INDEPENDENCE REALTY TRUST, INC
Form 10-K
March 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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.)
Two Logan Square, 100 N. 18th Street, 23rd Floor,	
Philadelphia, PA (Address of principal executive offices)	19103 (Zip Code)

(215) 207-2100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Common Stock	NYSE MKT

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

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 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer
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 Act). Yes No

The aggregate market value of the shares of common stock of the registrant held by non-affiliates of the registrant, based upon the closing price of such shares on June 30, 2016 of $8.18, was approximately $326,001,833.17.

As of February 28, 2017 there were 69,035,969 outstanding shares of the registrant’s common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for registrant’s 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

INDEPENDENCE REALTY TRUST, INC.

TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS

The Securities and Exchange Commission, or SEC, encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. This report contains or incorporates by reference such “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act.

Words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. As used herein, the terms “we,” “our” “us” and “IRT” refer to Independence Realty Trust, Inc. and, as required by context, Independence Realty Operating Partnership, LP, which we refer to as IROP, and their subsidiaries.

We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this report and they may also be incorporated by reference in this report to other documents filed with the SEC, and include, but are not limited to, statements about future financial and operating results and performance, statements about our plans, objectives, expectations and intentions with respect to future operations, products and services, and other statements that are not historical facts. These forward-looking statements are based upon the current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and generally beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the anticipated results discussed in these forward-looking statements.

The risk factors discussed and identified in item 1A of this report and in other of our public filings with the SEC, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this filing or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. Business

Our Company

We are a Maryland corporation that owns apartment properties in geographic non-gateway markets 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 became an internally-managed real estate investment trust, or REIT, in December 2016 as a result of completing the management internalization transactions, or the management internalization, described below under "Management Internalization." Prior to completing the management internalization, we were externally advised by a wholly-owned subsidiary of RAIT Financial Trust, or RAIT (NYSE: RAS). We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2011.

We seek to acquire and operate apartment properties that:

- have stable occupancy;
- are located in non-gateway markets that we do not expect will experience substantial new apartment construction in the foreseeable future;
- in appropriate circumstances, present opportunities for repositioning or updating through capital expenditures; and
- present opportunities to apply tailored marketing and management strategies to attract and retain residents and enable rent increases.

Our Business Objective and Investment Strategies

Our primary business objective is to maximize stockholder value by increasing cash flows at our existing apartment properties and acquiring additional properties that have strong and stable occupancies with the ability to raise rental rates or that have the potential for repositioning through capital expenditures or tailored management strategies. We intend to achieve this objective by executing the following strategies:

- Focus on properties in markets that have strong apartment demand, reduced competition from national apartment buyers and no substantial new apartment construction. In evaluating potential acquisitions, we analyze apartment occupancy and trends in rental rates, employment and new construction, among many other factors, and seek to identify properties located primarily in non-gateway markets where there is strong demand for apartment units, little to no apartment development, stable resident bases and occupancy rates, positive net migration trends and strong employment drivers. We generally seek to avoid markets where we believe potential yields have decreased as a result of the acquisition and development efforts of large institutional buyers.

- Acquire properties that have operating upside through targeted management strategies. We have expertise in acquiring and/or managing properties and maximizing the net operating income, or NOI, of such properties through more effective marketing and leasing, better management of rental rates and more efficient expense management. We will seek to acquire properties that we believe possess significant prospects for increased occupancy and rental revenue growth. Our target profile for acquisitions currently is midrise/garden-style apartments containing 150-500 units with good amenities that we can acquire at less than replacement cost in the $15 million to $50 million price range with a five to fifteen year operating track record. We do not intend to limit ourselves to properties in this target profile, however, and may make acquisitions outside of this profile or change our target profile whenever market conditions warrant.

- Selectively use our capital to improve apartment properties where we believe the return on such investments is accretive to our stockholders. We have significant experience allocating capital to value-added improvements of apartment properties to produce better occupancy and rental rates. We will selectively deploy our capital into revenue-enhancing capital projects that we believe will improve the physical plant or market positioning of particular apartment properties and generate increased income over time.

- Use our extensive experience owning and/or managing apartment properties, and our networks of contacts in the apartment industry, to acquire additional apartment properties. We manage approximately 15,000 apartment units in 17 states (including those owned by us). We believe these factors and our management’s real estate relationships and access to off-market transactions, including relationships with the brokerage community, will continue to provide us with a strong pipeline of acquisition opportunities.

2016 Developments

Management Internalization Transaction

On September 27, 2016, we entered into an agreement, or the internalization agreement, with RAIT to complete the management internalization and separation from RAIT and its affiliates and to repurchase 7,269,719 shares of our common stock, or our common stock, from RAIT subsidiaries, representing all of the shares of our common stock owned by RAIT.

On October 5, 2016, we paid approximately $62.2 million to RAIT to repurchase, or the IRT stock repurchase, and retire RAIT's shares of our common stock at a purchase price of $8.55 per share. This price was equal to the price to the public in our common stock offering described below less underwriting discounts or commissions.

On December 20, 2016, we completed the management internalization. The management internalization consisted of two parts: (i) the acquisition of our external advisor, which was a subsidiary of RAIT, and (ii) the acquisition of substantially all of its assets and the assumption of certain liabilities relating to the multifamily property management business of RAIT, including property management contracts relating to apartment properties owned by us, RAIT and third parties. The purchase price we paid RAIT for the Internalization was $43.0 million, subject to certain prorations at closing. After the management internalization, we terminated our advisory agreement with the external advisor we had acquired.

Upon closing of the management internalization, each of Scott F. Schaeffer, our chairman of the board and chief executive officer, Farrell Ender, our president, and James J. Sebra, our chief financial officer and treasurer, entered into employment agreements with us. Messrs. Schaeffer and Ender became our employees upon closing. Mr. Schaeffer resigned as RAIT's chairman of the board and chief executive officer and Mr. Ender ceased to be employed by RAIT effective upon the closing of the management internalization. Mr. Sebra remains the chief financial officer and treasurer of RAIT until the later to occur of March 31, 2017 or the filing of RAIT's Form 10-K for the fiscal year ending December 31, 2016 with the U.S. Securities and Exchange Commission. Upon closing of the management internalization, we hired substantially all of the employees of the multifamily property management business from RAIT we had acquired and other RAIT personnel who had focused primarily on our business. We expect to continue to provide property management services to RAIT properties that were managed by RAIT's multifamily property management business. We do not expect to otherwise expand our multifamily property management business to third parties.

At the closing of the management internalization, we and RAIT entered into a shared services agreement, or the shared services agreement, pursuant to which we and RAIT will provide each other certain transitional services such as information technology, human resources, insurance, investor relations, legal, tax and accounting for a six-month transition period after the closing ending June 20, 2017.

We believe the management internalization and IRT stock repurchase is and will be transformative for IRT.

By acquiring our external advisor:

- We eliminated all asset management fees payable to the external advisor;
- We eliminated the advisory agreement termination fee, which equaled 4 times the average annual base management and incentive fees earned by the external advisor during the eight full calendar quarters preceding the termination date;
- We removed the possibility of increased asset management fees payable to the external advisor that might result if we raised additional equity;
- We established a newly independent IRT management team; and
- We believe the management internalization will assist us in attracting new institutional investors, diversifying our stockholder base and improving our ability to raise capital.

By acquiring RAIT's multifamily property management business:

- We eliminated the related property management fees;
- We plan to realize the potential for cost savings through the capture of economies of scale; and

- We retained employees with knowledge of and experience with managing our properties

As a result of the IRT stock repurchase:

- We believe we enhanced the float and liquidity of our common stock; and
- We removed the potential adverse market effect on the trading of our common stock of possible sales by RAIT of its some or all of its substantial holdings of our common stock.

As a result of the management internalization we expect to save approximately $2.5 million per year on general and administrative expenses after the shared services period ends while eliminating the increased management cost related to growth under the external management contract structure.

2016 Common Stock Offering

On October 5, 2016, we closed an underwritten public offering, or the 2016 common stock offering, of 25,000,000 shares of our common stock at a public offering price of $9.00 per share for total net proceeds of approximately $213.4 million. On October 21, 2016, we closed on the underwriters' option to purchase 3,750,000 additional shares of our common stock at the public offering price, less underwriting discounts and commissions netting us an additional $32.1 million of proceeds. In the aggregate, we received approximately $245.5 million of net proceeds from the 2016 common stock offering. We used the net proceeds from the 2016 common stock offering plus available cash as follows: $40.0 million was used to repay our $40.0 million senior secured term loan facility; $43.0 million was reserved for, and ultimately paid to, RAIT at the closing of the management internalization; $62.2 million was used for the IRT stock repurchase; and $107.3 million was used to repay outstanding borrowings under our $325.0 million senior secured credit facility.

Financing Strategy

We intend to use prudent amounts of leverage in making our investments. As previously disclosed, we determined that the strategic long term benefits of our acquisition of Trade Street Residential, Inc., or TSRE, in September 2015 justified exceeding our historical leverage limits, defined as having total indebtedness of no more than approximately 65% of the combined initial purchase price of all of the properties in our portfolio. Also, as previously disclosed, following the completion of our acquisition of TSRE, or the TSRE acquisition, we instituted a strategy, which we refer to as our capital recycling strategy, seeking to reduce IRT's leverage ratio over time by using the proceeds from sales of properties which are outside our core geographic footprint in the Southeastern United States or which we believe we have limited potential for further improvements to their operating results to repay a portion of our indebtedness. We have successfully continued to implement our capital recycling strategy to reduce our leverage and reduce our exposure to short term indebtedness. During 2016, our leverage as measured by the ratio of our debt to gross assets decreased from 64% to 54.3%. We continue to review and reposition our financing structures seeking to enhance our flexibility and liquidity while continuing to reduce our leverage. For 2017, we expect one focus of our capital recycling strategy to be to match sales of our properties we classify as “C” properties with acquisitions we classify as “B” properties using the proceeds of sales of the “C” properties. We classify our properties based on industry standards. Our goal in having this focus for our capital recycling strategy in 2017 is to increase the amount of “B” properties in, and remove the “C” properties from, our portfolio without increasing our leverage or requiring additional issuances of our equity.

For further description of our indebtedness at December 31, 2016, see “Part II-Item 8. Financial Statements and Supplementary Data-Note 5: Indebtedness” below, or the financial statements indebtedness note.

In general, however, by operating on a leveraged basis, we expect to have more funds available for property acquisitions and other purposes, which we believe will allow us to acquire more properties than would otherwise be possible, resulting in a larger and more diversified portfolio. See “Part I-Item 1A. Risk Factors—Risks Associated with Debt Financing” below for more information about the risks related to operating on a leveraged basis.

If our board of directors changes our policies regarding our use of leverage, we expect that it will consider many factors, including, among others, the lending standards of government-sponsored enterprises, such as the Federal National Mortgage Association, or Fannie Mae, and the Federal Home Loan Mortgage Corporation, or Freddie Mac, for loans in connection with the financing of apartment properties, the leverage ratios of publicly traded REITs with similar investment strategies, the cost of leverage as compared to expected operating net revenues and general market conditions.

Development and Structure of Our Company

We were formed as a Maryland corporation on March 26, 2009. RAIT acquired beneficial ownership of 100% of our outstanding common stock on January 20, 2011 for approximately $2.5 million and we commenced operations on April 29, 2011 upon our acquisition of six properties from RAIT. Since our formation, we have sold 55,198,300 shares of our common stock in six underwritten public offerings raising $497.2 million of gross proceeds. While RAIT has bought shares in several of these offerings, RAIT's ownership percentage was reduced after each offering. On October 5, 2016, we repurchased and retired all 7,269,719 shares of our common stock owned by RAIT.

We conduct our business through a traditional umbrella partnership REIT, or UPREIT, structure in which our properties are owned by our operating partnership, IROP, directly or through subsidiaries. We are the sole general partner of IROP. IROP was formed as a Delaware limited partnership on March 27, 2009. Substantially all of our assets are held by, and substantially all of our operations are conducted through, our operating partnership. As the sole general partner of our operating partnership, we have the exclusive power under the partnership agreement to manage and conduct its business. Since IROP's formation, IROP has issued 3,207,868 IROP units to unaffiliated third parties as part of the consideration to acquire 23 properties in five transactions, including 1,925,419 IROP units issued in connection with the TSRE acquisition. These IROP units are exchangeable for the equivalent number of shares of common stock or the equivalent value in cash, at our option, in defined circumstances. From IROP's formation through December 31, 2016, 298,919 IROP units held by unaffiliated third parties have been exchanged for 298,913 shares of our common stock with fractional units being settled in cash. From January 1, 2017 through March 1, 2017, 39,899 of IROP units held by unaffiliated third parties were exchanged for 39,899 shares of our common stock. As of December 31, 2016, 2,908,949 IROP units held by unaffiliated third parties were outstanding. As of March 1, 2017, 2,869,050 IROP units held by unaffiliated third parties were outstanding. We refer to these transactions as UPREIT transactions. Limited partners have certain limited approval and voting rights.

As described above under "Management Internalization," we became internally managed as of December 20, 2016. Prior to that, we were externally advised by our advisor, a RAIT subsidiary, pursuant to an advisory agreement and subject to the oversight of our board of directors. As described above, we acquired our advisor from RAIT as a result of the management internalization and terminated the advisory agreement. Our advisor was formed on March 26, 2009 and, prior to the management internalization, was responsible for managing our day-to-day business operations and identifying properties for us to acquire. We did not have any employees until the management internalization closed. See "Employees" below. Items of compensation and expense reimbursement we paid to our advisor prior to the management internalization are outlined below in Item 8-"Financial Statements and Supplementary Data—Note 9. Related Party Transactions and Arrangements."

