

PREFERRED APARTMENT COMMUNITIES INC

Form S-3/A

November 08, 2016

As filed with the Securities and Exchange Commission on November 8, 2016

Registration No. 333-211924

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective Amendment No. 2 to Form S-3

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

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 Number)

3284 Northside Parkway NW, Suite 150

Atlanta, Georgia 30327

(770) 818-4100

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

John A. Williams

Chief Executive Officer

PREFERRED APARTMENT COMMUNITIES, INC.

3284 Northside Parkway NW, Suite 150

Atlanta, Georgia 30327

(770) 818-4100

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement as determined by the registrant.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Proposed Maximum Aggregate Offering Price ⁽¹⁾	Amount of Registration Fee
Units, each Unit consisting of one share of Series A Redeemable Preferred Stock, par value \$0.01 per share, and one Warrant to purchase 20 shares of Common Stock, par value \$0.01 per share ⁽²⁾	\$1,500,000,000	\$151,050.00
Series A Redeemable Preferred Stock included as part of the Units ⁽³⁾	-	-
Warrants included as part of the Units ⁽⁴⁾	-	-
Common Stock issuable upon exercise of the Warrants	\$585,000,000	\$58,909.50 ⁽⁵⁾
Common Stock issuable upon redemption of the Series A Redeemable Preferred Stock ⁽⁶⁾⁽⁷⁾	-	-
Common Stock issuable upon the exercise of previously issued and outstanding Warrants ⁽⁸⁾	\$262,000,670	(8)
Common Stock issuable upon redemption of previously issued and outstanding Series A Redeemable Preferred Stock ⁽⁹⁾	-	-
Total	\$2,085,000,000	\$209,959.50*

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended, or the Securities Act.

(2) We are registering hereunder 1,500,000 Units.

(3) We are registering hereunder 1,500,000 shares of Series A Redeemable Preferred Stock.

(4) We are registering hereunder Warrants to purchase 30,000,000 shares of Common Stock.

Includes the offering price attributable to shares of Common Stock issuable upon exercise of the Warrants,

(5) assuming an exercise price of \$19.50 per share. The registration fee has been calculated in accordance with Rule 457(i) of the Securities Act.

We also are registering hereunder 125,000,000 shares of Common Stock that may be issuable upon the redemption of the Series A Redeemable Preferred Stock, assuming a hypothetical share price of \$12.00 per share. The shares

(6) of Common Stock issuable upon redemption of the Series A Redeemable Preferred Stock will be issued for no additional consideration, and therefore no registration fee is required pursuant to Rule 457(i) of the Securities Act.

Pursuant to Rule 416 of the Securities Act, such number of shares of Common Stock registered hereby also shall include an indeterminate number of shares of Common Stock that may be issued in connection with stock splits,

(7) stock dividends, recapitalizations or similar events or adjustments in the number of shares issuable as provided in the Warrants and in the articles supplementary setting forth the rights, preferences and limitations of the Series A Redeemable Preferred Stock.

Shares of Common Stock that may be issued upon the exercise of Warrants issued pursuant to Registration Statement No. 333-183355 that have not previously been exercised and have not yet expired or have not yet been

(8) issued. The proposed maximum aggregate offering price assumes a \$16.07 exercise price for unissued Warrants.

Pursuant to Rule 415(a)(5)-(6), no additional filing fee is required to be paid for these shares of Common Stock because the issuance of these shares were previously registered on the aforementioned registration statement and the fees were paid in connection with such registration statement.

We also are registering hereunder an indeterminate number of shares of Common Stock that may be issuable upon the redemption of the issued and outstanding Series A Redeemable Preferred Stock issued pursuant to Registration

(9) Statement No. 333-183355. The shares of Common Stock issuable upon redemption of the prior issued and outstanding Series A Redeemable Preferred Stock will be issued for no additional consideration, and therefore no registration fee is required pursuant to Rule 457(i) of the Securities Act.

