INDEPENDENCE REALTY TRUST, INC.
Form 10-Q
October 31, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

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	26-4567130
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Two Liberty Place	
50 S. 16th Street, Suite 3575	
Philadelphia, PA	19102

(Address of Principal Executive Offices) (Zip Code)

(267) 270-4800

(Registrant's Telephone Number, Including Area Code)

N/A

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

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

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

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

Large Accelerated filer		Accelerated filer
Non-Accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company		

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

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

As of October 30, 2017 there were 83,518,602 shares of the Registrant's common stock issued and outstanding.

INDEPENDENCE REALTY TRUST, INC.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements
Independence Realty Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

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

	As of September 30, 2017	As of December 31, 2016
ASSETS:		
Investments in real estate:		
Investments in real estate, at cost	$ 1,427,057	$ 1,249,356
Accumulated depreciation	(75,084)	(51,511)
Investments in real estate, net	1,351,973	1,197,845
Real estate held for sale	22,031	60,786
Cash and cash equivalents	10,128	20,892
Restricted cash	6,665	5,518
Accounts receivable and other assets	9,416	5,211
Derivative assets	3,581	3,867
Intangible assets, net of accumulated amortization of $664 and $0, respectively	1,418	118
Total Assets	$ 1,405,212	$ 1,294,237
LIABILITIES AND EQUITY:		
Indebtedness, net of unamortized deferred financing costs of $5,697 and $6,371, respectively	$ 731,625	$ 743,817
Accounts payable and accrued expenses	23,236	14,028
Accrued interest payable	134	491
Dividends payable	5,176	4,297
Other liabilities	3,063	2,913
Total Liabilities	763,234	765,546
Equity:		
Stockholders’ equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized, 0 and 0 shares issued and outstanding, respectively	-	—
Common stock, $0.01 par value; 300,000,000 shares authorized, 83,518,602 and 68,996,070 shares issued and outstanding, including 295,846 and 281,000 unvested restricted common share awards, respectively	835	690
Additional paid-in capital	691,550	564,633
Accumulated other comprehensive income	3,466	3,683
Retained earnings (accumulated deficit)	(76,419)	(62,181)
Total stockholders’ equity	619,432	506,825
Noncontrolling interests	22,546	21,866
Total Equity	641,978	528,691
Total Liabilities and Equity	$ 1,405,212	$ 1,294,237

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE:				
Rental income	$35,531	$34,333	$105,444	$103,271
Tenant reimbursement income	1,373	1,351	4,232	4,194
Other property income	2,960	2,680	8,514	7,892
Property management and other income	202	-	579	-
Total revenue	40,066	38,364	118,769	115,357
EXPENSES:				
Property operating expenses	16,196	16,107	48,106	47,588
Property management expenses	1,328	1,219	4,310	3,710
General and administrative expenses	2,322	2,665	7,128	8,074
Acquisition and integration expenses	569	19	956	37
Depreciation and amortization expense	8,671	7,765	24,289	26,927
Total expenses	29,086	27,775	84,789	86,336
Operating income	10,980	10,589	33,980	29,021
Interest expense	(6,963)	(8,820)	(21,573)	(27,815)
Hedge ineffectiveness	12	-	-	-
Other income (expense)	-	(2)	(5)	(2)
Net gains (losses) on sale of assets	(92)	(1)	15,873	31,773
Gains (losses) on extinguishment of debt	-	-	(572)	(558)
Acquisition related debt extinguishment expenses	(2,781)	-	(2,781)	-
Gains (losses) on TSRE merger	-	641	-	732
Net income (loss):	1,156	2,407	24,922	33,151
(Income) loss allocated to noncontrolling interest	(59)	(140)	(1,009)	(1,972)
Net income (loss) allocable to common shares	$1,097	$2,267	$23,913	$31,179
Earnings (loss) per share:				
Basic	$0.02	$0.05	$0.34	$0.66
Diluted	$0.02	$0.05	$0.34	$0.66
Weighted-average shares:				
Basic	71,972,394	47,215,918	69,875,802	47,164,543
Diluted	72,144,544	47,314,629	70,105,571	47,190,139