As described above under "Management Internalization," we acquired the multifamily property management business of RAIT on December 20, 2016 in connection with the management internalization. We now operate that business in our wholly owned subsidiary, IRT Management, LLC, or IRT property manager, formed October 26, 2016. Prior to that, RAIT Residential, a RAIT subsidiary, was our property manager. In the management internalization, RAIT Residential transferred substantially all of its assets and certain of its liabilities to us and we hired substantially all of its employees. IRT property manager is a full-service apartment property management company that, as of

December 31, 2016, employs approximately 400 staff and professionals and manages approximately 15,000 apartment units, including 12,982 units owned by us. IRT property manager provides services to us in connection with the rental, leasing, operation and management of our properties.

Competition

In attracting and retaining residents to occupy our properties, we compete with numerous other housing alternatives. Our properties compete directly with other rental apartments as well as condominiums and single-family homes that are available for rent or purchase in the sub-markets in which our properties are located. Principal factors of competition include rent or price charged, attractiveness of the location and property and quality and breadth of services and amenities. If our competitors offer leases at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants.

The number of competitive properties relative to demand in a particular area has a material effect on our ability to lease apartment units at our properties and on the rents we charge. In certain sub-markets there exists an oversupply of single family homes and condominiums and a reduction of households, both of which affect the pricing and occupancy of our rental apartments. Additionally, we compete with other real estate investors, including other apartment REITs, pension and investment funds, partnerships and investment companies in acquiring, redeveloping and managing apartment properties. This competition affects our ability to acquire properties and the price that we pay for such acquisitions.

Employees

As of March 1, 2017, we had 395 employees and believe our relationships with our employees to be good. None of our employees are covered by a collective bargaining agreement.

Regulation

Our investments are subject to various federal, state, and local laws, ordinances, and regulations, including, among other things, zoning regulations, land use controls, environmental controls relating to air and water quality, noise pollution, and indirect environmental impacts such as increased motor vehicle activity. We believe that we have all permits and approvals necessary under current law to operate our investments.

Income Taxes

We have elected to be taxed as a REIT beginning with the taxable year ended December 31, 2011. Accordingly, we recorded no income tax expense for the years ended December 31, 2016, 2015, 2014 and 2013.

To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our ordinary taxable income to stockholders. As a REIT, we generally are not subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and core funds from operations, or core FFO; however, we believe that we are organized and operate in such a manner as to qualify and maintain treatment as a REIT and intend to operate in such a manner so that we will remain qualified as a REIT for federal income tax purposes.   For a discussion of the tax implications of our REIT status to us and our stockholders, see “Material U.S. Federal Income Tax Considerations” contained in Exhibit 99.1 to this Annual Report on Form 10-K.

The table below reconciles the differences between reported net income (loss), total taxable income and estimated REIT taxable income for the three years ended December 31, 2016 (dollars in thousands):

	For the Years Ended December 31		
	2016	2015	2014
Net Income	$(9,555)	$30,156	$2,944
Add (deduct):			
Depreciation and amortization differences	(3,063)	334	489
Gain/loss differences	4,680	(3,175)	(2,882)

Gain recognized on TSRE Acquisition	(621)	(64,604)	-
IRT Internalization Expense	44,976	-	-
Other book to tax differences:			
Capitalized acquisition costs	-	20,973	1,740
Share-based compensation expense	1,001	495	126
Other	(1,382)	6	3
Total taxable income (loss)	$36,036	$(15,815)	$2,420
Deductible capital gain distribution	(34,783)	(4,376)	-
Taxable (income)/loss allocable to noncontrolling interest	(1,253)	1,010	(16)
Estimated REIT taxable income (loss) before dividends paid deduction	$-	$(19,181)	$2,404

6

For the year ended December 31, 2016, the tax classification of our dividends on common shares was as follows:

Record Date	Payment Date	Dividend Paid	Ordinary Income	Qualified Dividend	Total Capital Gain Distribution	Unrecaptured Section 1250 Gain	Return of Capital
1/29/2016	2/16/2016	$ 0.0600	$ 0.0042	$ -	$ 0.0558	$ 0.0198	$ -
2/29/2016	3/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
3/31/2016	4/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
4/29/2016	5/16/2016	0.0600	0.0042	-	0.0558	0.0198	-
5/31/2016	6/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
6/30/2016	7/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
7/29/2016	8/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
8/31/2016	9/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
9/30/2016	10/17/2016	0.0600	0.0042	-	0.0558	0.0198	-
10/31/2016	11/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
11/30/2016	12/15/2016	0.0600	0.0042	-	0.0558	0.0198	-
12/30/2016	01/17/2017	0.0600	0.0042	-	0.0558	0.0198	-
		$ 0.7200	$ 0.0504	$ -	$ 0.6696	$ 0.2376	$ -

For the year ended December 31, 2015, the estimate REIT taxable loss before dividends paid deduction is primarily attributable to prepayment penalties incurred on the mortgage debt that was assumed as part of, and paid off upon closing of, the TSRE acquisition.

For the year ended December 31, 2015, the tax classification of our dividends on common shares was as follows:

Record Date	Payment Date	Dividend Paid	Ordinary Income	Qualified Dividend	Total Capital Gain Distribution	Unrecaptured Section 1250 Gain	Return of Capital
1/30/2015	2/17/2015	$ 0.0600	$ -	$ -	$ 0.0101	$ 0.0101	$ 0.0499
2/27/2015	3/16/2015	0.0600	-	-	0.0101	0.0101	0.0499
3/31/2015	4/15/2015	0.0600	-	-	0.0101	0.0101	0.0499
4/30/2015	5/15/2015	0.0600	-	-	0.0101	0.0101	0.0499
5/29/2015	6/15/2015	0.0600	-	-	0.0101	0.0101	0.0499
6/30/2015	7/15/2015	0.0600	-	-	0.0101	0.0101	0.0499
7/31/2015	8/17/2015	0.0600	-	-	0.0101	0.0101	0.0499
8/29/2015	9/15/2015	0.0600	-	-	0.0101	0.0101	0.0499
9/15/2015	10/15/2015	0.0340	-	-	0.0057	0.0057	0.0283
9/30/2015	10/15/2015	0.0260	-	-	0.0044	0.0044	0.0216

10/30/2015	11/16/2015	0.0600	-	-	0.0101	0.0101	0.0499
11/30/2015	12/15/2015	0.0600	-	-	0.0101	0.0101	0.0499
12/31/2015	01/15/2016	0.0600	-	-	0.0101	0.0101	0.0499
		$ 0.7200	$ -	$ -	$ 0.1212	$ 0.1212	$ 0.5988

Financial Information About Industry Segments

Our current business consists of owning, managing, operating, leasing, acquiring, developing, investing in, and disposing of real estate assets. We internally evaluate all of our real estate assets as one industry segment, and, accordingly, we do not report segment information.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The internet address of the SEC site is http://www.sec.gov. Our internet address is http:// www.irtliving.com. We make our SEC filings available free of charge on or through our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We are not incorporating by reference in this report any material from our website.

ITEM 1A. Risk Factors

Stockholders should carefully consider the following risk factors in conjunction with the other information contained in this report. The risks discussed in this report could adversely affect our business, operating results, prospects and financial condition. This could cause the value of our common stock to decline and/or you to lose part or all of any investment in our securities. 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 report, we deem immaterial may also harm our business. Some statements in this report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the "Forward-Looking Statements" above contained in this report.

Risks Related to Our Business and Operations

Our portfolio of properties consists primarily of apartment communities concentrated in certain markets, and any adverse developments in local economic conditions or in the demand for apartment units in these markets may cause our operating results to decline.

Our portfolio of properties consists primarily of apartment communities geographically concentrated in the Southeastern United States, including Louisville, Kentucky, Memphis, Tennessee, Atlanta, Georgia, Raleigh, North Carolina, Oklahoma City, Oklahoma and Dallas, Texas. As such, we are susceptible to local economic conditions and the supply of and demand for apartment units in these markets. If there is a downturn in the local economy or an oversupply of or decrease in demand for apartment units in these markets, our business could be harmed to a greater extent than if we owned a real estate portfolio that was more diversified in terms of both geography and industry focus.

Adverse economic conditions may reduce or eliminate our returns and profitability and, as a result, our ability to make distributions to our stockholders.

Our operating results may be affected by market and economic challenges, which may reduce or eliminate our returns and profitability and, as a result, our ability to make distributions to our stockholders. These market and economic challenges include, principally, the following:

- adverse conditions in the real estate industry could harm our business and financial condition by reducing the value of our existing assets, limiting our access to debt and equity capital and otherwise negatively impacting our operations;
- any future downturn in the U.S. economy and the related reduction in spending, reduced home prices and high unemployment may result in tenant defaults under leases, vacancies at our apartment communities and concessions or reduced rental rates under new leases due to reduced demand;
- the rate of household formation or population growth in our markets or a continued or exacerbated economic slow-down experienced by the local economies where our properties are located or by the real estate industry generally may result in changes in supply of or demand for apartment units in our markets; and
- the failure of the real estate market to attract the same level of capital investment in the future that it attracts at the time of our purchases or a reduction in the number of companies seeking to acquire properties may result in the value of our investments not appreciating or decreasing significantly below the amount we pay for these investments.

The length and severity of any economic slow-down or downturn cannot be predicted. Our operations and, as a result, our ability to make distributions to our stockholders could be negatively affected to the extent that an economic slow-down or downturn is prolonged or becomes severe.

We depend on residents for revenue, and vacancies, resident defaults or lease terminations may cause a material decline in our operating results.

The success of our investments depends upon the occupancy levels, rental revenue and operating expenses of our apartment communities. Our revenues may be adversely affected by the general or local economic climate, local real estate considerations (such as oversupply of or reduced demand for apartment units), the perception by prospective residents of the safety, convenience and attractiveness of the areas in which our apartment communities are located (including the quality of local schools and other amenities) and increased operating costs (including real estate taxes and utilities).

Occupancy rates and rents at a community, including apartment communities that are newly constructed or in the lease-up phase, may fail to meet our original expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development by competitors of competing communities and we may be unable to complete lease-up of a community on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues.

Vacancy rates may increase in the future and we may be unable to lease vacant units or renew expiring leases on attractive terms, or at all, and we may be required to offer reduced rental rates or other concessions to residents. Our revenues may be lower as a result of lower occupancy rates, increased turnover, reduced rental rates, increased economic concessions and potential increases in uncollectible rent. In addition, we will continue to incur expenses, including maintenance costs, insurance costs and property taxes, even though a property maintains a high vacancy rate. Our financial performance will suffer if our revenues decrease or our costs increase as a result of this trend.

The underlying value of our properties and our ability to make distributions to our stockholders will depend upon our ability to lease our available apartment units and the ability of our residents to generate enough income to pay their rents in a timely manner. Our residents' inability to pay rents may be impacted by employment and other constraints on their personal finances, including debts, purchases and other factors. Upon a resident default, we will attempt to remove the resident from the premises and re-lease the unit as promptly as possible. Our ability and the time required to evict a resident, however, will depend on applicable law. Substantially all of the leases for our properties are short-term leases (generally, one year or less in duration). As a result, our rental income and our cash flow are impacted by declines in market conditions more quickly than if our leases were for longer terms.

We may be limited in our ability to diversify our investments.

Our ability to diversify our portfolio may be limited both as to the number of investments owned and the geographic regions in which our investments are located. While we will seek to diversify our portfolio by geographic location, we expect to focus on markets with high potential for attractive returns located in the United States and, accordingly, our actual investments may result in concentrations in a limited number of geographic regions. As a result, there is an increased likelihood that the performance of any single property, or the economic performance of a particular region in which our properties are located, could materially affect our operating results.

We may fail to consummate some or all potential property dispositions we disclose individually or in the aggregate, whether as part of our capital recycling strategy or otherwise, which could have a material adverse impact on our liquidity and leverage.

We have continued a capital recycling strategy that contemplates selling properties and may disclose other potential property dispositions, whether individually or in the aggregate, at any time and from time to time. We may disclose our plans to sell one or more properties prior to offering such properties for sale, identifying or negotiating with potential buyers, entering into letters of intent or if entering into a purchase and sale agreement at any time and from time to time. These letters of intent are generally non-binding. If we enter into a legally binding purchase and sale agreement to dispose of a property, any disposition may be subject to the satisfaction of various closing conditions, and there can be no assurance that these conditions will be satisfied or that the disposition will close on the terms described, or at all. If we fail to consummate these dispositions, we will not have the use of the proceeds of the dispositions and may not be able to carry out our intended plans for such proceeds or may have to obtain liquidity from alternative sources on less favorable terms. To the extent we intend to use proceeds of property sales to purchase new properties or to reduce our leverage by repaying our indebtedness, any such failure may cause us not to have the liquidity necessary to purchase such new properties or repay our indebtedness in accordance with its terms or we may be required to obtain such liquidity from such alternative sources. As a result, failure to consummate one or more of pending property dispositions we may disclose could have a material adverse impact on our liquidity and affect our ability to purchase new properties or may result in our obtaining alternative financing which may increase our leverage which could adversely affect our financial condition, results of operations and the market price of our common stock.

We may fail to consummate some or all potential property acquisitions we disclose individually or in the aggregate, which could have a material adverse impact on our results of operations, earnings and cash flow.

We may disclose potential property acquisitions, whether individually or in the aggregate, at any time and from time to time. We refer to the aggregate number of potential acquisitions we are considering at any particular time as our pipeline. We generally include a property in our pipeline when our underwriting and due diligence efforts have proceeded to the point where we have issued a letter of intent to acquire a particular property or if we have entered into a purchase and sale agreement. These letters of intent are generally non-binding. If we enter into legally binding purchase and sale agreements to acquire a property, any acquisition may be subject to the satisfaction of various closing conditions, and there can be no assurance that these conditions will be satisfied or that the acquisitions will close on the terms described herein, or at all. If we fail to consummate these acquisitions, to the extent we issued additional securities in order to use the proceeds of the offering to fund any of the acquisitions, we may have issued a significant number of our securities without realizing a corresponding increase in earnings and cash flow from acquiring the properties involved in such acquisitions. In addition, we may have broad authority to use the net proceeds of any offering for other purposes, including the repayment of indebtedness, the acquisition of other properties that we may identify in the future or for other investments, which may not be initially accretive to our results of operations. As a result, failure to consummate one or more of the pending property acquisitions could have a material adverse impact on our financial condition, results of operations and the market price of our common stock.