* \$269,876.00 was previously paid in June 2016 to register 2,000,000 shares of Series A Redeemable Preferred Stock and Warrants to purchase 40,000,000 shares of Common Stock. Accordingly, the registrant will request an offset fee credit in the amount of \$59,916.50 to be used as a credit against future filing fees of the Company.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file an amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. No person may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED , 2016
PRELIMINARY PROSPECTUS

Maximum of 1,500,000 Units consisting of 1,500,000 Shares of Series A Redeemable Preferred Stock and Warrants to Purchase 30,000,000 Shares of Common Stock

(Liquidation Preference \$1,000 per share of Series A Redeemable Preferred Stock (subject to adjustment))

We are offering a maximum of 1,500,000 shares of our Series A Redeemable Preferred Stock, par value \$0.01 per share, referred to as our Series A Redeemable Preferred Stock, and warrants, referred to as the Warrants, to purchase a maximum of 30,000,000 shares of our common stock in this offering. This prospectus also covers the shares of common stock that are issuable from time to time upon exercise of the Warrants and that may be issuable upon redemption of the Series A Redeemable Preferred Stock. The Series A Redeemable Preferred Stock and the Warrants will be sold in units, or Units, with each Unit consisting of (i) one share of Series A Redeemable Preferred Stock with an initial stated value of \$1,000 per share, and (ii) one Warrant to purchase 20 shares of common stock, exercisable by the holder at an exercise price that is set at a 20% premium to the current market price per share of our common stock determined using the volume weighted average price per share of our common stock for the 20 trading days prior to the date of issuance of such Warrant, subject to a minimum exercise price of \$19.50 per share (subject to adjustment). Each Unit will be sold at a public offering price of \$1,000 per Unit. Units will not be issued or certificated. The shares of Series A Redeemable Preferred Stock and the Warrants are immediately detachable and will be issued separately. The Warrants are not exercisable until one year from the date of issuance and expire four years from the date of issuance. The Series A Redeemable Preferred Stock ranks senior to our common stock with respect to payment of dividends and distribution of amounts upon liquidation, dissolution or winding up. Holders of our Series A Redeemable Preferred Stock will have no voting rights. On November 18, 2011, the Securities and Exchange Commission, or SEC, declared effective our registration statement on Form S-11 (Registration Statement No. 333-176604), as the same may be amended from time to time, or the Primary Series A Registration Statement, for the offering of Units. The offering under the Primary Series A Registration Statement is referred to herein as the Primary Series A Offering. The Primary Series A Offering expired on December 31, 2013 and 89,408 Units were issued and sold under the Primary Series A Registration Statement. On October 11, 2013, the SEC declared effective our registration statement on Form S-3 (Registration Statement No. 333-183355), as the same may be amended from time to time, or our First Follow-On Series A Registration Statement, for an offering of up to an additional 900,000 Units. The offering under the First Follow-On Series A Registration Statement is referred to herein as the First Follow-On Series A Offering. The offering under this prospectus is a follow-on offering to the First Follow-On Series A Offering and, except as described in this prospectus, the terms of the First Follow-On Series A Offering are substantially similar to the offering under this prospectus.

Our common stock trades on the NYSE under the symbol "APTS." On November 4, 2016, the last reported sale price of our common stock on the NYSE was \$13.21 per share. There is no established trading market for our Series A Redeemable Preferred Stock or any of the Warrants and we do not expect a market to develop. We do not intend to apply for a listing of the Series A Redeemable Preferred Stock or any of the Warrants on any national securities exchange.

Investing in our securities involves significant risks. You should carefully read and consider "Risk Factors" included in our most recent Annual Report on Form 10-K and any subsequent periodic securities reports, on page 14 of this prospectus and in any additional prospectus or any prospectus supplement before investing in our securities.

We impose certain restrictions on the ownership and transfer of our capital stock. You should read the information under the section entitled "Description of Capital Stock and Securities Offered — Restrictions on Ownership and

Transfer" in this prospectus for a description of these restrictions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Unit	Maximum Offering
		\$
Public offering price	\$1,000.00	1,500,000,000 ⁽¹⁾
Selling commissions ⁽²⁾⁽³⁾	\$70.00	\$105,000,000
Dealer manager fee ⁽²⁾⁽³⁾	\$30.00	\$45,000,000
Proceeds, before expenses, to us	\$900.00	\$1,350,000,000