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited and dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$1,156	$2,407	$24,922	$33,151
Other comprehensive income (loss):				
Change in fair value of interest rate hedges	(14)	217	(424)	(990)
Realized (gains) losses on interest rate hedges reclassified to earnings	(14)	251	177	271
Total other comprehensive income	(28)	468	(247)	(719)
Comprehensive income (loss) before allocation to noncontrolling interests	1,128	2,875	24,675	32,432
Allocation to noncontrolling interests	(33)	(140)	(979)	(1,972)
Comprehensive income (loss)	$1,095	$2,735	$23,696	$30,460

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity

(Unaudited and dollars in thousands, except share information)

	Common Shares	Par Value Common Shares	Additional Paid In Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2017	68,996,070	$ 690	$ 564,633	$ 3,683	$ (62,181)	$ 506,825	$ 21,866	$ 528,691
Net income	-	-	-	-	23,913	23,913	1,009	24,922
Other comprehensive income	-	-	-	(217)	-	(217)	(30)	(247)
Stock compensation expense	168,010	1	1,547	-	-	1,548	-	1,548
Issuance of common shares	14,375,000	144	125,563			125,707		125,707
Issuance of LP Units related to acquisitions	-	-	-	-	-	-	1,654	1,654
Repurchase of shares related to equity award tax withholding	(60,377)	(1)	(564)	-	-	(565)	-	(565)
Conversion of noncontrolling interest to common shares	39,899	1	371	-	-	372	(372)	-
Common dividends declared	-	-	-	-	(38,151)	(38,151)	-	(38,151)
Distribution to noncontrolling interest declared	-	-	-	-	-	-	(1,581)	(1,581)
Balance, September 30, 2017	83,518,602	$ 835	$ 691,550	$ 3,466	$ (76,419)	$ 619,432	$ 22,546	$ 641,978

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited and dollars in thousands)

	For the Nine Months Ended September 30, 2017	2016
Cash flows from operating activities:		
Net income	$24,922	$33,151
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depreciation and amortization	24,289	26,927
Amortization of deferred financing costs	1,160	2,236
Stock compensation expense	1,548	832
Net (gains) losses on sale of assets	(15,873)	(31,773)
(Gains) losses on extinguishment of debt	572	558
Acquisition related debt extinguishment expenses	2,781	-
(Gains) losses on TSRE merger	-	(732)
Changes in assets and liabilities:		
Accounts receivable and other assets	(1,931)	(1,377)
Accounts payable and accrued expenses	8,098	3,895
Accrued interest payable	(345)	(376)
Other liabilities	(165)	(11)
Net cash provided by operating activities	45,056	33,330
Cash flows from investing activities:		
Disposition of real estate properties	34,519	39,690
Acquisition of real estate properties	(169,156)	-
Capital expenditures	(10,100)	(8,039)
(Increase) decrease in restricted cash	(1,147)	(2,615)
Cash flow (used in) provided by investing activities	(145,884)	29,036
Cash flows from financing activities:		
Proceeds from unsecured credit facility	148,190	93,501
Unsecured credit facility repayments	(138,500)	(197,666)
Proceeds from mortgages	-	105,980
Mortgage principal repayments	(1,969)	(44,532)
Payments for deferred financing costs	(1,166)	(1,450)
Proceeds from issuance of common stock	125,707	-
Distributions on common stock	(37,279)	(25,495)
Distributions to noncontrolling interests	(1,573)	(1,615)
Payments related to extinguishment of debt	(2,781)	-
Repurchase of shares related to equity award tax withholding	(565)	(143)
Cash flow provided by (used in) financing activities	90,064	(71,420)
Net change in cash and cash equivalents	(10,764)	(9,054)
Cash and cash equivalents, beginning of period	20,892	38,301
Cash and cash equivalents, end of the period	$10,128	$29,247

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

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of September 30, 2017

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

NOTE 1: Organization

Independence Realty Trust, Inc., or IRT, was formed on March 26, 2009 as a Maryland corporation that has elected to be taxed as a real estate investment trust, or REIT, commencing with the taxable year ended December 31, 2011. As of September 30, 2017, we own and operate 50 multifamily apartment properties, totaling 13,729 units, across non-gateway U.S markets, including Louisville, Memphis, Atlanta and Raleigh. Our investment strategy is focused on gaining scale within key amenity rich submarkets that offer good school districts, high-quality retail and major employment centers. We aim to provide stockholders with attractive risk-adjusted returns through diligent portfolio management, strong operational performance, and a consistent return through distributions and capital appreciation. We own substantially all of our assets and conduct our operations through Independence Realty Operating Partnership, LP, which we refer to as IROP, of which we are the sole general partner.