We may suffer from delays in locating suitable investments or, because of our public company status, may be unable to acquire otherwise suitable investments, which could adversely affect our growth prospects and results of operations.

Our ability to achieve our investment objectives and to make distributions to our stockholders depends upon our ability to locate, obtain financing for and consummate the acquisition of apartment properties that meet our investment criteria. The current market for apartment properties that meet our investment criteria is highly competitive. We cannot be sure that we will be successful in obtaining suitable investments on financially attractive terms or at all.

Additionally, as a public company, we are subject to the ongoing reporting requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Pursuant to the Exchange Act, we may be required to file with the SEC financial statements of properties we acquire. To the extent any required financial statements are not available or cannot be obtained, we may not be able to acquire the property. As a result, we may be unable to acquire certain properties that otherwise would be suitable investments.

If we are unable to invest the proceeds of any offering of our securities in real properties in a timely manner, we may invest the proceeds in short-term, investment-grade investments which typically will yield significantly less than what we expect our investments will yield. As a result, delays we encounter in identifying and consummating potential acquisitions may adversely affect our growth prospects, results of operations and our ability to make distributions to our stockholders.

If we lose or are unable to retain or obtain key personnel, our ability to implement our investment strategies could be hindered, which could reduce our ability to make distributions and adversely affect the trading price of our common stock.

Our success depends to a significant degree upon the contributions of certain of our officers and other key personnel. If any of our key personnel were to terminate their employment with us, our operating results could suffer. Further, we do have not and do not intend to maintain key person life insurance that would provide us with proceeds in the event of death or disability of any of our key personnel. 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 you 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 trading price of our common stock may be adversely affected.

We may not manage the management internalization effectively or realize its anticipated benefits.

We internalized our management and separated from RAIT in a series of transactions completed on December 20, 2016 which included acquiring all of the shares of our common stock held by RAIT, acquiring our external advisor from RAIT and terminating the advisory agreement and acquiring the assets of RAIT's apartment property manager from RAIT. We may not manage the management internalization effectively. The management internalization could be a time-consuming and costly process. The internalized company may encounter potential difficulties in the integration process which may result in the inability to successfully internalize corporate management or the property manager in a manner that permits us to achieve the cost savings anticipated to result from the management internalization. Following the management internalization, we expect to be reliant on RAIT for certain services such as information technology, human resources, insurance, investor relations, legal, tax and accounting for a period of time after the closing. If we are unable to internalize or find other providers for these services within a reasonable time period, we may not achieve all of the expected benefits of the management internalization. We may not be able to retain all of the current employees who provided services to our former external advisor who transferred from RAIT to us upon the management internalization or our executive officers. We also may not be able to retain all of the current properties of the property manager or the employees who transferred from RAIT to us upon the management internalization. Our general and administrative expenses after the management internalization could be higher than our current expectations. The failure to manage the internalization effectively, including failure to smoothly transition services or retain employees, could result in the anticipated benefits of the management internalization not being realized in the timeframe currently anticipated or at all. Any of these foregoing risks could materially adversely affect our business, financial condition and results of operations.

The management internalization was negotiated between a special committee of RAIT's board of trustees comprised solely of independent trustees, or the RAIT special committee, and a special committee of the IRT board of directors comprised solely of independent directors, or the IRT special committee, to address potential conflicts of interest among executive officers shared by RAIT and IRT.

The management internalization was negotiated by the RAIT special committee on behalf of RAIT with the IRT special committee on behalf of IRT in order for RAIT and IRT to address potential conflicts of interest among executive officers shared by RAIT and IRT, including the following: (i) Mr. Schaeffer's service as CEO of both RAIT and IRT and as chairman of the board of the board of trustees and as chairman of the IRT board of directors; and (ii) Mr. Sebra's service as CFO and treasurer of both RAIT and IRT. As a result, the affiliated officers may have had different interests than we do with respect to the management internalization and the future conduct of the businesses of the companies. While the IRT special committee was responsible for negotiating on behalf of IRT to address potential conflicts of interest related to the management internalization, including those of the affiliated officers, these potential conflicts would not exist in the case of a transaction negotiated with unaffiliated third parties.

The representations, warranties, covenants and indemnities in the IRT internalization agreement and related agreements are subject to limitations and qualifiers, which may limit our ability to enforce any remedy under these agreements.

The representations, warranties, covenants and indemnities in the IRT internalization agreement, the related shared services agreement and other agreements related to the IRT management internalization are subject to limitations and qualifiers, which may limit our ability to enforce any remedy under these agreements. These include, without limitation, limitations on liability and materiality qualifiers on certain representations and covenants.

If we fail to maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results and may be required to incur additional costs and divert management resources.

We depend on our ability to produce accurate and timely financial statements in order to run our business. If we fail to do so, our business could be negatively affected and our independent registered public accounting firm may be unable to attest to the accuracy of our financial statements. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant’s financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected, on a timely basis by the Company’s internal controls.

Although we continuously monitor the design, implementation and operating effectiveness of our internal controls over financial reporting and disclosure controls and procedures, there can be no assurance that significant deficiencies or material weaknesses will not occur in the future. If we fail to maintain effective internal controls and disclosure controls in the future, it could result in a material misstatement of our financial statements that may not be prevented or detected on a timely basis, which could cause investors, analysts and others to lose confidence in our reported financial information. Our inability to remedy any additional deficiencies or material weaknesses that may be identified in the future could, among other things, cause us to fail to file timely our periodic reports with the SEC (which may have a material adverse effect on our ability to access the capital markets); prevent us from providing reliable and accurate financial information and forecasts or from avoiding or detecting fraud; or require us to incur additional costs or divert management resources to achieve compliance.

A change in the United States government policy with regard to Fannie Mae and Freddie Mac could impact our financial condition.

Fannie Mae and Freddie Mac are a major source of financing for the multifamily residential real estate sector. Many multifamily companies depend heavily on Fannie Mae and Freddie Mac to finance growth by purchasing or guarantying apartment loans and to refinance outstanding indebtedness as it matures. In August 2012, the U.S. Treasury modified its investment in Fannie Mae and Freddie Mac to accelerate the reduction of Fannie Mae’s and Freddie Mac’s investment portfolio and to require a sweep of all quarterly profits generated by Fannie Mae and Freddie Mac.

In March 2013, proposed legislation was introduced in the U.S. Senate to sell the assets of Fannie Mae and Freddie Mac over the next five years and to replace the firms’ roles in the housing market with government bond insurance. If this or similar legislation is enacted, the absence of Fannie Mae and Freddie Mac may restrict financing for the multifamily residential real estate sector and, therefore, may adversely affect our business.

We do not know when or if Fannie Mae or Freddie Mac will further restrict their support of lending to the multifamily industry or to us in particular. If new U.S. government regulations (i) heighten Fannie Mae's and Freddie Mac's underwriting standards, (ii) adversely affect interest rates and (iii) continue to 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 Fannie Mae and Freddie Mac 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, as well as dispose of our multifamily assets upon our liquidation, and our ability to refinance our existing mortgage obligations as they come due and obtain additional long-term financing for the acquisition of additional multifamily apartment communities on favorable terms or at all.

If we are not able to cost-effectively maximize the life of our properties, we may incur greater than anticipated capital expenditure costs, which may adversely affect our ability to make distributions to our stockholders.

As of December 31, 2016, the average age of our apartment communities was approximately 10 years, after adjusting for significant renovations. While the majority of our properties are newly-constructed or have undergone substantial renovations since they were constructed, older properties may carry certain risks including unanticipated repair costs associated with older properties, increased maintenance costs as older properties continue to age, and cost overruns due to the need for special materials and/or fixtures specific to older properties. Although we take a proactive approach to property preservation, utilizing a preventative maintenance plan, and selective improvements that mitigate the cost impact of maintaining exterior building features and aging building components, if we are not able to cost-effectively maximize the life of our properties, we may incur greater than anticipated capital expenditure costs which may adversely affect our ability to make distributions to our stockholders.

Our growth will depend upon future acquisitions of multifamily apartment communities, and we may be unable to complete acquisitions on advantageous terms or acquisitions may not perform as we expect.

Our growth will depend upon future acquisitions of multifamily apartment communities, which entails various risks, including risks that our investments may not perform as we expect. Further, we will face competition for attractive investment opportunities from other real estate investors, including local real estate investors and developers, as well as other multifamily REITs, income-oriented non-traded REITs, and private real estate fund managers, and these competitors may have greater financial resources than us and a greater ability to borrow funds to acquire properties. This competition may increase as investments in real estate become increasingly attractive relative to other forms of investment. As a result of competition, we may be unable to acquire additional properties as we desire or the purchase price may be significantly elevated. In addition, our acquisition activities pose the following risks to our ongoing operations:

- we may not achieve the increased occupancy, cost savings and operational efficiencies projected at the time of acquiring a property;
- management may incur significant costs and expend significant resources evaluating and negotiating potential acquisitions, including those that we subsequently are unable to complete;
- we may acquire properties that are not initially accretive to our results upon acquisition, and we may not successfully manage and operate those properties to meet our expectations;
- we may acquire properties outside of our existing markets where we are less familiar with local economic and market conditions;
- some properties may be worth less or may generate less revenue than, or simply not perform as well as, we believed at the time of the acquisition;
- we may be unable to assume mortgage indebtedness with respect to properties we seek to acquire or obtain financing for acquisitions on favorable terms or at all;

- we may forfeit earnest money deposits with respect to acquisitions we are unable to complete due to lack of financing, failure to satisfy closing conditions or certain other reasons;
- we may spend more than budgeted to make necessary improvements or renovations to acquired properties; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties, and claims for indemnification by general partners, trustees, officers, and others indemnified by the former owners of the properties.

Our growth depends on securing external sources of capital that are outside of our control, which may affect our ability to take advantage of strategic opportunities, satisfy debt obligations and make distributions to our stockholders.

In order to maintain our qualification as a REIT, we are generally required under the Code to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price per share of our common stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, meet the capital and operating needs of our existing properties or satisfy our debt service obligations. Further, in order to meet the

REIT distribution requirements and maintain our REIT status and to avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes or the effect of non-deductible capital expenditures, the creation of reserves, certain restrictions on distributions under loan documents or required debt or amortization payments.

To the extent that capital is not available to acquire properties, profits may not be realized or their realization may be delayed, which could result in an earnings stream that is less predictable than some of our competitors and result in us not meeting our projected earnings and distributable cash flow levels in a particular reporting period. Failure to meet our projected earnings and distributable cash flow levels in a particular reporting period could have an adverse effect on our financial condition and on the market price of our common stock.

We may increase our debt or raise additional capital in the future, which could adversely affect our financial condition and growth prospects.

To execute our business strategy, we will require additional capital. Debt or equity financing, however, may not be available to us on terms acceptable to us, if at all. If we incur additional debt or raise equity through the issuance of preferred stock, the terms of the debt or preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of any new debt may also impose additional and more stringent restrictions on our operations than we currently have. If we raise funds through the issuance of additional common equity, either through public or private offerings or rights offerings, the percentage ownership of our stockholders would decline. If we are unable to raise additional capital when needed, it could affect our financial condition and growth prospects.

We may be subject to contingent or unknown liabilities related to properties or business that we have acquired or may acquire for which we may have limited or no recourse against the sellers.

The properties or businesses that we have acquired or may acquire may be subject to unknown or contingent liabilities for which we have limited or no recourse against the sellers. Unknown liabilities might include liabilities for, among other things, cleanup or remediation of undisclosed environmental conditions, liabilities under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, claims of residents, vendors or other persons dealing with the entities prior to the acquisition of such property, tax liabilities, and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. Because many liabilities, including tax liabilities, may not be identified within the applicable contractual indemnification period, we may have no recourse against any of the owners from whom we acquired such properties for these liabilities. The existence of such liabilities could significantly adversely affect the value of the property subject to such liability. As a result, if a liability was asserted against us based on ownership of any of such properties, then we might have to pay substantial sums to settle it, which could adversely affect our cash flows.

Representations and warranties made by us in connection with sales of our properties may subject us to liability that could result in losses and could harm our operating results and, therefore distributions we make to our stockholders.

When we sell a property, we may be required to make representations and warranties regarding the property and other customary items. In the event of a breach of such representations or warranties, the purchaser of the property may have claims for damages against us, rights to indemnification from us or otherwise have remedies against us. In any such case, we may incur liabilities that could result in losses and could harm our operating results and, therefore distributions we make to our stockholders.

General Risks Related to Investments in Real Estate

We face numerous risks associated with the real estate industry that could adversely affect our results of operations through decreased revenues or increased costs.