- (1) Initial gross proceeds. If the Warrants are exercised in full at the minimum exercise price of \$19.50 per share of common stock, the Company will receive additional gross proceeds equal to \$585.0 million.
- Selling commissions and the dealer manager fee will equal up to and including 7% and 3% of aggregate gross proceeds, respectively. Each is payable to our dealer manager. We or our affiliates also may provide permissible forms of non-cash compensation to registered representatives of our dealer manager and the participating broker-dealers. The value of such items will be considered underwriting compensation in connection with this offering, and the corresponding payments of our dealer manager fee will be reduced by the aggregate value of such items. The combined selling commissions, dealer manager fee and such non-cash compensation for this offering will not exceed 10% of the aggregate gross proceeds of this offering, which is referred to as FINRA's 10% cap. Our dealer manager will repay to us any excess payments made to our dealer manager over FINRA's 10% cap if this offering is abruptly terminated before reaching the maximum amount of offering proceeds.
- We expect our dealer manager to authorize other broker-dealers that are members of FINRA, which we refer to as participating broker-dealers, to sell our Units. Our dealer manager may reallow all or a portion of its selling commissions attributable to a participating broker-dealer. In addition, our dealer manager also may reallow a portion of its dealer manager fee earned on the proceeds raised by a participating broker-dealer, to such participating broker-dealer as a non-accountable marketing or due diligence allowance. The amount of the reallowance to any participating broker-dealer will be determined by the dealer manager in its sole discretion.

The dealer manager of this offering is Preferred Capital Securities, LLC, or PCS, our affiliate. The dealer manager is not required to sell any specific number or dollar amount of Units, but will use its "reasonable best efforts" to sell the Units offered. The minimum permitted purchase is generally \$5,000, but purchases of less than \$5,000 may be made in the discretion of the dealer manager. We expect to sell up to 1,500,000 Units in this offering by [], 2019, which may be extended through [], 2020, in our sole discretion. If we extend the offering period beyond [], 2019, we will supplement this prospectus accordingly, if required. We may terminate this offering at any time or may offer Units pursuant to a new registration statement.

We will sell Units through Depository Trust Company, or DTC, DTC settlement, or DTC Settlement; or, under special circumstances, through Direct Registration System settlement, or DRS Settlement. See the section entitled "Plan of Distribution" in this prospectus for a description of these settlement methods.

PREFERRED CAPITAL SECURITIES, LLC,

as Dealer Manager

The date of this prospectus is [], 2016

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We have not authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which it relates, nor does this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus is accurate on any date subsequent to the date set forth on its front cover or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus is delivered or securities are sold on a later date.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we have filed with the Securities and Exchange Commission, or the SEC. The exhibits to our registration statement and documents incorporated by reference contain the full text of certain contracts and other important documents that we have summarized in this prospectus or that we may summarize in any amendment or prospectus supplement. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer, you should review the full text of these documents.

The registration statement and the exhibits and other documents can be obtained from the SEC as indicated under the sections entitled "Where You Can Find More Information about Preferred Apartment Communities" and "Incorporation of Certain Documents By Reference."

Unless otherwise indicated or the context requires otherwise, including with respect to the securities offered by this prospectus as described in "Description of Capital Stock and Securities Offered," in this prospectus or any prospectus supplement hereto, references to the "Company," "we," "us" and "our" mean Preferred Apartment Communities, Inc. and its consolidated subsidiaries, including, without limitation, Preferred Apartment Communities Operating Partnership, L.P., a Delaware limited partnership of which we are the sole general partner, or our Operating Partnership, and "our Manager" refers to Preferred Apartment Advisors, LLC, a Delaware limited liability company, which is our external manager and advisor and a related party.

MARKET AND INDUSTRY DATA AND FORECASTS

In this prospectus, we present certain economic and industry data and forecasts derived from cited third party sources, which data and forecasts are publicly available for free or upon payment as part of a subscription service. None of such data and forecasts was prepared specifically for us. No third party source that has prepared such information has reviewed or passed upon our use of the information in this prospectus, and no third party source is quoted or summarized in this prospectus as an expert. All statements contained in this prospectus in connection with or related to such data and forecasts are attributed to us, and not to any such third party source or any other person.

CAUTIONARY STATEMENT

REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this prospectus and the information incorporated by reference into this prospectus that are not historical factual statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act; Section 27A of the Securities Act of 1933, as amended, or the Securities Act; and pursuant to the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "goals," "guidance," "trends," "intend," "should," "could," "may" or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- 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 the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or 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;
- 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 for U.S. federal income tax purposes, or REIT;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- availability of qualified personnel;
- estimates relating to our ability to make distributions to our stockholders in the future;
- competition in the markets we compete in;
- 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;

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- 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;
- the growth of online retailers and super-centers and warehouse club retailers, such as those operated by Wal-Mart and Costco, and their adverse effect on traditional grocery chains;
- our ability to aggregate a critical mass of grocery-anchored shopping centers or to spin-off, sell or distribute them;
- 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.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. For more information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see "Risk Factors." If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PROSPECTUS SUMMARY

This summary highlights selected information about us, but does not contain all the information that may be important to you. This prospectus includes specific terms of the offering and information about our business and financial data. You should read carefully this entire prospectus, including the matters set forth under the caption "Risk Factors," and the information incorporated by reference in this prospectus before making an investment decision.

