FASB ASC Topic 360, Property, Plant and Equipment . This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that recoverability of the assets is not assured.

Management reviews its long-lived assets on an ongoing basis and evaluates the recoverability of the carrying value when there is an indicator of impairment. An impairment charge is recorded when it is determined that the carrying value of the asset exceeds the fair value. The estimated cash flows used for the impairment analysis and the determination of estimated fair value are based on our plans for the respective assets and our views of market and economic condit