As a real estate company, we are subject to various changes in real estate conditions and any negative trends in such real estate conditions may adversely affect our results of operations through decreased revenues or increased costs. These conditions include:

- changes in national, regional and local economic conditions, which may be negatively impacted by concerns about inflation, deflation, government deficits, high unemployment rates, decreased consumer confidence and liquidity concerns, particularly in markets in which we have a high concentration of properties;
- fluctuations in interest rates, which could adversely affect our ability to obtain financing on favorable terms or at all;
- the inability of residents to pay rent;
- the existence and quality of the competition, such as the attractiveness of our properties as compared to our competitors' properties based on considerations such as convenience of location, rental rates, amenities and safety record;
- increased operating costs, including increased real property taxes, maintenance, insurance and utilities costs;
- weather conditions that may increase or decrease energy costs and other weather-related expenses;

- civil unrest, acts of God, including earthquakes, floods, hurricanes and other natural disasters, which may result in uninsured losses, and acts of war or terrorism;
- oversupply of multifamily housing or a reduction in demand for real estate in the markets in which our properties are located;
- a favorable interest rate environment that may result in a significant number of potential residents of our multifamily apartment communities deciding to purchase homes instead of renting;
- changes in, or increased costs of compliance with, laws and/or governmental regulations, including those governing usage, zoning, the environment and taxes; and
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

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

A residential property's income and value may be adversely affected by international, national and regional economic conditions. During the past five years, the U.S. and international markets have experienced increased levels of volatility due to a combination of many factors, including decreased values of homes and commercial real estate, limited access to credit markets, increased energy costs, increased unemployment rates, and a national and global recession. Although recently some economic conditions appear to have improved, if such improvement does not continue or if new economic or capital markets problems arise, the value of our portfolio may decline significantly. A deterioration in economic conditions may also have an adverse effect on our operations if they result in our tenants or prospective tenants being unable to afford the rents we need to charge to be profitable.

In addition, local real estate conditions such as an oversupply of properties or a reduction in demand for properties, availability of "for sale" properties and 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. A rise in energy costs could result in higher operating costs, which may 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. Layoffs, plant closings, relocations of significant local employers and other events reducing 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, all could prevent us from raising or maintaining rents, and could cause us to reduce rents.

We will face competition from third parties, including other apartment properties, which may limit our profitability and the return on any investment in our securities.

The apartment industry is highly competitive. This competition may limit our ability to increase revenue and could reduce occupancy levels and revenues at our apartment properties. 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 use 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. Competition may also result in overbuilding of apartment properties, causing an increase in the number of apartment units available which could potentially decrease our occupancy and apartment rental rates. We may also 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 net revenues generated by the 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 real estate taxes 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 revenues and the trading price of our common stock, and could cause us to reduce the amount of distributions to our stockholders.

The illiquidity of real estate investments could make it difficult for us to respond to changing economic, financial, and investment conditions or changes in the operating performance of our properties, which could reduce our cash flows and adversely affect results of operations.

Real estate investments are relatively illiquid and may become even more illiquid during periods of economic downturn. As a result, we will have a limited ability to vary our portfolio in response to changes in economic, financial and investment conditions or changes in the operating performance of our properties. We may not be able to sell a property or properties quickly or on favorable terms in response to changes in the economy or other conditions when it otherwise may be prudent to do so. This inability to respond quickly to changes in the performance of our properties as a result of an economic or market downturn could adversely affect our results of operations if we cannot sell an unprofitable property.

We will also have a limited ability to sell assets in order to fund working capital, repay debt and similar capital needs. Our financial condition could be adversely affected if we were, for example, unable to sell one or more of our properties in order to meet our debt obligations upon maturity. 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 also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We also may be required to expend funds to correct defects or to make improvements before a property can be sold, and we cannot assure you that we will have funds available to correct those defects or to make those improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations.

Moreover, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of properties that otherwise would be in our best interests.

Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect our cash flows, our ability to make distributions to our stockholders and the market price of our common stock.

Rising expenses could reduce cash flow and funds available for future acquisitions, which may have a material effect on the trading price of our common stock.

Our properties may be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance, administrative and other expenses. If we are unable to match increased costs with increased rental rates, our growth prospects, our ability to make distributions to stockholders and the trading price of our common stock may be materially and adversely affected.

Properties we purchase may not appreciate or may decrease in value.

The residential real estate market may experience substantial influxes of capital from investors. A substantial flow of capital, combined with significant competition for real estate, may result in inflated purchase prices for such assets. 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 investors 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. In addition, if interest rates applicable to financing apartment properties rise, that may negatively affect the values of our properties in any period when capitalization rates for our properties, an important valuation metric, do not make corresponding adjustments.

We may incur liabilities in connection with properties we acquire.

We may acquire properties that are subject to liabilities or that have problems relating to environmental condition, state of title, physical condition or compliance with zoning laws, building codes, or other legal requirements, many of which may not be known to us at the time of acquisition. In each case, our acquisition may be without any, or with only limited, recourse with respect to unknown liabilities or conditions. 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. While we will attempt to obtain appropriate representations and undertakings from the sellers of the properties or entities we acquire, the sellers may not have the resources to satisfy their indemnification obligations if a liability arises.

Increasing real estate taxes, utilities and insurance costs may negatively impact operating results.

As a result of our substantial real estate holdings, the cost of real estate taxes, utilities, and insuring our apartment communities is a significant component of expense. Real estate taxes, utilities costs and insurance premiums are subject to significant increases and fluctuations, which can be widely outside of our control. A number of our markets have multi-year real estate tax reassessments coming up in 2017 and tax increases may result from such reassessments. If the costs associated with real estate taxes, utilities and insurance should rise, without being offset by a corresponding increase in rental rates, our results of operations could be negatively impacted, and our ability to pay our dividends and distributions and senior debt could be affected.

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 maintain comprehensive insurance for our properties, including casualty, liability, fire, extended coverage, terrorism, earthquakes, hurricanes and rental loss customarily obtained for similar properties in amounts which our advisor 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, and there are types of losses, generally of a catastrophic nature, such as losses due to wars, pollution, environmental matters and mold, which are either uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Moreover, we cannot predict whether all of the coverage that we currently maintain will be available to us in the future, or what the future costs or limitations on any coverage that is available to us will be.

Lawsuits or other legal proceedings could result in substantial costs.

We are subject to various lawsuits and other legal proceedings and claims that arise in the ordinary course of our business operations. The defense or settlement of any lawsuit or claim may adversely affect our business, financial condition, or results of operations or result in increased insurance premiums.

We may be unable to secure funds for property improvements, which could reduce cash distributions to our stockholders.

When tenants do not renew their leases or otherwise vacate, we may be required to expend funds for capital improvements to the vacated apartment units in order to attract replacement tenants. In addition, we may require substantial funds to renovate an apartment property in order to sell, upgrade or reposition it in the market. If our reserves are insufficient to fund these improvements, we may have to obtain financing. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Moreover, some reserves required by lenders may be designated for specific uses and may not be available for capital improvements to other properties. Additional borrowing will increase our interest expense, and could result in decreased net revenues and a decreased ability to make cash distributions to our stockholders.

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

We expect that most of our tenant leases will be for a term of one year or less. Because these leases generally permit the tenants 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.

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 standards established for the market position intended for that property may prove inaccurate.

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

We may 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 may also 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. To acquire multiple properties in a single transaction, we may be required to accumulate a large amount of cash. We expect the returns that we can earn on such cash to be less than the ultimate returns on real property, and therefore, accumulating such cash could reduce the funds available for distributions. Any of the foregoing events may have an adverse effect on our operations.

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser.

If we decide to sell any of our properties, we intend to use commercially reasonable efforts to sell them for cash. However, in some instances, we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk of default by the purchaser which would reduce the value of our assets, impair our ability to make distributions to our stockholders and reduce the price of our common stock.

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

We may make investments in properties that have existing cash flow which are in various phases of development, redevelopment or repositioning and where we believe that, through limited capital expenditures, we can achieve enhanced returns (which we refer to as value-add properties), 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. We have identified a number of properties in our portfolio as value-add properties and intend to make capital expenditures on such properties. During any period when the number of our projects in development or redevelopment or those with significant capital requirements increases without a corresponding increase in stable revenue-producing properties, our revenues and net income will likely decrease, and we could have losses. Moreover, value-add properties subject us to the risks of 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. The occurrence of one or more of these risks could decrease our core FFO.

We may acquire properties through joint ventures, which could subject us to liabilities in excess of those contemplated or prevent us from taking actions which are in the best interests of our stockholders, which could adversely affect our trading price.

We may enter into joint ventures with affiliates and/or other third parties to acquire or improve properties. We may also 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 the following:

- a co-venturer, co-owner or partner may have certain approval rights over major decisions, which may prevent us from taking actions that are in the best interest of our stockholders but opposed by our partners or co-venturers;
- a co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or 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 (in which event we and any other remaining partners or members would generally remain liable for the liabilities of the partnership or joint venture);

- 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 actions contrary to our instructions, requests, objectives or policies, including our policy with respect to qualifying and maintaining our qualification as a REIT;
- agreements governing joint ventures, limited liability companies and partnerships often contain restrictions on the transfer of a member's or partner's interest or "buy-sell" or other provisions that may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms;
- 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; and
- 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.

If any of the foregoing were to occur we may be subject to liabilities in excess of those contemplated, which could adversely affect our trading price.

Risks Associated with Debt Financing

We plan to incur mortgage indebtedness and other borrowings and are not limited in the amount or percentage of indebtedness that we may incur, which may increase our business risks.

We intend to acquire properties subject to existing financing or by borrowing new funds. In addition, we intend to incur additional mortgage debt by obtaining loans secured by some, or all, of our real properties to obtain funds to acquire additional real properties and/or make capital improvements to properties. We may also 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 (computed without regard to dividends paid and excluding net capital gain), or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for U.S. federal income tax purposes.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur. We are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions will generally be secured by mortgages or deeds in trust on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt.

In addition, for U.S. federal income 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 we could lose part or all of our investment in multiple properties. Each of these events could in turn cause the value of our common stock and distributions payable to stockholders to be reduced.

Any mortgage debt which we place on properties may prohibit prepayment and/or impose a prepayment penalty upon the sale of a mortgaged property. If a lender invokes these prohibitions or penalties upon the sale of a property or prepayment of a mortgage on a property, the cost to us to sell the property could increase substantially. This could decrease the proceeds from a sale or refinancing or make the sale or refinancing impractical, which may lead to a reduction in our income, which would reduce core FFO and, accordingly, our distributions to stockholders.

We may also finance our property acquisitions using interest-only mortgage indebtedness. 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 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.

Failure to procure adequate capital and funding may decrease our profitability and our ability to make distributions, reducing the market price of our common stock.

We depend upon the availability of adequate funding and capital for our operations. As a REIT, we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to our stockholders and are therefore not able to retain significant amounts of our earnings for new investments. Consequently, we will depend upon the availability of financing and additional capital to execute our investment strategy. If sufficient financing or capital is not available to us on acceptable terms, we may not be able to achieve anticipated levels of profitability either due to the lack of funding or an increase in funding costs and our ability to make distributions and the price of our common stock may decline.

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 would 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. Our KeyBank senior facility includes restrictions and requirements relating to the incurrence of debt, permitted investments, maintenance of insurance, mergers and sales of assets and transactions with affiliates. We expect that any other loan agreements we enter into will contain similar covenants and may also impose other restrictions and limitations. Any such covenants, restrictions or limitations may limit our ability to make distributions to you and could make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes.

Lenders may be able to recover against our other properties under our mortgage loans.

In financing our property acquisitions, we may seek to obtain secured nonrecourse loans. However, only recourse financing may be available, in which event, in addition to the property securing the loan, the lender would have the ability to look to our other assets for satisfaction of the debt if the proceeds from the sale or other disposition of the property securing the loan are insufficient to fully repay it. Also, in order to facilitate the sale of a property, we may allow the buyer to purchase the property subject to an existing loan whereby we remain responsible for certain liabilities associated with the debt.

If we are required to make payments under any “bad boy” carve-out guaranties that we may provide in connection with certain mortgages and related loans, our business and financial results could be materially adversely affected.

In obtaining certain nonrecourse loans, we may provide standard carve-out guaranties. These guaranties are only applicable if and when the borrower directly, or indirectly through agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper (commonly referred to as “bad boy” guaranties). Although we believe that “bad boy” carve-out guaranties are not guaranties of payment in the event of foreclosure or other actions of the foreclosing lender that are beyond the borrower’s control, some lenders in the real estate industry have recently sought to make claims for payment under such guaranties. In the event such a claim were made against us under a “bad boy” carve-out guaranty following foreclosure on mortgages or related loan, and such claim were successful, our business and financial results could be materially adversely affected.

We may be subject to risks related to interest rate fluctuations, and the derivative financial instruments that we may use may be costly and ineffective, may reduce the overall returns on any investment in our securities and have other related risks.

We may be subject to risks related to interest rate fluctuations if any of our debt is subject to a floating interest rate. At December 31, 2016, we had $750.2 million of outstanding indebtedness, $150.0 million of which was floating-rate indebtedness. On June 24, 2016, we entered into an interest rate swap contract with a notional value of $150.0 million, a strike rate of 1.145% based on 1-month LIBOR and a maturity date of June 17, 2021 to hedge our interest rate exposure on floating rate indebtedness. To the extent that we use derivative financial instruments to hedge our exposure to floating interest rate debt, we may be exposed to credit, basis and legal enforceability risks. Derivative financial instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. Basis risk occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. Finally, legal enforceability risks encompass general contractual risks, including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. Moreover, hedging strategies involve transaction and other costs. If we are unable to manage these risks and costs effectively, our results of operations, financial condition and ability to make distributions to you will be adversely affected.

Some of our outstanding mortgage indebtedness contains, and we may in the future acquire or finance properties with, lock-out provisions, 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.

A lock-out provision is a provision that prohibits the prepayment of a loan during a specified period of time. Lock-out provisions may include terms that provide strong financial disincentives for borrowers to prepay their outstanding loan balance and exist in order to protect the yield expectations of lenders. Some of our outstanding mortgage indebtedness is, and we expect that many of our properties will be, subject to lock-out provisions. Lock-out provisions could materially restrict us from selling or otherwise disposing of or refinancing properties when we may desire to do so. Lock-out provisions may prohibit us from reducing the outstanding indebtedness with respect to any properties, refinancing such indebtedness on a non-recourse basis at maturity, or increasing the amount of indebtedness with respect to such properties. Lock-out provisions could impair our ability to take other actions during the lock-out period that could be in the best interests of our stockholders and, therefore, may have an adverse impact on the value of our shares relative to the value that would result if the lock-out provisions did not exist. 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.