Our Company

We were formed primarily to acquire and operate multifamily properties in select targeted markets throughout the United States. As part of our business strategy, we may enter into forward purchase contracts or purchase options for to-be-built multifamily communities, and we may make real estate loans, provide deposit arrangements or provide performance assurances, as may be necessary or appropriate, in connection with the development of multifamily communities and other properties. As a secondary strategy, we may acquire or originate senior mortgage loans, subordinate loans or real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties and other multifamily related assets and invest not more than 20% of our assets, subject to any temporary increase unanimously approved by our Board of Directors, which we refer to as the 20% non-multifamily related asset cap, in other real estate related investments, including other income producing property types, senior mortgage loans, subordinate loans or real estate loans secured by interests in other property types, membership or partnership interests in other property types as determined by Preferred Apartment Advisors, LLC, a Delaware limited liability company, or our Manager, as appropriate for us. We have no employees of our own; our Manager provides all managerial and administrative personnel to us pursuant to the Sixth Amended and Restated Management Agreement, effective as of June 3, 2016, among the Company, Preferred Apartment Communities Operating Partnership, L.P., a Delaware limited partnership, or our Operating Partnership, and our Manager. As referred to herein, the Sixth Amended and Restated Management Agreement, as it has been or may be amended, is referred to as the Management Agreement. We have elected to be taxed as a real estate investment trust under the Internal Revenue Code of 1986, as amended, commencing with the tax year ended December 31, 2011. Our Manager has not offered prior programs or REITs which disclosed in the offering materials a date or time period at which the program or REIT might be liquidated.

Our consolidated financial statements include the accounts of the Company and our Operating Partnership. We control our Operating Partnership through our sole general partnership interest in the Operating Partnership, and we conduct substantially all of our business through our Operating Partnership.

Competitive Strengths

We believe that we distinguish ourselves from many of our competitors through the following competitive advantages:

- experienced management team with significant expertise in real estate and real estate-related debt investments and capital markets;
- access to a pipeline of investment opportunities;
- benefits from our relationship with our Manager and its affiliates; and
- dedicated asset management team.

Investment Strategy

We seek to maximize returns for our stockholders by taking advantage of the current environment in the real estate market and the United States economy. We intend to employ 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 multifamily assets, 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, 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 dedicated to student housing at universities around the United States. These assets will be located near the applicable campus. We will endeavor to acquire assets with demonstrated track records of occupancy and rental rates. The universities served by these assets should generally be larger schools typically demonstrating increasing enrollment and market trends that indicate new development is being or should 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 the Federal Housing Administration or FHA and Department of Housing and Urban Development or 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 increased rental rates that we believe the relevant markets will command.

Acquiring grocery-anchored shopping centers, subject to a limitation that non-multifamily real estate related investments may not exceed the 20% non-multifamily related asset cap. These assets are typically anchored by one of the market dominant or specialty grocers in the trade area. We will endeavor to acquire shopping centers with a track record of strong, increasing sales per square foot at the anchor store. We will also target on a select basis a specialty grocer, such as Whole Foods, Sprouts, Fresh Market, or Trader Joes, in a market where they have a high sales per square foot store.

Acquiring Class "A" office assets, subject to a limitation that non-multifamily real estate related investments may not exceed the 20% non-multifamily related asset cap. We will endeavor to acquire well leased, high credit, low risk, Class "A" office buildings.

Originating real estate loans secured by interests in multifamily properties, membership or partnership interests in multifamily properties, other multifamily related assets and, subject to the 20% non-multifamily related asset cap, non-multifamily related assets.

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 properties and, subject to the 20% non-multifamily related asset cap, non-multifamily related assets, and we may make real estate 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 and, subject to the 20% non-multifamily related asset cap, non-multifamily related assets that meet our investment criteria, which are performing or non-performing, newly or previously originated second position loans on multifamily properties and, subject to the 20% non-multifamily related asset cap, non-multifamily assets 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 and, subject to the 20% non-multifamily related asset cap, non-multifamily related assets that meet our investment criteria, which are performing or non-performing. In connection with our investments in second position loans, 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 determined at the date of exercise of such purchase option.