We became an internally managed REIT on December 20, 2016. Prior to that date, we were externally managed by a subsidiary of RAIT Financial Trust, or RAIT, a publicly traded Maryland REIT whose common shares are listed on the New York Stock Exchange under the symbol “RAS” (referred to as our former advisor). On December 20, 2016, we completed our management internalization, which was announced on September 27, 2016 as part of the agreement, or the internalization agreement, with RAIT and RAIT affiliates that provided for transactions which changed us from being externally managed to being internally managed and separated us from RAIT. The management internalization consisted of two parts: (i) our acquisition of our former advisor, which was a subsidiary of RAIT, and (ii) our acquisition of substantially all of the 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. Also, pursuant to the internalization agreement, on October 5, 2016, we repurchased all of the 7,269,719 shares of our common stock owned by certain of RAIT’s subsidiaries and retired these shares.

As used herein, the terms “we,” “our” and “us” refer to Independence Realty Trust, Inc. and, as required by context, IROP and their subsidiaries.

NOTE 2: Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in the United States, or GAAP. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2016 included in our Annual Report on Form 10-K, or the 2016 annual report. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations and cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

b. Principles of Consolidation

The consolidated financial statements reflect our accounts and the accounts of IROP and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Pursuant to FASB Accounting Standards Codification Topic 810, “Consolidation”, IROP is considered a variable interest entity. As our significant asset is our investment in IROP, substantially all of our assets and liabilities represent the assets and liabilities of IROP.

c. Use of Estimates

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

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of September 30, 2017

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

d. Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and highly liquid investments with maturities of three months or less when purchased. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of $250 per institution. We mitigate credit risk by placing cash and cash equivalents with major financial institutions. To date, we have not experienced any losses on cash and cash equivalents.

e. Restricted Cash

Restricted cash includes escrows of our funds held by lenders to fund certain expenditures, such as real estate taxes and insurance, or to be released at our discretion upon the occurrence of certain pre-specified events. As of September 30, 2017 and December 31, 2016, we had $6,665 and $5,518, respectively, of restricted cash.

f. Accounts Receivable and Allowance for Bad Debts

We make estimates of the collectability of our accounts receivable related to base rents, expense reimbursements and other revenue. We analyze accounts receivable and historical bad debt levels, tenant credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants experiencing financial difficulties are analyzed and estimates are made in connection with expected uncollectible receivables. Our reported operating results are affected by management's estimate of the collectability of accounts receivable. For the three months ended September 30, 2017 and 2016, we recorded bad debt expense of $101 and $306, respectively. For the nine months ended September 30, 2017 and 2016, we recorded bad debt expense of $670 and $727, respectively.

g. Investments in Real Estate

Investments in real estate are recorded at cost less accumulated depreciation. Costs that both add value and appreciably extend the useful life of an asset are capitalized. Expenditures for repairs and maintenance are expensed as incurred.

Investments in real estate are classified as held for sale in the period in which certain criteria are met including when the sale of the asset is probable and actions required to complete the plan of sale indicate that it is unlikely that significant changes to the plan of sale will be made or the plan of sale will be withdrawn.

Allocation of Purchase Price of Acquired Assets

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

Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets (consisting of in-place leases), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months after the acquisition date.

The aggregate value of in-place leases is determined by evaluating various factors, including the terms of the leases that are in place and assumed lease-up periods. During the three and nine months ended September 30, 2017, we acquired in-place leases with a value of $1,034 and $1,963, respectively, as part of related property acquisitions that are discussed further in Note 3. The value assigned to this intangible asset is amortized over the assumed lease up period, typically six months. For the three and nine months ended September 30, 2017, we recorded $416 and $664, respectively, of amortization expense for intangible assets. For the three and nine months ended September 30, 2016, we recorded $0 and $3,735, respectively, of amortization expense for intangible assets. As of September 30, 2017, we expect to record additional amortization expense on current in-place intangible assets of $795 for the remainder of 2017.