Complying with REIT requirements may limit our ability to hedge risk effectively.

The REIT provisions of the Code may limit our ability to hedge the risks inherent to our operations. Any income or gain derived by us from transactions that hedge certain risks, such as the risk of changes in interest rates, will not be treated as gross income for purposes of either the 75% or the 95% Gross Income Test, as defined in Exhibit 99.1 “Material U.S. Federal Income Tax Considerations” of this report, provided specific requirements are met. Such requirements include that the hedging transaction be properly identified within prescribed time periods and that the transaction either (i) hedges risks associated with indebtedness issued by us that is incurred to acquire or carry real estate assets or (ii) manages the risks of currency fluctuations with respect to income or gain that qualifies under the 75% or 95% Gross Income Test (or assets that generate such income). To the extent that we do not properly identify such transactions as hedges, hedge with other types of financial instruments, or hedge other types of indebtedness, the income from those transactions will not be treated as qualifying income for purposes of the 75% and 95% Gross

Income Tests. As a result of these rules, we may have to limit the use of hedging techniques that might otherwise be advantageous, which could result in greater risks associated with interest rate or other changes than we would otherwise incur.

Higher levels of debt or increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

We expect that we will incur additional indebtedness in the future. Interest we pay reduces our core FFO. In addition, if we incur variable rate debt in the future, increases in interest rates could raise our interest costs, which would reduce our cash flows and our ability to make distributions to our stockholders. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected, and we may lose the property securing such indebtedness. In addition, 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.

There is refinancing risk associated with our debt.

Certain of our outstanding debt contains, and we may in the future acquire or finance properties with debt containing, limited or no principal amortization, which would require that the principal be repaid at the maturity of the loan in a so-called "balloon payment." As of December 31, 2016, the financing arrangements of our outstanding indebtedness could require us to make lump-sum or "balloon" payments of approximately $708.5 million at maturity dates that range from 2018 to 2026. At the maturity of these loans, assuming we do not have sufficient funds to repay the debt, we will need to refinance the debt. If the credit environment is constrained at the time of our debt maturities, we would have a very difficult time refinancing debt. In addition, for certain loans, we locked in our fixed-rate debt at a point in time when we were able to obtain favorable interest rate, principal payments and other terms. When we refinance our debt, prevailing interest rates and other factors may result in us paying a greater amount of debt service, which will adversely affect our cash flow, and, consequently, our core FFO and distributions to our stockholders. If we are unable to refinance our debt on acceptable terms, we may be forced to choose from a number of unfavorable options, including agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more properties at disadvantageous terms, including unattractive prices, or defaulting on the mortgage and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, financial condition, results of operations and our ability to make distributions to our stockholders.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance or refinance our properties, which could reduce the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. In addition, we run the risk of being unable to refinance mortgage debt when the loans come due or of being unable to refinance such debt on favorable terms. If interest rates are higher when we refinance such debt, our income could be reduced. We may be unable to refinance such debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us or could result in the foreclosure of such properties. If any of these events occur, our cash flows would be reduced. This, in turn, would reduce core FFO to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Some of our mortgage loans may have “due on sale” provisions, which may impact the manner in which we acquire, sell and/or finance our properties.

In purchasing properties subject to financing, we may obtain financing with “due-on-sale” and/or “due-on-encumbrance” clauses. Due-on-sale clauses in mortgages allow a mortgage lender to demand full repayment of the mortgage loan if the borrower sells the mortgaged property. Similarly, due-on-encumbrance clauses allow a mortgage lender to demand full repayment if the borrower uses the real estate securing the mortgage loan as security for another loan. In such event, we may be required to sell our properties on an all-cash basis, to acquire new financing in connection with the sale, or to provide seller financing which may make it more difficult to sell the property or reduce the selling price.

Compliance with Laws

We are subject to significant regulations, which could adversely affect our results of operations through increased costs and/or an inability to pursue business opportunities.

Local zoning and use laws, environmental statutes and other governmental requirements may restrict or increase the costs of our development, expansion, renovation and reconstruction activities and thus may prevent or delay us from taking advantage of business opportunities. Failure to comply with these requirements could result in the imposition of fines, awards to private litigants of damages against us, substantial litigation costs and substantial costs of remediation or compliance. In addition, we cannot predict what requirements may be enacted in the future or that such requirements will not increase our costs of regulatory compliance or prohibit us from pursuing business opportunities that could be profitable to us, which could adversely affect our results of operations.

The costs of compliance with environmental 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 federal, state and local laws and regulations relating to environmental protection and human health and safety. Examples of federal laws 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 operation and removal of underground and aboveground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal.

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 toxic substances on, under or in such property. The costs of removal or remediation could be substantial. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. In addition, the presence of these 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.

Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these 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 asbestos and lead-based paint. Such hazardous substances could be released into the air and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances.

In addition, if any property in our portfolio is not properly connected to a water or sewer system, or if the integrity of such systems is breached, microbial matter or other contamination can develop. If this were to occur, we could incur significant remedial costs and we may also be subject to private damage claims and awards, which could be material. If we become subject to claims in this regard, it could materially and adversely affect us.

Property values may also be affected by the proximity of such properties to electric transmission lines. Electric transmission lines are one of many sources of electro-magnetic fields, or EMFs, to which people may be exposed. Research completed regarding potential health concerns associated with exposure to EMFs has produced inconclusive results. Notwithstanding the lack of conclusive scientific evidence, some states now regulate the strength of electric and magnetic fields emanating from electric transmission lines and other states have required transmission facilities to measure for levels of EMFs. On occasion, lawsuits have been filed (primarily against electric utilities) that allege personal injuries from exposure to transmission lines and EMFs, as well as from fear of adverse health effects due to such exposure. This fear of adverse health effects from transmission lines may be considered both when property values are determined to obtain financing and in condemnation proceedings. We may not, in certain circumstances, search for electric transmission lines near our properties, but are aware of the potential exposure to damage claims by persons exposed to EMFs.

There may also be potential liability associated with lead-based paint arising from lawsuits alleging personal injury and related claims. The existence of lead paint is especially a concern in residential units. A structure built prior to 1978 may contain lead-based paint and may present a potential for exposure to lead; however, structures built after 1978 are not likely to contain lead-based paint.

The cost of defending against such claims of liability, of compliance with environmental regulatory 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, amounts available for distribution to our stockholders.

Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure you 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 operations 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 that we may be required to comply with. Failure to comply with applicable laws and regulations could result in fines and/or damages, suspension of our personnel and/or other sanctions.

We cannot provide any assurance 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 own.

As the owner or operator of real property, we could become subject to liability for asbestos-containing building materials in the buildings on our properties.

Some of our properties may contain asbestos-containing materials. Environmental laws typically require that owners or operators of buildings with asbestos-containing building materials properly manage and maintain these materials, adequately inform or train those who may come in contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements. In addition, third parties may be entitled to seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

In addition, many insurance carriers are excluding asbestos-related claims from standard policies, pricing asbestos endorsements at prohibitively high rates or adding significant restrictions to this coverage. Because of our inability to obtain specialized coverage at rates that correspond to the perceived level of risk, we may not obtain insurance for asbestos-related claims. 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 asbestos, the cost could have a negative impact on our results of operations.

Costs associated with addressing indoor air quality issues, moisture infiltration and resulting mold remediation may be costly.

As a general matter, concern about indoor exposure to mold or other air contaminants has been increasing as such exposure has been alleged to have a variety of adverse effects on health. As a result, there have been a number of lawsuits in our industry against owners and managers of apartment communities relating to indoor air quality, moisture infiltration and resulting mold. Some of our properties may contain microbial matter such as mold and mildew. The terms of our property and general liability policies generally exclude certain mold-related claims. Should an uninsured loss arise against us, we would be required to use our funds to resolve the issue, including litigation costs. We can offer no assurance that liabilities resulting from indoor air quality, moisture infiltration and the presence of or exposure to mold will not have a future impact on our business, results of operations and financial condition.

Our costs associated with and the risk of failing to comply with the Americans with Disabilities Act may affect core FFO.

We generally expect that our properties will be subject to the Americans with Disabilities Act of 1990, as amended, or the Disabilities Act. Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for "public accommodations" and "commercial facilities" that generally require that buildings and services be made accessible and available to people with disabilities. The Disabilities Act does not, however, consider residential properties, such as apartment properties, to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as a leasing office, are open to the public. The Disabilities Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We will attempt to acquire properties that comply with the Disabilities Act or place the burden on the seller or a third party to ensure compliance with such laws. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, costs in complying with these laws may affect core FFO and the amount of distributions to you.

We must comply with the Fair Housing Amendments Act of 1988, or the FHAA, and failure to comply may affect core FFO.

We must comply with the FHAA, which requires that apartment properties first occupied after March 13, 1991 be accessible to handicapped residents and visitors. As with the Disabilities Act, 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 apartment housing properties for compliance with the requirements of the FHAA and the Disabilities Act 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.

United States Federal Income Tax Risks

We may decide to borrow funds to satisfy our REIT minimum distribution 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 such tax considerations. If we borrow money to meet the REIT minimum distribution requirements 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 stockholders.

To maintain our qualification 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 adversely affect the trading price of our common stock.

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, 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 qualification requirements may hinder our ability to operate solely on the basis of maximizing profits and adversely affect the trading price of our common stock.

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

We intend to maintain our qualification as a REIT under the Code. A REIT generally is not taxed at the corporate level on income and gains that it distributes to its stockholders on a timely basis. We do not intend to request a ruling from the Internal Revenue Service, or the IRS, as to our REIT status. Qualification as a REIT involves the application of highly technical and complex rules for which there are only limited judicial or administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, new legislation, regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the U.S. federal income tax consequences of such qualification, including changes with retroactive effect.

If we 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 (including any applicable alternative minimum tax) on our taxable income at regular corporate rates;

- we generally would 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 our organization and current and proposed method of operation is intended to enable us to maintain our qualification to be taxed as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke our REIT election. Even if we maintain our qualification to be taxed 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 encourage you to read Exhibit 99.1—"Material U.S. Federal Income Tax Considerations" to this report for further discussion of the tax issues related to an investment in us.

The ability of our Board of Directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our Charter provides that our Board of Directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to maintain our qualification as a REIT. If we cease to maintain our qualification as a REIT, we would become subject to U.S. federal income tax on our taxable income without the benefit of the dividends paid deduction and would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

To maintain our qualification as a REIT, we must meet annual distribution requirements, which may result in our distributing amounts that may otherwise be used for our operations.

To obtain the favorable tax treatment accorded to REITs, we generally are required each year to distribute to our stockholders at least 90% of our REIT taxable income (excluding net capital gain), determined without regard to the deduction for distributions paid. We are subject to U.S. federal income tax on our undistributed taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (i) 85% of our ordinary income, (ii) 95% of our capital gain net income and (iii) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on investments in real estate assets, and it is possible that we might be required to borrow funds, possibly at unfavorable rates, or sell assets to fund these distributions. Although we intend to make distributions sufficient to meet the annual distribution requirements and to avoid U.S. federal income and excise taxes on our earnings, it is possible that we might not always be able to do so.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To maintain our qualification as a REIT, we must continually satisfy various tests regarding sources of income, nature and diversification of assets, amounts distributed to stockholders and the ownership of shares of our capital stock. In order to satisfy these tests, we may be required to forgo investments that might otherwise be made. Accordingly, compliance with the REIT requirements may hinder our investment performance.

In particular, at least 75% of our total assets at the end of each calendar quarter must consist of real estate assets, government securities, and cash or cash items. For this purpose, "real estate assets" generally include interests in real property, such as land, buildings, leasehold interests in real property, stock of other entities that qualify as REITs, interests in mortgage loans secured by real property, investments in stock or debt instruments during the one-year period following the receipt of new capital and regular or residual interests in a real estate mortgage investment conduit, or REMIC. In addition, the amount of securities of a single issuer that we hold, other than securities qualifying under the 75% asset test and certain other securities, must generally not exceed either 5% of the value of our gross assets or 10% of the vote or value of such issuer's outstanding securities.

A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held in inventory or primarily for sale to customers in the ordinary course of business. It may be possible to reduce the impact of the prohibited transaction tax and the holding of assets not qualifying as real estate assets for purposes of the REIT asset tests by conducting certain activities, or holding non-qualifying REIT assets through a TRS, subject to certain limitations as described below. To the extent that we engage in such activities through a TRS, the income associated with such activities will be subject to full U.S. federal corporate income tax.

Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on any investment in our securities.

Our ability to dispose of property is restricted to a substantial extent as a result of our REIT status. Under applicable provisions of the Code regarding prohibited transactions by REITs, we will be subject to a 100% tax on any gain recognized on the sale or other disposition of any property (other than foreclosure property) that we own, directly or through any subsidiary entity, including IROP, but excluding a TRS, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of 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. No assurance can be given that any particular property we own, directly or through any subsidiary entity, including IROP, but excluding a TRS, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

The use of TRSs would increase our overall tax liability.

Some of our assets may need to be owned or sold, or some of our operations may need to be conducted, by TRSs. We do not currently have a TRS but may form one in the future. A TRS will be subject to U.S. federal and state income tax on its taxable income. The after-tax net income of a TRS would be available for distribution to us. Further, we will incur a 100% excise tax on transactions with a TRS that are not conducted on an arm’s length basis. For example, to the extent that the rent paid by a TRS exceeds an arm’s length rental amount, such amount is potentially subject to the excise tax. We intend that all transactions between us and any TRS we form will be conducted on an arm’s length basis, and, therefore, any amounts paid by any TRS we form to us will not be subject to the excise tax. However, no assurance can be given that no excise tax would arise from such transactions.