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. Our Manager's investment committee will periodically

review our investment portfolio and its compliance with our investment guidelines and policies. Our Manager will 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 our Manager. Our Board of Directors may amend or revise our investment guidelines without a vote of the stockholders.

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Marketing and Branding Strategy

Our Manager has branded, and intends to brand, all apartment communities owned by us as “A Preferred Apartment Community”, which we believe signifies outstanding brand and management standards, and has obtained rights to the trademark, including federal registration of the trademark with the United States Patent and Trademark Office, to help secure our brand. We believe our brand will enhance each individual property's presence in relation to other properties within that marketplace.

On September 17, 2010, we entered into a trademark license and assignment agreement pursuant to which we granted an exclusive, worldwide, fully-paid, royalty-free license of all our trademarks to our Manager and agreed to assign all of our trademarks to our Manager upon the applications related to our trademarks being successfully converted to use-based applications with the United States Patent and Trademark Office. Pursuant to this agreement, in March 2012, we assigned these trademarks to our Manager and concurrently entered into a royalty-free license agreement for these trademarks with us as licensee. Similarly, in March 2012, our Manager entered into a royalty-free license agreement with us as licensee with respect to all other intellectual property of the Manager. In the event of termination of the Management Agreement, all rights to our name will be transferred to us.

We have implemented what we believe to be an innovative and unique marketing and branding strategy at each multifamily community that we own by implementing the PAC Concierge, PAC Rewards and PAC Partners programs. We intend to implement this same marketing and branding strategy at each multifamily community we acquire.

Our PAC Concierge Program is a complimentary service for residents designed to offer them the type of personal concierge services that one might expect at a high end resort. The concierge services are provided by a professionally trained third party team and is available to our residents 24/7 by telephone, email or web access through our unique resident web portal. Our PAC Rewards program, once communities are enrolled in the program, allows residents to accumulate and redeem reward points for services and upgrades. Residents may accumulate Preferred Rewards, for example, when they sign their lease, pay their rent online, renew their leases, or when a resident's referral signs a new lease. Our PAC Partners program establishes reciprocal relationships between a Preferred Apartment Community and neighborhood businesses to provide our residents with benefits such as discounts, perks and other incentives as an enticement to frequent those businesses and to support the local community.

Risk Management

Risk management is a fundamental principle in the development of our portfolio of assets and in the management of each investment. Diversification of our portfolio by investment size and location is critical in our attempt to manage portfolio-level risk. It is our policy that no single asset will exceed 15% of our total assets and that we will not have more than 25% of our total assets invested in any single MSA, unless otherwise approved by our Board of Directors. Other than the 20% non-multifamily related asset cap, there is no limitation on (i) the percentage of assets of any one type of investment which we may invest in, and (ii) in the case of securities, the percentage of securities of any one issuer which we may acquire.

Investment Committee

Our Manager has an investment committee that meets periodically, at least every quarter, to discuss investment opportunities. The investment committee periodically reviews our investment portfolio and its compliance with our investment guidelines described above, and our Manager provides our Board of Directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. From time to time, as it deems appropriate or necessary, our Board of Directors also will review our investment portfolio and its compliance with our investment

guidelines and the appropriateness of our investment guidelines and strategies.

Management Agreement

We are externally managed and advised by our Manager. Our Manager is subject to the supervision and oversight of our Board of Directors at all times and has only such functions and authority as we delegate to it. We do not have any employees.

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Pursuant to the Management Agreement, our Manager provides us with a management team and appropriate support personnel to implement our business strategy and perform certain services for us, subject to oversight by our Board of Directors. Our Manager is responsible for, among other duties, (1) performing and administering all our day-to-day operations, (2) determining investment criteria in conjunction with our Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, sales and financings, (4) performing asset management duties, (5) performing property management duties, and (6) performing financial and accounting management.

