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BERKSHIRE INCOME REALTY, INC.  
Form 10-Q  
August 14, 2015  
United States  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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 THE SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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Commission File Number 001-31659  
BERKSHIRE INCOME REALTY, INC.

Maryland  
(State or other jurisdiction of incorporation or organization)

32-0024337  
(I. R. S. Employer Identification No.)

One Beacon Street, Boston, Massachusetts  
(Address of principal executive offices)

02108  
(Zip Code)

(617) 523-7722  
(Registrant's telephone number, including area code)

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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a 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

There were 1,406,196 shares of Class B common stock outstanding as of August 13, 2015.

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BERKSHIRE INCOME REALTY, INC.

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## Part I FINANCIAL INFORMATION

## Item 1. CONSOLIDATED FINANCIAL STATEMENTS

BERKSHIRE INCOME REALTY, INC.  
CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (unaudited)	December 31, 2014 (audited)
<b>ASSETS</b>		
Multifamily apartment communities, net of accumulated depreciation of \$204,611,430 and \$190,993,267, respectively	\$540,979,970	\$472,942,656
Cash and cash equivalents	11,030,065	4,369,626
Cash restricted for tenant security deposits	1,306,246	1,202,884
Restricted cash held in escrow for 1031 exchange	—	11,920,578
Replacement reserve escrow	1,568,888	1,425,007
Prepaid expenses and other assets	8,616,935	8,807,199
Investments in unconsolidated multifamily entities	12,769,167	14,078,222
Acquired in-place leases and tenant relationships, net of accumulated amortization of \$2,669,118 and \$1,518,971, respectively	708,521	1,219,543
Deferred expenses, net of accumulated amortization of \$2,935,443 and \$2,239,550, respectively	5,477,522	5,706,855
Total assets	\$582,457,314	\$521,672,570
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
<b>Liabilities:</b>		
Mortgage notes payable	\$514,880,027	\$436,785,408
Credit Facility (Note 6)	26,000,000	41,000,000
Note payable - affiliate (Note 7)	5,800,000	—
Note payable - other (Note 8)	1,231,455	1,250,000
Due to affiliates, net	3,110,047	3,085,668
Due to affiliate, incentive advisory fees	14,691,377	13,698,562
Dividend and distributions payable	837,607	837,607
Accrued expenses and other liabilities	16,615,060	12,889,999
Tenant security deposits	1,653,503	1,451,751
Total liabilities	584,819,076	510,998,995
Commitments and contingencies (Note 12)	—	—
<b>Equity (deficit):</b>		
Noncontrolling interest in properties (Note 14)	(88,560	) (25,658
Noncontrolling interest in Operating Partnership (Note 15)	(31,902,772	) (19,217,779
Series A 9% Cumulative Redeemable Preferred Stock, no par value, \$25 stated value, 5,000,000 shares authorized, 2,978,110 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	70,210,830	70,210,830
Class A common stock, \$.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	—	—
	14,062	14,062

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Class B common stock, \$.01 par value, 5,000,000 shares authorized, 1,406,196 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively

Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively

Accumulated deficit	(40,595,322	)	(40,307,880	)
Total equity (deficit)	(2,361,762	)	10,673,575	)

Total liabilities and equity (deficit)	\$582,457,314	\$521,672,570
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The accompanying notes are an integral part of these financial statements.