Dividends paid by REITs do not qualify for the reduced tax rates provided for under current law.

Dividends paid by REITs are generally not eligible for the reduced 20% maximum tax rate applicable to qualified dividends paid to individuals. The more favorable rates applicable to qualified dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends to which more favorable rates apply, which could reduce the value of the stocks of REITs.

If our operating partnership, IROP, is not treated as a partnership or disregarded entity for U.S. federal income tax purposes, its income may be subject to taxation.

We intend to maintain the status of IROP as a partnership or disregarded entity for U.S. federal income tax purposes. However, if the IRS were to successfully challenge the status of IROP as a partnership or disregarded entity for such purposes, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that IROP could make to us. This would also result in our losing REIT status, and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the yield on any investment in our securities. In addition, if any of the partnerships or limited liability companies through which IROP owns its properties, in whole or in part, loses its characterization as a partnership for U.S. federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to IROP. Such a recharacterization of an underlying property owner could also threaten our ability to maintain REIT status.

Distributions to tax-exempt investors may be classified as unrelated business taxable income, or UBTI, and tax-exempt investors would be required to pay tax on such income and to file income tax returns.

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of stock should generally constitute UBTI to a tax-exempt investor. However, there are certain exceptions to this rule, including:

- under certain circumstances, part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as UBTI if our stock is predominately held by qualified employee pension trusts, such that we are a “pension-held” REIT (which we do not expect to be the case);
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute UBTI if such investor incurs debt in order to acquire our common stock; and
- part or all of the income or gain recognized with respect to our stock held by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from U.S. federal income taxation under Sections 501(c)(7), (9), (17) or (20) of the Code may be treated as UBTI.

We encourage you to consult your own tax advisor to determine the tax consequences applicable to you if you are a tax-exempt investor.

Distributions to foreign investors may be treated as an ordinary income distribution to the extent that it is made out of current or accumulated earnings and profits.

In general, foreign investors will be subject to regular U.S. federal income tax with respect to their investment in our stock if the income derived therefrom is “effectively connected” with the foreign investor’s conduct of a trade or business in the United States. A distribution to a foreign investor that is not attributable to gain realized by us from the sale or exchange of a “U.S. real property interest” within the meaning of the Foreign Investment in Real Property Tax Act of 1980, as amended, or FIRPTA, will be treated as an ordinary income distribution to the extent that it is made out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Generally, any ordinary income distribution will be subject to a U.S. withholding tax equal to 30% of the gross amount of the distribution, unless this tax is reduced by the provisions of an applicable treaty.

Foreign investors may be subject to FIRPTA tax upon the sale of their shares of our stock.

A foreign investor disposing of a U.S. real property interest, including shares of stock of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to FIRPTA tax on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is “domestically controlled.” A REIT is “domestically controlled” if less than 50% of the REIT’s stock, by value, has been owned directly or indirectly by persons who are not U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT’s existence. While we intend to qualify as “domestically controlled,” we cannot assure you that we will. If we were to fail to so qualify, gain realized by foreign investors on a sale of shares of our stock would be subject to FIRPTA tax, unless the shares of our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 10% (5% for 2015 and prior years) of the value of our outstanding common stock.

Foreign investors may be subject to FIRPTA tax upon a capital gain dividend.

A foreign investor may be subject to FIRPTA tax upon the payment of any capital gain dividend by us if such dividend is attributable to gain from sales or exchanges of U.S. real property interests.

We encourage you to consult your own tax advisor to determine the tax consequences applicable to you if you are a foreign investor.

We may make distributions consisting of both stock and cash, in which case stockholders may be required to pay income taxes in excess of the cash distributions they receive.

We may make distributions that are paid in cash and stock at the election of each stockholder and may distribute other forms of taxable stock dividends. Taxable stockholders receiving such distributions will be required to include the full amount of the distributions as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such distributions in excess of the cash received. If a stockholder sells the stock that it receives in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, in the case of certain non-U.S. stockholders, we may be required to withhold federal income tax with respect to taxable dividends, including taxable dividends that are paid in stock. In addition, if a significant number of our stockholders decide to sell their shares in order to pay taxes owed with respect to taxable stock dividends, it may put downward pressure on the trading price of our stock.

If our operating partnership, IROP, were classified as a “publicly traded partnership” taxable as a corporation for U.S. federal income tax purposes under the Code, we would cease to maintain our qualification as a REIT and would suffer other adverse tax consequences.

We intend for IROP to be treated as a partnership for U.S. federal income tax purposes. If the IRS were to successfully challenge the status of IROP as a partnership, however, IROP generally would be taxable as a corporation. In such event, we likely would fail to maintain our status as a REIT for U.S. federal income tax purposes, and the resulting corporate income tax burden would reduce the amount of distributions that IROP could make to us. This would substantially reduce the cash available to pay distributions 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 stockholders may be restricted from acquiring or transferring certain amounts of our common stock.

Certain provisions of the Code and the stock ownership limits in our Charter may inhibit market activity in our capital 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, beneficially or constructively, more than 50% in value of our issued and outstanding stock at any time during the last half of a taxable year. Attribution rules in the Code determine if any individual or entity beneficially or constructively owns our capital stock under this requirement. Additionally, at least 100 persons must beneficially own our capital stock during at least 335 days of a taxable year. To help insure that we meet these tests, our Charter restricts the acquisition and ownership of shares of our stock.

Our Charter, with certain exceptions, authorizes our Board of Directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our Board of Directors, our Charter prohibits any person from beneficially or constructively owning more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock or capital stock. Our Board of Directors may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of ownership limits would result in our failing to maintain 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 maintain our qualification as a REIT.

Legislative or regulatory action could adversely affect the returns to our investors.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to investments similar to an investment in shares of our common stock. Additional changes to the tax laws or the administrative interpretations of those laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of our stockholders. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your own tax adviser with respect to the impact of recent legislation on any investment in our securities and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares.

Although REITs continue to receive more favorable tax treatment than entities taxed as 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 taxed for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in our best interest.

Risks Related to Our Organization and Structure

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 became 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 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.

Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and any other person from these provisions of the Maryland General Corporation Law, provided that the business combination is first approved by our board of directors and, consequently, the five year prohibition and the supermajority vote requirements will not apply to such business combinations. As a result, any person approved by our board of directors will be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by us with the supermajority vote requirements and other provisions of the statute. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or our board of directors does not otherwise approve a business combination, the 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 those regarding our investment objectives and strategies, 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. Under our charter and the Maryland General Corporation Law, our stockholders 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 our authorized shares;
- increase or decrease the number of our shares of any class or series of stock that we have the authority to issue; and
- effect certain reverse stock splits;
- our dissolution; and
- our being a party to any acquisition, consolidation, sale or other disposition of substantially all of 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 and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. 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 or preferred stock into other classes or series of 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 series of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Because of our holding company structure, we depend on our operating partnership, IROP, and its subsidiaries for cash flow; however, we will be structurally subordinated in right of payment to the obligations of IROP and its subsidiaries.

We are a holding company with no business operations of our own. Our only significant asset is and will be the partnership interests in IROP. We conduct, and intend to continue to conduct, all of our business operations through IROP. Accordingly, our only source of cash to pay our obligations is distributions from IROP and its subsidiaries of their net earnings and cash flows. We cannot assure you that IROP 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 IROP's subsidiaries is 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 IROP and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of IROP and its subsidiaries will be able to satisfy your claims as stockholders only after all of our and IROP'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 are limited, which could reduce your 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. In addition, 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. We will indemnify and advance expenses to our directors and officers to the maximum extent permitted by the Maryland General Corporation Law and we are permitted to purchase and 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.

Risks Relating to the Market for our Common Stock

The percentage of ownership of any of our common stockholders may be diluted if we issue new shares of common stock.

Stockholders have no rights to buy additional shares of stock if we issue new shares of stock. We may issue common stock, convertible debt or preferred stock pursuant to a public offering or a private placement, to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Any of our common stockholders who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own.

Sales of our common stock, or the perception that such sales will occur, may have adverse effects on our share price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, including shares of common stock issuable upon the exchange of units of our operating partnership, IROP, that we may issue from time to time, the sale of shares of common stock held by our current stockholders and the sale of any shares we may issue under our long-term incentive plan, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution yield, which is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution yield on our common stock or may seek securities paying higher dividends or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our related distributions to stockholders, and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions are likely to affect the market price of our common stock, and such effects could be significant. For example, if interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease because potential investors may require a higher distribution yield on our common stock as market rates on interest-bearing securities, such as bonds, rise.

Some of our distributions may include a return of capital for U.S. federal income tax purposes.

Some of our distributions may include a return of capital. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for U.S. federal income tax purposes to the extent of the holder’s adjusted tax basis in its shares, and thereafter as gain on a sale or exchange of such shares.

Future issuances of debt securities, which would rank senior to our common stock upon liquidation, or future issuances of preferred equity securities, may adversely affect the trading price of our common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities, other loans and preferred stock will receive a distribution of our available assets before common stockholders. Any preferred stock, if issued, likely will also have a preference on periodic distribution payments, which could eliminate or otherwise limit our ability to make distributions to common stockholders. Common stockholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings may negatively affect the trading price of our common stock.

The market prices for our common stock may be volatile.

The prices at which our common stock may sell in the public market may be volatile. Fluctuations in the market prices of our common stock may not be correlated in a predictable way to our performance or operating results. The prices at which our common stock trade may fluctuate as a result of factors that are beyond our control or unrelated to our performance or operating results.

We have not established a minimum dividend payment level and we cannot assure you of our ability to pay dividends in the future or the amount of any dividends.

Our board of directors will determine the amount and timing of distributions. In making this determination, our directors will consider all relevant factors, including REIT minimum distribution requirements, the amount of core FFO, restrictions under Maryland law, capital expenditures and reserve requirements and general operational requirements. We cannot assure you that we will be able to make distributions in the future or in amounts similar to our past distributions. We may need to fund distributions through borrowings, returning capital or selling assets, which may be available only at commercially unattractive terms, if at all. Any of the foregoing could adversely affect the market price of our common stock.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

We hold fee title to all of the apartment properties in our portfolio. The following table presents an overview of our portfolio as of December 31, 2016.

Property Name	Location	Acquisition Date	Year Built / Renovated [a]	Gross Cost	Accumulated Depreciation	Net Book Value	Units [b]	Period End Occupancy	Average Occupancy [c]	Average Ef Rent per Occupied U [d]
Copper Mill	Austin, TX	4/29/2011	2010	$18,353	$(3,667)	$14,686	320	96.6%	95.1%	993
Crestmont	Marietta, GA	4/29/2011	2010	17,137	(3,317)	13,820	228	87.7%	87.1%	845
Heritage Trace	Newport News, VA	4/29/2011	2010	14,390	(2,930)	11,460	200	99.5%	99.5%	749
Runaway Bay	Indianapolis, IN	10/11/2012	2002	16,091	(1,539)	14,552	192	96.9%	96.9%	979
Berkshire Square	Indianapolis, IN	9/19/2013	2012	13,828	(1,031)	12,797	354	94.4%	92.8%	607
The Crossings	Jackson, MS	11/22/2013	2012	23,422	(1,580)	21,842	432	94.4%	91.8%	784
Reserve at Eagle Ridge	Waukegan, IL	1/31/2014	2008	29,135	(1,772)	27,363	370	90.5%	91.7%	999
Windrush	Edmond, OK	2/28/2014	2011	9,384	(589)	8,795	160	89.4%	87.5%	771
Heritage Park	Oklahoma City, OK	2/28/2014	2011	17,356	(1,061)	16,295	453	91.4%	90.1%	649
Raindance	Oklahoma City, OK	2/28/2014	2011	14,283	(881)	13,402	504	91.7%	92.5%	557
Augusta	Oklahoma City, OK	2/28/2014	2011	11,667	(800)	10,867	197	89.9%	89.5%	724
Invitational	Oklahoma City, OK	2/28/2014	2011	19,345	(1,346)	17,999	344	93.6%	91.1%	656
King's Landing	Creve Coeur, MO	3/31/2014	2005	32,685	(2,095)	30,590	152	94.7%	93.4%	1,517
Carrington Park	Little Rock, AR	5/7/2014	1999	22,155	(1,430)	20,725	202	97.0%	94.7%	1,026
Arbors at the Reservoir	Ridgeland, MS	6/4/2014	2000	20,753	(1,215)	19,538	170	95.9%	93.1%	1,149
Walnut Hill	Cordova, TN	8/28/2014	2001	28,133	(1,623)	26,510	362	96.4%	93.2%	952
Lenoxplace	Raleigh, NC	9/5/2014	2012	24,411	(1,262)	23,149	268	94.8%	96.5%	916
Stonebridge Crossing	Cordova, TN	9/15/2014	1994	30,142	(1,624)	28,518	500	95.4%	96.1%	796
Bennington Pond	Groveport, OH	11/24/2014	2000	17,785	(875)	16,910	240	92.1%	94.6%	876
		12/8/2014	1990	14,206	(588)	13,618	138	95.7%	95.0%	918