Impairment of Long-Lived Assets

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

Management reviews its long-lived assets on an ongoing basis and evaluates the recoverability of the carrying value when there is an indicator of impairment. An impairment charge is recorded when it is determined that the carrying value of the asset exceeds the fair value. The estimated cash flows used for the impairment analysis and the determination of estimated fair value are based on our plans for the respective assets and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the respective and/or comparable properties, and recent sales data for comparable properties. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses, which, under the applicable accounting guidance, could be substantial.

Depreciation Expense

Depreciation expense for real estate assets is computed using a straight-line method based on a life of 40 years for buildings and improvements and five to ten years for equipment and fixtures. For the three and nine months ended September 30, 2017, we recorded $8,255 and $23,625 of depreciation expense, respectively. For the three and nine months ended September 30, 2016, we recorded $7,765 and $23,192 of depreciation expense, respectively.

h. Revenue and Expenses

Rental revenues are recognized on an accrual basis when due from residents. We primarily lease apartments units under operating leases generally with terms of one year or less. Rental payments are generally due monthly and recognized when earned. Rental income represents gross market rent less adjustments for concessions and vacancy loss. Tenant reimbursement income represents reimbursement from tenants for utility charges while other property income includes parking, trash, late fees, and other miscellaneous property related income.

For the three and nine months ended September 30, 2017, we recognized revenues of $11 and $96, respectively, related to recoveries of lost rental revenue due to natural disasters and other insurable events from our insurance providers. For the three and nine months ended September 30, 2016, we recognized revenues of $38 and $151, respectively, related to recoveries of lost rental revenue due to natural disasters and other insurable events from our insurance providers.

For the three and nine months ended September 30, 2017, we incurred $437 and $1,285 of advertising expenses, respectively. For the three and nine months ended September 30, 2016, we incurred $435 and $1,325 of advertising expenses, respectively.

For the three months ended September 30, 2017 and 2016, we incurred $0 and $1,933 of asset management and incentive fees, respectively. For the nine months ended September 30, 2017 and 2016, we incurred $0 and $5,491 of asset management and incentive fees, respectively. Asset management and incentive fees are now included in general and administrative expenses since as an internally-managed REIT, we no longer incur external asset management fees and the compensation cost of our employees who now perform this function are recorded within general and administrative expenses. See Note 8: Related Party Transactions and Arrangements.

For the three months ended September 30, 2017 and 2016, we incurred $1,328 and $1,219 of property management expenses, respectively. For the nine months ended September 30, 2017 and 2016, we incurred $4,310 and $3,710 of property management expenses, respectively. Subsequent to our management internalization, property management expenses include payroll and related expenses that directly support on-site property management. Prior to our management internalization, property management expenses included property and construction management fees paid to our former property manager. See Note 8: Related Party Transactions and Arrangements.

i. Derivative Instruments

We may use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with our operating and financial structure, as well as to hedge specific anticipated transactions. While these instruments may impact our periodic cash flows, they benefit us by minimizing the risks and/or costs previously described. The counterparties to these contractual arrangements are major financial institutions with which we and our affiliates may also have other financial relationships. In the event of nonperformance by the counterparties, we are potentially exposed to credit loss. However, because of the high credit ratings of the counterparties, we do not anticipate that any of the counterparties will fail to meet their obligations.

In accordance with FASB ASC Topic 815, “Derivatives and Hedging”, we measure each derivative instrument (including certain derivative instruments embedded in other contracts) at fair value and record such amounts in our consolidated balance sheets as either an asset or liability. For derivatives designated as cash flow hedges, the changes in the fair value of the effective portions of the derivative are reported in other comprehensive income and changes in the fair value of the ineffective portions of cash flow hedges, if any, are recognized in earnings. For derivatives not designated as hedges (or designated as fair value hedges), or for derivatives designated as cash flow hedges associated with debt for which we elected the fair value option under FASB ASC Topic 825, “Financial Instruments”, the changes in fair value of the derivative instrument are recognized in earnings. Any derivatives that we designate in hedge relationships are done so at inception. At inception, we determine whether or not the derivative is highly effective in offsetting changes in the designated interest rate risk associated with the identified indebtedness using regression analysis. At each reporting period, we update our regression analysis and use the hypothetical derivative method to measure any ineffectiveness.