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BERKSHIRE INCOME REALTY, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue:				
Rental	\$17,875,856	\$21,167,877	\$34,804,530	\$40,457,163
Utility reimbursement	816,042	1,108,411	1,568,439	2,027,248
Other	1,050,889	1,129,850	2,035,471	2,098,392
Total revenue	19,742,787	23,406,138	38,408,440	44,582,803
Expenses:				
Operating	4,123,622	4,995,317	8,896,356	11,316,545
Maintenance	1,023,892	1,440,932	1,945,530	2,573,755
Real estate taxes	2,253,680	2,550,600	4,368,355	4,733,781
General and administrative	707,699	721,624	1,422,927	1,342,785
Management fees	1,190,621	1,339,036	2,343,084	2,565,289
Incentive advisory fees	1,052,608	2,409,374	1,391,213	2,673,419
Depreciation	7,131,907	7,243,111	13,618,163	13,529,323
Interest, inclusive of amortization of deferred financing fees	6,214,603	7,967,522	12,011,087	15,061,340
Loss on extinguishment of debt	—	1,743,652	—	1,743,652
Amortization of acquired in-place leases and tenant relationships	527,916	745,203	1,150,147	745,203
Total expenses	24,226,548	31,156,371	47,146,862	56,285,092
Loss before equity in income (loss) of unconsolidated multifamily entities	(4,483,761 )	(7,750,233 )	(8,738,422 )	(11,702,289 )
Equity in income (loss) of unconsolidated multifamily entities	(1,354 )	12,292,944	24,278	12,975,436
Gain on disposition of real estate assets	—	49,519,992	—	49,519,992
Income (loss) from continuing operations	(4,485,115 )	54,062,703	(8,714,144 )	50,793,139
Net loss from discontinued operations	—	—	—	(114,216 )
Net income (loss)	(4,485,115 )	54,062,703	(8,714,144 )	50,678,923
Net (income) loss attributable to noncontrolling interest in properties	21,059	(125,887 )	37,795	(190,723 )
Net (income) loss attributable to noncontrolling interest in Operating Partnership (Note 15)	5,992,521	(51,012,570 )	11,739,293	(46,011,219 )
Net income attributable to the Company	1,528,465	2,924,246	3,062,944	4,476,981
Preferred dividend	(1,675,193 )	(1,675,193 )	(3,350,386 )	(3,350,387 )
Net income (loss) available to common shareholders	\$(146,728 )	\$1,249,053	\$(287,442 )	\$1,126,594
Net income (loss) from continuing operations attributable to the Company per common share, basic and diluted	\$(0.10 )	\$0.89	\$(0.20 )	\$0.80
Net loss from discontinued operations attributable to the Company per common share, basic and diluted	\$—	\$—	\$—	\$—
Net income (loss) available to common shareholders per common share, basic and diluted	\$(0.10 )	\$0.89	\$(0.20 )	\$0.80
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196

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

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BERKSHIRE INCOME REALTY, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)  
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014  
(unaudited)

	Company Shareholders				Accumulated Deficit	Noncontrolling Interests – Properties	Noncontrolling Interests – Operating Partnership	Total Deficit
	Series A Preferred Stock		Class B Common Stock					
	Shares	Amount	Shares	Amount				
Balance at January 1, 2014	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(42,354,222)	\$879,785	\$(102,297,937)	\$(73,547,482)
Net income (loss)	—	—	—	—	4,476,981	190,723	46,011,219	50,678,923
Contributions	—	—	—	—	—	665,447	—	665,447
Distributions	—	—	—	—	(478,000 )	(1,039,980 )	(19,843,660 )	(21,361,640 )
Distributions to preferred shareholders	—	—	—	—	(3,350,387 )	—	—	(3,350,387 )
Balance at June 30, 2014	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(41,705,628)	\$695,975	\$(76,130,378 )	\$(46,915,139)

	Company Shareholders				Accumulated Deficit	Noncontrolling Interests – Properties	Noncontrolling Interests – Operating Partnership	Total Deficit
	Series A Preferred Stock		Class B Common Stock					
	Shares	Amount	Shares	Amount				
Balance at January 1, 2015	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(40,307,880)	\$(25,658 )	\$(19,217,779)	\$10,673,575
Net income (loss)	—	—	—	—	3,062,944	(37,795 )	(11,739,293 )	(8,714,144 )
Contributions	—	—	—	—	—	3,924	—	3,924
Distributions	—	—	—	—	—	(29,031 )	(945,700 )	(974,731 )
Distributions to preferred shareholders	—	—	—	—	(3,350,386 )	—	—	(3,350,386 )
Balance at June 30, 2015	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(40,595,322)	\$(88,560 )	\$(31,902,772)	\$(2,361,762 )