Prospect Park	Louisville, KY									
Brookside	Louisville, KY	12/8/2014	1987	20,903	(893)	20,010	224	96.0%	95.7%	840
Jamestown	Louisville, KY	12/8/2014	1970	35,760	(1,528)	34,232	355	95.5%	94.5%	999
Meadows	Louisville, KY	12/8/2014	1988	37,863	(1,622)	36,241	400	96.3%	94.7%	821
Oxmoor	Louisville, KY	12/8/2014	1999-2000	55,411	(2,485)	52,926	432	94.7%	92.9%	998
Stonebridge at the Ranch	Little Rock, AR	12/16/2014	2005	31,533	(1,434)	30,099	260	95.0%	93.7%	930
Iron Rock Ranch	Austin, TX	12/30/2014	2001-2002	35,274	(1,538)	33,736	300	95.7%	94.6%	1,253
Bayview Club	Indianapolis, IN	5/1/2015	2004	25,499	(967)	24,532	236	92.8%	92.6%	960
Arbors River Oaks	Memphis, TN	9/17/2015	2010 (f)	21,567	(637)	20,930	191	95.8%	94.5%	1,209
Aston	Wake Forest, NC	9/17/2015	2013	37,859	(1,078)	36,781	288	95.1%	94.3%	1,060
Avenues at Craig Ranch	McKinneuy, TX	9/17/2015	2013	47,668	(1,326)	46,342	334	94.9%	94.5%	1,252
Bridge Pointe	Huntsville, AL	9/17/2015	2002	15,950	(460)	15,490	178	98.3%	97.5%	834
Creekstone at RTP	Durham, NC	9/17/2015	2013	38,228	(1,035)	37,193	256	94.1%	94.4%	1,164
Fountains Southend	Charlotte, NC	9/17/2015	2013	41,684	(1,170)	40,514	208	96.6%	89.4%	1,342
Fox Trails	Plano, TX	9/17/2015	1981	27,965	(716)	27,249	286	92.7%	94.8%	1,027
Lakeshore on the Hill	Chattanooga, TN	9/17/2015	2015	11,318	(334)	10,984	123	96.8%	97.0%	948
Millenia 700	Orlando, FL	9/17/2015	2012	47,383	(1,317)	46,066	297	96.3%	92.7%	1,316
Miller Creek at German Town	Memphis, TN	9/17/2015	2013	56,874	(1,680)	55,194	330	95.2%	93.9%	1,232
Pointe at Canyon Ridge	Atlanta, GA	9/17/2015	2007 (f)	48,656	(1,209)	47,447	494	95.8%	95.1%	938
St James at Goose Creek	Goose Creek, SC	9/17/2015	2009	31,739	(905)	30,834	244	93.0%	94.8%	1,094
Talison Row at Daniel Island	Daniel Island, SC	9/17/2015	2013	47,039	(1,311)	45,728	274	94.5%	95.0%	1,514
The Aventine	Greenville, SC	9/17/2015	2013	48,089	(1,376)	46,713	346	95.1%	94.2%	1,137

Greenville										
Trails at Signal Mountain	Chattanooga, TN	9/17/2015	2015	14,383	(428)	13,955	172	97.7%	97.4%	946
Vue at Knoll Trail	Dallas, TX	9/17/2015	2015	9,276	(200)	9,076	114	94.7%	94.2%	898
Waterstone at Brier Creek	Raleigh, NC	9/17/2015	2014	38,939	(1,093)	37,846	232	95.3%	93.1%	1,228
Waterstone Big Creek	Alpharetta, GA	9/17/2015	2014	69,655	(1,943)	67,712	370	93.2%	93.6%	1,352
Westmont Commons	Asheville, NC	9/17/2015	2003, 2008	28,173	(809)	27,364	252	96.0%	96.8%	1,033
TOTAL				$1,319,349	$(60,719)	$1,258,630	12,982	94.5%	93.8%	$977

(a) All dates are for the later of the year in which construction was completed or the year in which a significant renovation program was completed.
(b) Units represent the total number of apartment units available for rent at December 31, 2016.
(c) Physical occupancy for each of our properties is calculated as (i) total units rented as of December 31, 2016 divided by (ii) total units available as of December 31, 2016, expressed as a percentage.
(d) Average occupancy represents the daily average occupied units for the three-month period ended December 31, 2016.
(e) Average effective monthly rent, per unit, represents the average monthly rent for all occupied units for the three-month period ended December 31, 2016.
(f) Properties are undergoing renovation.

Additional information on our consolidated properties is contained in “Schedule III - Real Estate and Accumulated Depreciation” in this Annual Report on Form 10-K, which is incorporated herein by reference.

ITEM 3. Legal Proceedings
We are subject to various legal proceedings and claims that arise in the ordinary course of our business operations. Matters which arise out of allegations of bodily injury, property damage, and employment practices are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, we currently believe the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or cash flows.

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 Price Information

Our common stock is listed and traded on the NYSE MKT under the symbol "IRT". At the close of business on March 1, 2017, the closing price for our common stock was $9.20 per share and there were 370 holders of record, one of which is the holder for all beneficial owners who hold in street name.

Since our formation, we have sold our common stock in six public offerings. See Item 1-"Business." The following table sets forth the range of high and low sales prices of our common stock by quarter in the periods indicated.

2015		
First Quarter (January 1, 2015 through March 31, 2015)	$9.78	$9.07
Second Quarter (April 1, 2015 through June 30, 2015)	$9.65	$7.45
Third Quarter (July 1, 2015 through September 30, 2015)	$8.57	$6.95
Fourth Quarter (October 1, 2015 through December 31, 2015)	$8.13	$6.88
2016		
First Quarter (January 1, 2016 through March 31, 2016)	$7.78	$5.97
Second Quarter (April 1, 2016 through June 30, 2016)	$8.21	$6.75
Third Quarter (July 1, 2016 through September 30, 2016)	$10.70	$8.05
Fourth Quarter (October 1, 2016 through December 31, 2016)	$9.15	$7.74

We have adopted a Code of Ethics, which we refer to as the Code, for our directors, officers and employees intended to satisfy NYSE MKT listing standards and the definition of a "code of ethics" set forth in Item 406 of Regulation S-K. Any information relating to amendments to the Code or waivers of a provision of the Code required to be disclosed pursuant to Item 5.05 of Form 8-K will be disclosed through our website. Our internet address is http://www.irtliving.com.

PERFORMANCE GRAPH

On August 13, 2013, our common stock commenced trading on the NYSE MKT. The following graph compares the index of the cumulative total shareholder return on our common shares for the measurement period commencing August 12, 2013 and ending December 31, 2016 with the cumulative total returns of the National Association of Real Estate Investment Trusts (NAREIT) Equity REIT index and the Russell 3000 Index. The following graph assumes that each index was 100 on the initial day of the relevant measurement period and that all dividends were reinvested.

Unregistered Sales of Equity Securities

We have previously disclosed four "UPREIT" transactions completed in May 2014, August 2014, November 2014 and December 2014 wherein IROP, issued, in the aggregate, 1,282,449 common units, or units, to unaffiliated entities or persons in order to acquire properties. In addition, we have previously disclosed that in September 2015, IROP issued 1,925,419 units, plus cash in lieu of fractional TSRE operating partnership units, in a transaction related to the TSRE acquisition. All of such issuances were exempt from registration pursuant to Section 4(a)(2) of the Securities Act. As previously disclosed, these units are subject to exchange agreements containing the terms and conditions under which the units could be exchanged for cash in an amount equal to the value of an equivalent number of shares of our common stock as of the date IROP receives contributor's notice of its desire to exchange the units for cash or, at IROP's option, for the equivalent number of shares of our common stock. The first exchanges of these units began in May 2015. During 2015, IROP exchanged 52,937 units for 52,933 shares of our common stock (with fractional units being settled in cash) and, in 2016 through March 1, 2017, IROP exchanged an additional 285,881 units for 285,879 shares of our common stock (with fractional units being settled in cash). As a result of these exchanges, at December 31, 2016 and at March 1, 2017, there remained outstanding 2,908,949 units and 2,869,050 units, respectively, held by unaffiliated third parties. The issuance of the shares of our common stock in these exchanges was exempt from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D; all of the persons receiving such shares were accredited investors.

Distributions

We intend to continue to qualify as a REIT for U.S. federal income tax purposes. The Code generally requires that a REIT annually distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain, and imposes a tax on any taxable income retained by a REIT, including capital gains.

To satisfy the requirements for qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular monthly distributions of all or substantially all of our REIT taxable income, determined without regard to dividends paid, to our stockholders out of assets legally available for such purposes. Except for distributions for January, February and March 2017, our board of directors has not yet determined the rate for our future distributions, and all future distributions will be at the sole discretion of our board of directors. When determining the amount of future distributions, our board of directors considers, among other factors, (i) the amount of cash generated from our operating activities, (ii) our expectations of future cash flows, (iii) our determination of near-term cash needs for acquisitions of new properties, general property capital improvements and debt repayments, (iv) our ability to continue to access additional sources of capital, (v) the requirements of Maryland law, (vi) the amount required to be distributed to maintain our status as a REIT and to reduce any income and excise taxes that we otherwise would be required to pay and (vii) any limitations on our distributions contained in our credit or other agreements.

We cannot assure you that we will generate sufficient cash flows to make distributions to our stockholders or that we will be able to sustain those distributions. If our operations do not generate sufficient cash flow to allow us to satisfy the REIT distribution requirements, we may be required to fund distributions from working capital, borrow funds, sell assets, make taxable distributions of our securities or reduce such distributions. Our distribution policy enables us to review the alternative funding sources available to us from time to time. Our actual results of operations will be affected by a number of factors, including the revenues we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see “Risk Factors.”

For 2015 and 2016 and for the first quarter of 2017, our board established, on a quarterly basis, in advance, the distribution amount for our common stock and for the units for each month in the quarter. The distributions for each month in the three-month period are paid in arrears on or about the fifteenth day following the completion of each respective month. For 2015, and 2016, we declared and paid the following distributions (expressed on a quarterly basis) on our common stock (dollars in thousands except per share and per unit data):

	Common Shares Dividends	
	Declared and Payable per Share	Total Dividends Payable
2015		
First Quarter	$0.18	$ 5,719

Second Quarter	0.18	5,723
Third Quarter	0.18	6,122
Fourth Quarter	0.18	8,450
2016		
First Quarter	$0.18	$ 8,519
Second Quarter	0.18	8,494
Third Quarter	0.18	8,499
Fourth Quarter	0.18	12,368

	Operating Partnership Units Dividends Declared and Payable per Share	Total Dividends Payable
2015		
First Quarter	$0.18	$ 231
Second Quarter	0.18	228
Third Quarter	0.18	273
Fourth Quarter	0.18	568
2016		
First Quarter	$0.18	$ 543
Second Quarter	0.18	531
Third Quarter	0.18	527
Fourth Quarter	0.18	523

On January 12, 2017, our board declared the following monthly distributions per share of our common stock or units outstanding for January, February and March 2017:

Month	Declaration Date	Record Date	Payment Date	Dividend Declared Per Share
January 2017	January 12, 2017	January 31, 2017	February 15, 2017	$ 0.06
February 2017	January 12, 2017	February 28, 2017	March 15, 2017	$ 0.06
March 2017	January 12, 2017	March 31, 2017	April 17, 2017	$ 0.06

Issuer Purchases of Equity Securities

During the quarter ended December 31, 2016, we repurchased 7,269,719 shares of our common stock in connection with the management internalization. The table below summarizes this repurchase activity:

Period	Total Number of Shares	Average Price	Total Number of Shares Purchased as Part of	Maximum Number (or Approximate Dollar

	Purchased	Paid per Share	Publicly Announced Plans or Programs	Value) of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/2016 to 10/31/2016	7,269,719 (1)	$ 8.55 (1)	7,269,719 (1)	0 (1)
11/01/2016 to 11/30/2016	-	-	-	-
12/01/2016 to 12/31/2016	-	-	-	-
Total	7,269,719	$ 8.55	7,269,719	0 (1)

(1) On September 27, 2016, we publicly announced that we had entered into the internalization agreement with RAIT to complete the management internalization and separation from RAIT and its affiliates and to repurchase 7,269,719 shares of our common stock from RAIT subsidiaries, representing all of the shares of our common stock owned by RAIT. On October 5, 2016, we paid approximately $62.2 million to RAIT to complete the IRT stock repurchase and retire RAIT's shares of our common stock at a purchase price of $8.55 per share. This price was equal to the price to the public in the 2016 common stock offering described above less underwriting discounts or commissions. We have no further obligations to repurchase our common stock under the internalization agreement.

ITEM 6. Selected Financial Data

The following table summarizes selected financial data about our company (dollars in thousands, except share and per share data). The following selected financial data information should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements, including the notes thereto, included elsewhere herein.

	As of and for the Years Ended December 31				
	2016	2015	2014	2013	2012
Operating Data:					
Total revenue	$153,388	$109,576	$49,171	$19,943	$16,629
Property operating expenses	(63,148)	(46,281)	(21,636)	(8,643)	(7,411)
Total expenses	(113,726)	(99,394)	(40,630)	(15,010)	(12,897)
Interest expense	(35,535)	(23,553)	(8,496)	(3,659)	(3,305)
Net income (loss)	(9,555)	30,156	2,944	1,274	427
Net income (loss) allocable to common shares	(9,801)	28,242	2,940	615	(123)
Earnings (loss) per share:					
Basic	$(0.19)	$0.78	$0.14	$0.12	$(0.45)
Diluted	$(0.19)	$0.78	$0.14	$0.12	$(0.45)
Balance Sheet Data:					
Investments in real estate	$1,197,845	$1,332,377	$665,736	$174,321	$141,282
Total assets	1,294,237	1,383,188	694,150	181,871	146,197
Total indebtedness	743,817	966,611	418,901	103,303	92,413
Total liabilities	765,546	993,158	431,116	106,963	95,346
Total equity	528,691	390,030	263,034	74,908	50,851

	As of and for the years ended December 31				
	2016	2015	2014	2013	2012
Other Data:					
Property portfolio occupancy	94.5 %	93.0 %	92.7 %	94.5 %	92.0 %
Common shares outstanding	68,996,070	47,070,678	31,800,076	9,652,540	345,063
Limited partnership units outstanding (1)	2,908,949	3,154,931	1,282,449	—	5,274,900
Cash distributions declared per common share/unit	$0.7200	$0.7200	$0.7200	$0.6263	$0.6000

(1) Held by persons other than IRT and its subsidiaries.