j. Fair Value of Financial Instruments

In accordance with FASB ASC Topic 820, “Fair Value Measurements and Disclosures”, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity for disclosure purposes. Assets and liabilities recorded at fair value in our consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB ASC Topic 820, “Fair Value Measurements and Disclosures” and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

- Level 1: Valuations are based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are equity securities listed in active markets. As such, valuations of these investments do not entail a significant degree of judgment.
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- Level 2: Valuations are based on quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of investment, whether the investment is new, whether the investment is traded on an active exchange or in the secondary market, and the current market condition. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by us in determining fair value is greatest for instruments categorized in Level 3.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of September 30, 2017

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

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that management believes are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be transferred from Level 1 to Level 2 or Level 2 to Level 3.

Fair value for certain of our Level 3 financial instruments is derived using internal valuation models. These internal valuation models include discounted cash flow analyses developed by management using current interest rates, estimates of the term of the particular instrument, specific issuer information and other market data for securities without an active market. In accordance with FASB ASC Topic 820, “Fair Value Measurements and Disclosures”, the impact of our own credit spreads is also considered when measuring the fair value of financial assets or liabilities, including derivative contracts. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality and market liquidity. These adjustments are applied on a consistent basis and are based on observable inputs where available. Management’s estimate of fair value requires significant management judgment and is subject to a high degree of variability based upon market conditions, the availability of specific issuer information and management’s assumptions.

FASB ASC Topic 825, “Financial Instruments” requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. Given that cash and cash equivalents and restricted cash are short term in nature with limited fair value volatility, the carrying amount is deemed to be a reasonable approximation of fair value and the fair value input is classified as a Level 1 fair value measurement. The fair value input for the derivatives is classified as a Level 2 fair value measurement within the fair value hierarchy. The fair value inputs for our unsecured credit facility and our former secured credit facility are classified as Level 2 fair value measurements within the fair value hierarchy. The fair value of mortgage indebtedness is based on a discounted cash flows valuation technique. As this technique utilizes current credit spreads, which are generally unobservable, this is classified as a Level 3 fair value measurement within the fair value hierarchy. We determine appropriate credit spreads based on the type of debt and its maturity. The following table summarizes the carrying amount and the fair value of our financial instruments as of the periods indicated:

	As of September 30, 2017		As of December 31, 2016	
Financial Instrument	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$10,128	$10,128	$20,892	$20,892

Restricted cash	6,665	6,665	5,518	5,518
Derivative assets	3,581	3,581	3,867	3,867
Liabilities				
Debt:				
Secured credit facility	-	-	147,280	150,000
Unsecured credit facility	157,163	159,690	-	-
Mortgages	574,462	565,954	596,537	588,523

k. Deferred Financing Costs

Costs incurred in connection with debt financing are deferred and classified within indebtedness and charged to interest expense over the terms of the related debt agreements, under the effective interest method. As of January 1, 2016, we adopted the accounting standard classified under FASB ASC Topic 835, “Interest” which required deferred financing costs to be presented on the balance sheet as a direct deduction from indebtedness.

l. 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 three and nine months ended September 30, 2017 and 2016.

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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 net cash available for distribution to stockholders; 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.

m. Recent Accounting Pronouncements

Below is a brief description of recent accounting pronouncements that could have a material effect on our financial statements.

Adopted Within these Financial Statements

In March 2016, the FASB issued an accounting standard classified under FASB ASC Topic 718, “Compensation – Stock Compensation”. This accounting standard simplifies several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences; (ii) classification of awards as either equity or liabilities; and (iii) classification on the statement of cash flows. This standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

Not Yet Adopted Within these Financial Statements

In May 2014, the FASB issued an accounting standard classified under FASB ASC Topic 606, “Revenue from Contracts with Customers”. This accounting standard generally replaces existing guidance by requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This accounting standard applies to all contracts with customers, except those that are within the scope of other Topics in the FASB ASC. During 2016, the FASB issued three amendments to this accounting standard which provide further clarification to this accounting standard. These standards amending FASB ASC Topic 606 are currently effective for annual reporting periods beginning after December 15, 2017. We are finalizing our evaluation of the impact that these standards may have on our consolidated financial statements however, a majority of our revenue is derived from real estate lease contracts which are specifically excluded from the scope of this standard.