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

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BERKSHIRE INCOME REALTY, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	For the six months ended	
	June 30,	2014
	2015	
Cash flows from operating activities:		
Net income (loss)	\$(8,714,144	) \$50,678,923
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred costs	509,486	543,373
Amortization of acquired in-place leases and tenant relationships	1,150,147	745,203
Amortization of fair value premium on mortgage debt	(192,544	) (126,111
Loss on derivative financial instrument	40,633	—
Loss on extinguishment of debt	—	67,672
Depreciation	13,618,163	13,529,323
Deferred costs	(40,422	) (18,119
Equity in income of unconsolidated multifamily entities	(24,278	) (12,975,436
Gain on disposition of real estate assets	—	(49,519,992
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Tenant security deposits, net	18,308	(229,891
Prepaid expenses and other assets	(203,771	) (18,262
Due to/from affiliates	24,379	(288,010
Due to affiliate - incentive advisory fees	992,815	2,276,784
Accrued expenses and other liabilities	1,158,850	(1,519,822
Distributions from investment in unconsolidated multifamily entities	1,333,333	—
Net cash provided by operating activities	9,670,955	3,145,635
Cash flows from investing activities:		
Capital improvements	(25,413,996	) (11,913,603
Acquisition of multifamily apartment communities	(54,020,670	) (60,611,119
Return of earnest money deposits on acquisition	—	2,000,000
Proceeds from sale of multifamily apartment communities	—	74,668,760
Distributions from investment in unconsolidated multifamily entities	—	12,580,344
Return of/(deposit to) restricted cash held in escrow for 1031 exchange	11,920,578	(40,835,011
Interest earned on replacement reserve deposits	(228	) (458
Deposits to replacement reserve escrow	(143,653	) (272,400
Insurance proceeds	353,402	—
Net cash used in investing activities	(67,304,567	) (24,383,487
Cash flows from financing activities:		
Borrowings from mortgage notes payable	80,330,870	46,253,335
Principal payments on mortgage notes payable	(2,043,707	) (3,067,912
Repayments of mortgage notes payable	—	(71,183,360
Borrowings from Credit Facility	16,000,000	80,000,000
Principal payments on Credit Facility	(31,000,000	) —
Borrowings from note payable - affiliate	5,800,000	—
Principal payments on note payable - other	(18,545	) —

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Deferred financing costs	(453,374	) (4,380,632	)
Contributions from noncontrolling interest holders in properties	3,924	665,447	)
Distributions to noncontrolling interest holders in properties	(29,031	) (1,039,980	)
Distributions to noncontrolling interest partners in Operating Partnership	(945,700	) (19,843,660	)
Distributions to common shareholders	—	(478,000	)
Distributions to preferred shareholders	(3,350,386	) (3,350,387	)
Net cash provided by financing activities	64,294,051	23,574,851	)

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BERKSHIRE INCOME REALTY, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited)

	For the six months ended	
	June 30,	
	2015	2014
Net increase in cash and cash equivalents	6,660,439	2,336,999
Cash and cash equivalents at beginning of period	4,369,626	15,254,613
Cash and cash equivalents at end of period	\$ 11,030,065	\$ 17,591,612
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest	\$ 10,913,316	\$ 15,249,485
Capitalization of interest	900,109	496,223
Supplemental disclosure of non-cash investing and financing activities:		
Capital improvements included in accrued expenses and other liabilities	6,400,624	1,847,998
Dividends declared and payable to preferred shareholders	837,607	837,607
Mortgage debt assumed	—	70,472,066
Acquisition of multifamily apartment communities:		
Assets acquired:		
Multifamily apartment communities	\$ (53,485,875	) \$(129,560,979 )
Acquired in-place leases	(639,125	) (1,642,098 )
Prepaid expenses and other assets	—	