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

Overview

We are a Maryland corporation that owns 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 elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, commencing with our taxable year ended December 31, 2011.

We seek to acquire and operate apartment properties that:

- have stable occupancy;
- are located in submarkets that we do not expect will experience substantial new apartment construction in the foreseeable future;
- in appropriate circumstances, present opportunities for repositioning or updating through capital expenditures; and
- present opportunities to apply tailored marketing and management strategies to attract and retain residents and enable rent increases.

We were externally advised by a wholly-owned subsidiary of RAIT, a multi-strategy commercial real estate company organized as an internally managed REIT until December 20, 2016 at which time we completed our management internalization. On

September 27, 2016, we entered into the internalization agreement to repurchase all of our outstanding common shares owned by RAIT at the first closing contemplated by the internalization agreement and to complete the management internalization at the second closing contemplated by the internalization agreement. On October 5, 2016, we repurchased and retired those shares at the first closing.

See "Part I- Item 1. Business" above, or the business description, which is incorporated herein by reference, for further description of our company, our business objectives and investment strategies, 2016 developments, including the management internalization, financing strategy and the development and structure of our company.

2016 was a transformative year for IRT as we completed the management internalization and IRT stock repurchase and separated from RAIT, with a shared services arrangement with RAIT ending in June 2017. As a result of the management internalization, we expect to save approximately $2.5 million per year on general and administrative expenses after the shared services period ends while eliminating the increased management cost related to growth under the external management contract structure. For further discussion of our rationale for, and our expected benefits from, the management internalization, see the business description.

We also completed the October 2016 offering netting proceeds of approximately $245.5 million. We used the total proceeds and balance sheet cash to de-lever our balance sheet by $147.3 million dollars, complete the IRT stock repurchase for $62.2 million dollars and pay $43.0 million dollars to complete the management internalization in December 2016. By December 31, 2016, our leverage had decreased with debt to gross assets declining from 64% historically to 54.3%.

As of December 31, 2016, we had $1.3 billion of gross investments in real estate comprised of 46 apartment properties containing an aggregate of 12,982 units, as compared to $1.4 billion of gross investments in real estate comprised of 49 properties containing an aggregate of 13,724 units as of December 31, 2015. We refer to our investments in real estate as of December 31, 2016 as our "existing portfolio." As of December 31, 2016, our existing portfolio had an average occupancy of 93.8% and an average monthly effective rent per occupied apartment unit of $977. With respect to our operating performance, our earnings (loss) per share was $(0.19) for the year ended December 31, 2016 as compared to $0.78 for the year ended December 31, 2015 due largely to costs related to the management internalization. Our Core Funds from Operations, or CFFO, per share was $0.79 for the year ended December 31, 2016 as compared to $0.80 for the year ended December 31, 2015. Our earnings before interest, taxes, depreciation and amortization and before acquisition expenses, or adjusted EBITDA, increased 43.8% to $74.5 million for the year ended December 31, 2016 from $51.8 million for the year ended December 31, 2015. CFFO and adjusted EBITDA are non-GAAP financial measures. See "Non-GAAP Financial Measures" below for their definition and reconciliation to the closest GAAP financial measure.

Looking forward into 2017, we remain committed to our strategy of owning and operating a portfolio of apartment communities in primarily non-gateway markets. These non-gateway markets share attractive fundamentals including healthy job and population growth, limited additions of new supply resulting in strong demand from renters. We believe that these market dynamics will continue to drive rents higher in our portfolio throughout 2017 while keeping a strong stable occupancy rate.

For 2017 our strategy is focused on:

- Implementing the 2017 focus of our capital recycling plan to sell our class “C” properties and reinvesting the proceeds into higher quality class “B” properties.
- Maximizing the operating efficiency of our properties.
- Reviewing and repositioning our financing structures for flexibility and liquidity while continuing to reduce our leverage.
- Delivering a tenant-focused living experience throughout the portfolio supported by our strong, experienced property management team.

Trends That May Affect Our Business

The following trends may affect our business:

Positive Economic and Demographic Characteristics. We expect economic and demographic characteristics conditions to remain favorable for our investment strategy focused on owning apartment properties for the foreseeable future across our markets for the following reasons:

- Positive Demographic Factors. We believe demand for rental housing will remain strong as a result of a strengthening job market and positive household formation growth. Population growth in our markets has grown at a higher rate than the U.S overall.
- Low Homeownership. While both owner and rental sectors benefit from the growth in households, the rental sector is benefiting more from this trend due to the declining homeownership rate. A contributing factor is that homeownership affordability remains challenging for many households, especially for many first time buyers.
- Limited New Supply. Notwithstanding an increase in apartment completions across the broader apartment market, national vacancy rates remain close to historic lows. The majority of new supply remains focused on primary markets. IRT's markets have outperformed both the regional and national markets in terms of their ability to absorb new deliveries.

Strong Employment Outlook. We expect the 2017 ratio of projected jobs to projected completions and projected 2017 employment growth to be higher in most of IRT's markets when compared to the projected national average.

Market Trends. The energy sector represents 6% of the overall economy in Oklahoma City, Oklahoma and a downturn in that sector has presented challenges to the performance of our properties there by limiting rent growth and affecting occupancy rates. We expect Oklahoma City to see improvement in 2017 with job and population growth around 1%, with limited additional supply.

We continue to believe that the Class B apartment market offers the most opportunity to consistently increase rents and is much less likely to be impacted from construction of new apartment supply. We also believe that the Class B apartment sector has much less exposure to home ownership as we see far fewer move outs due to home purchases in our Class B portfolio as compared to our Class A portfolio.

Interest rate environment. We expect interest rates for commercial real estate financing to rise from historically low levels that continued throughout 2016. This may result in corresponding increases to capitalization rates and affect the pricing of properties we wish to buy or sell.

Results of Operations

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

	SAME STORE PROPERTIES				NON SAME STORE PROPERTIES				CONSOLIDATED			
	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change	2016	2015	Increase (Decrease)	% Change
Revenue:												
Rental income	$60,485	$58,765	$1,720	2.9%	$76,931	$39,451	$37,480	95.0%	$137,416	$98,216	$39,200	39.9 %
Reimbursement and other income	7,126	6,744	382	5.7%	8,817	4,616	4,201	91.0%	15,943	11,360	4,583	40.3 %
Total revenue	67,611	65,509	2,102	3.2%	85,748	44,067	41,681	94.6%	153,359	109,576	43,783	40.0 %
Expenses:												
Real estate operating expenses	28,914	28,492	422	1.5%	34,234	17,789	16,445	92.4%	63,148	46,281	16,867	36.4 %
Net Operating Income	$38,697	$37,017	$1,680	4.5%	$51,514	$26,278	$25,236	96.0%	$90,211	$63,295	$26,916	42.5 %
Other Income:												
Property management									29	-	29	-
Total other income									29	-	29	-
Corporate and other expenses:												
Property management expenses									4,847	3,674	1,173	31.9 %
General and administrative expenses									3,422	2,177	1,245	57.2 %
Asset management fees									7,442	5,613	1,829	32.6 %
Acquisition and integration expenses									43	13,555	(13,512)	-99.7 %
Depreciation and amortization expense									34,824	28,094	6,730	24.0 %
Total corporate and other expenses									50,578	53,113	(2,535)	-4.8 %
Operating Income (loss)									39,662	10,182	29,480	289.5 %
Interest expense									(35,535)	(23,553)	(11,982)	50.9 %
Interest income									(4)	19	(23)	-121.1%
Net gains (losses) on sale of assets									31,776	6,412	25,364	-
Gains (losses) on extinguishment of debt									(1,210)	-	(1,210)	-
TSRE financing extinguishment and employees and separation expenses									-	(27,508)	27,508	-
Management internalization expense									(44,976)	-	(44,976)	-
Gains (losses) on TSRE merger and property acquisitions									732	64,604	(63,872)	-98.9 %
Net income (loss)									(9,555)	30,156	(39,711)	-131.7%

Income) loss allocated to noncontrolling interests	(246)	(1,914)	1,668	-87.1 %
Net income (loss) available to common shares	$(9,801)	$28,242	$(38,043)	-134.7%

Revenue

Rental Income. Rental revenue increased $39.2 million to $137.4 million for the year ended December 31, 2016 from $98.2 million for the year ended December 31, 2015. The increase is primarily attributable to $45.0 million of rental income from the acquisition of 20 properties during the year ended December 31, 2015 present for a full year of operations in 2016, and an increase of $1.7 million due to improved occupancy and rental rates at our same store properties. The increase was partially offset by a decrease of $8.0 million of rental income related to four properties that were disposed of and not present for a full year of operations in 2016.

Tenant reimbursement and other income. Tenant reimbursement and other income increased $4.5 million to $15.9 million for the year ended December 31, 2016 from $11.4 million for the year ended December 31, 2015. The increase is primarily attributable to $4.9 million of tenant reimbursement and other income from the acquisition of 20 properties during the year ended December 31, 2015 present for a full year of operations in 2016, and an increase of $0.4 million of tenant reimbursement and other income in our same store portfolio. The increase was partially offset by a decrease of $0.9 million of tenant reimbursement and other income related to four properties that were disposed of and not present for a full year of operations in 2016.

Expenses

Property operating expenses. Property operating expenses increased $16.8 million to $63.1 million for the year ended December 31, 2016 from $46.3 million for the year ended December 31, 2015. The increase is primarily attributable to $19.6 million of real estate operating expense from the acquisition of 20 properties during the year ended December 31, 2015 present for a full year of operations in 2016, and an increase of $0.4 million of real estate operating expense in our same store portfolio. This increase was partially offset by a decrease of $3.4 million of real estate operating expenses related to four properties that were disposed of and not present for a full year of operations in 2016.

Property management expenses. Property management expenses increased $1.1 million to $4.8 million for the year ended December 31, 2016 from $3.7 million for the year ended December 31, 2015. The increase is primarily attributable to $1.5 million of property management expense from the acquisition of 20 properties during the year ended December 31, 2015 present for a full year of operations in 2016. The increase was partially offset by a decrease of $0.3 million of property management expense related to four properties that were disposed of and not present for a full year of operations in 2016.

General and administrative expense. General and administrative expense increased $1.2 million to $3.4 million for the year ended December, 31 2016 from $2.2 million for the year ended December 31, 2015. This was primarily due to an increase of $0.7 million of stock based compensation and $0.5 million of professional fees for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Asset management fees. Asset management fees increased $1.8 million to $7.4 million for the year ended December 31, 2016 from $5.6 million for the year ended December 31, 2015. The increase is primarily due to the growth of our portfolio of real estate properties which occurred in 2015 and the related capital used to complete the acquisitions as well as the offering that was completed in October 2016. Additionally, as part of the TSRE merger in September 2015, we changed the structure of our advisory contract with RAIT. Through September 30, 2015, the asset management fees payable to RAIT were calculated as 75 basis points of our average gross real estate assets, with an incentive fee due equal to 20% of any excess core FFO over a 7% core FFO return. As of October 1, 2015, the fee structure became a base fee of 1.5% of cumulative equity with an incentive fee equal to 20% of CORE FFO in excess of $0.20 per share. We terminated the advisory agreement requiring us to pay these asset management fees on December 20, 2016 in connection with the management internalization.

Acquisition and integration expenses. Acquisition and integration expenses were $13.6 million for the year ended December 31, 2015. These expenses primarily related to the TSRE merger in which we acquired 19 properties in 2015.

Depreciation and amortization expense. Depreciation and amortization expense increased $6.7 million to $34.8 million for the year ended December 31, 2016 from $28.1 million for the year ended December 31, 2015. The increase is primarily attributable to $11.5 million of depreciation and amortization expense from the acquisition of 20 properties during the year ended December 31, 2015 present for a full year of operations in 2016. The increase was partially offset by a decrease of $1.9 million of depreciation and amortization expense related to four properties that were disposed of and not present for a full year of operations in 2016 and by a decrease of $3.3 million of amortization expense in our same store portfolio.

Interest expense. Interest expense increased $11.9 million to $35.5 million for the year ended December 31, 2016 from $23.6 million for the year ended December 31, 2015. The increase is primarily attributable to $7.8 million of additional interest expense on debt obtained in connection with the TSRE Merger that was present for a full year of operation in 2016, and $6.7 million attributable to additional debt obtained on properties acquired during the year ended December 31, 2015 and present for a full year of operations in 2016. The increase was partially offset by a decrease of $1.6 million of interest expense related to four properties that were disposed of and not present for a full year of operation in 2016 and by a decrease of $1.1 million of interest expense related to the loan payoff of our Oklahoma City portfolio of properties.

Net gains (losses) on sale of assets. During the year ended December 31, 2016, three multi-family properties were sold resulting in gains of $31.8 million.

Gains (losses) on extinguishment of debt. During the year ended December 31, 2016, we recognized a $1.2 million loss on the extinguishment of the debt related to the write-off of the unamortized deferred financing costs associated with debt that was extinguished.

Management internalization expense. During the year ended December 31, 2016, we recognized a $45.0 million loss due to our management internalization.

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

	SAME STORE PROPERTIES				NON SAME STORE PROPERTIES				CONSOLIDATED			
	2015	2014	Increase (Decrease)	% Change	2015	2014	Increase (Decrease)	% Change	2015	2014	Increase (Decrease)	% Change
Revenue:												
Rental income	$21,171	$20,121	$1,050	5.2 %	$77,045	$24,713	$52,332	211.8%	$98,216	$44,834	$53,382	119.1%
Reimbursement and other income	2,709	2,439	270	11.1%	8,651	1,898	6,753	355.8%	11,360	4,337	7,023	161.9%
Total revenue	23,880	22,560	1,320	5.9 %	85,696	26,611	59,085	222.0%	109,576	49,171	60,405	122.8%
Expenses:												