The following table summarizes the fees and expense reimbursements that we will pay to our Manager (or persons affiliated with or related to our Manager, including our officers):

Type of Compensation	Determination of Amount
Loan Origination Fees	<p>Offering, Acquisition and Operation Stage</p> <p>Fees payable to our Manager in the amount of 1.0% of the amount that may be advanced for a real estate related loan or other investment that is a loan, along with reimbursement of acquisition expenses actually incurred by the Manager or any of its affiliates in connection with such loan originations (other than those paid by the borrower). The amount originated shall equal the maximum amount that may be advanced for a real estate related loan or other investment that is a loan, inclusive of expenses related thereto (other than those paid by the borrower), but exclusive of loan origination fees.</p>
Acquisition Expenses ⁽¹⁾	<p>We will reimburse our Manager for expenses actually incurred (including personnel costs) related to selecting, evaluating and making investments on our behalf, regardless of whether we actually make the related investment. Personnel costs associated with providing such services will be determined based on the amount of time incurred by the applicable employee of our Manager and the corresponding payroll and payroll related costs incurred by our Manager. In addition, we also will pay third parties, or reimburse our Manager or its affiliates, for any investment-related expenses due to third parties, including, but not limited to, legal fees and expenses, travel and communications expenses, costs of appraisals, accounting fees and expenses, third-party brokerage or finder's fees, title insurance expenses, survey expenses, property inspection expenses and other closing costs, regardless of whether we make the related investment.</p>
Asset Management Fee ⁽²⁾	<p>We will pay our Manager a monthly fee equal to one-twelfth of 0.50% of the total value of our assets (including cash or cash equivalents) based on the adjusted cost of our assets before reduction for depreciation, amortization, impairment charges and cumulative acquisition costs charged to expense in accordance with generally accepted accounting principles, or GAAP (adjusted cost will include the purchase price, acquisition expenses, capital expenditures and other customarily capitalized costs) and as adjusted for appropriate closing dates for individual asset acquisitions. This fee will be payable monthly in cash or shares of our common stock, at the option of the Manager. This fee will be appropriately pro rated for any partial month.</p>
Multifamily Property Management and Leasing Fee ⁽²⁾	<p>We will pay our Manager a monthly fee equal to 4% of the monthly gross revenues of our multifamily properties managed, for services in connection with the rental, leasing, operation and management of our multifamily properties and the supervision of any third parties that are engaged by our Manager to provide such services. Our Manager may subcontract the performance of its multifamily property management and leasing services duties to third parties or affiliates and pay all or a portion of its multifamily property management fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted property management and leasing duties. The property management and leasing fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.</p>

Retail
Management
Fee⁽²⁾

We will pay our Manager a monthly fee equal to 4% of the gross revenues managed per month, for services in connection with the operation and management of our retail real estate assets and the supervision of any third parties that are engaged by our Manager to provide such services. Our Manager may subcontract the performance of its retail property management duties to third parties or affiliates and pay all or a portion of its retail management fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted retail property management duties. The retail management fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.

Retail Leasing
Fees

We will pay our Manager a commission with respect to a new lease for a retail real estate asset equal to the greater of (A) four dollars per square foot and (B) 4% of the aggregate base rental payments to be paid by tenant for the first ten years of the original lease term. In the event of co-broker participation in a new lease for a retail real estate asset, the leasing commission determined for a new lease, with respect to such lease, will be increased by 50% which increased commission amount will be shared between our Manager and such co-broker on a split basis mutually acceptable to our Manager and such co-broker, provided that our Manager's share shall not exceed 100% of the amount our Manager would have received without outside broker involvement, nor be less than 50% of the increased amount. We will pay a commission to our Manager with respect to a negotiated renewal of an existing lease for a retail real estate asset equal to the greater of (A) two dollars per square foot and (B) 2% of the aggregate base rental payments to be paid by tenant for the first ten years of the newly renewed term. In no event shall the retail leasing fees paid to our Manager exceed customary market rates. Our Manager may subcontract the performance of its retail leasing duties to third parties or affiliates and pay all or a portion of its retail leasing fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted retail leasing duties. The retail leasing fee will be payable upon the earlier to occur of rent commencement or tenant's opening for business.

Office
Management
Fee⁽²⁾

We will pay our Manager a monthly fee equal to 4% of the gross revenues managed per month, for services in connection with the operation and management of our office real estate assets and the supervision of any third parties that are engaged by our Manager to provide such services. Our Manager may subcontract the performance of its office property management duties to third parties or affiliates and pay all or a portion of its office management fee to such persons with whom it contracts for these services. Our Manager will be responsible for all fees payable to third parties or affiliates in connection with subcontracted office property management duties. The office management fee will be payable monthly in arrears, based on the actual gross revenues for the prior month.