In February 2016, the FASB issued an accounting standard classified under FASB ASC Topic 842, “Leases”. This accounting standard amends lease accounting by requiring the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases on the balance sheet and disclosing key information about leasing arrangements. This standard is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this standard is permitted. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

In August 2016, the FASB issued an accounting standard classified under FASB ASC Topic 230, "Statement of Cash Flows". This accounting standard provides guidance on eight specific cash flow issues: (i) debt prepayment or debt extinguishment costs; (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (iii) contingent consideration payments made after a business combination; (iv) proceeds from the settlement of insurance claims; (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions; and (viii) separately identifiable cash flows and application of the predominance principle. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Management is currently evaluating the impact that this standard may have on our consolidated statement of cash flows.

In January 2017, the FASB issued an accounting standard update under FASB ASC Topic 805, "Business Combinations" that changes the definition of a business to assist entities with evaluating whether a set of transferred assets is a business. As a result, the accounting for acquisitions of real estate could be impacted. The updated standard will be effective for us on January 1, 2018 with early adoption permitted. The new definition will be applied prospectively to any transactions occurring within the period of adoption. Management expects that the updated standard will result in fewer acquisitions of real estate meeting the definition of a business and fewer acquisition-related costs being expensed in the period incurred.

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In May 2017, the FASB issued an accounting standard update under FASB ASC Topic 718, "Compensation – Stock Compensation." The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. As a result, the accounting for share-based payment award transactions could be impacted. The updated standard will be effective for us on January 1, 2018 with early adoption permitted. The new definition will be applied prospectively to an award modified on or after the adoption date. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

In August 2017, the FASB issued an accounting standard update under FASB ASC Topic 815, "Derivatives and Hedging." The amendments in this update provide guidance about the application of the hedge accounting guidance in current GAAP based on the feedback received from preparers, auditors, and other stakeholders. As a result, the accounting for derivatives and hedging transactions could be impacted. The updated standard will be effective for us on January 1, 2019 with early adoption permitted. The new definition will be applied prospectively to any transactions occurring within the period of adoption. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

NOTE 3: Investments in Real Estate

As of September 30, 2017, our investments in real estate consisted of 50 apartment properties with 13,729 units. The table below summarizes our investments in real estate:

	As of September 30, 2017	As of December 31, 2016	Depreciable Lives (In years)
Land	$ 187,935	$ 165,120	—
Building	1,211,985	1,066,611	40
Furniture, fixtures and equipment	27,137	17,625	5-10
Total investment in real estate	$ 1,427,057	$ 1,249,356	
Accumulated depreciation	(75,084)	(51,511)	

Investments in real estate, net	$ 1,351,973	$ 1,197,845

As of September 30, 2017 and December 31, 2016, we had investments in real estate with a carrying value of $22,031 and $60,786, respectively, classified as held for sale.

Acquisitions

The below table summarizes the acquisitions for the nine months ended September 30, 2017:

Property Name	Date of Purchase	Location	Units (unaudited)	Purchase Price
Lakes of Northdale	2/27/2017	Tampa, FL	216	$29,750
Haverford Place	5/24/2017	Lexington, KY	160	$14,240
South Terrace (1)	6/30/2017	Durham, NC	328	$42,950
Cherry Grove (2)	9/26/2017	North Myrtle Beach, SC	172	$16,157
Riverchase (2)	9/26/2017	Indianapolis, IN	217	$18,899
Kensington (2)	9/26/2017	Canal Winchester, OH	264	$24,409
Schirm Farms (2)	9/26/2017	Canal Winchester, OH	264	$23,749
Total			1,621	$170,154

(1) This property was acquired from a joint venture of which our former advisor was a controlling member. See Note 8: Related Party Transactions and Arrangements. In conjunction with this acquisition, we issued IROP units to third parties that were members of the joint venture that owned the property. See Note 6: Shareholder Equity and Noncontrolling Interests.

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(2) These properties were acquired as the first phase of our acquisition of a nine-community portfolio, totaling 2,353 units, which we agreed to acquire on September 3, 2017 for a total purchase price of $228,144. In connection with the acquisition of these properties, we incurred defeasance costs totaling $2,781, which are included in Acquisition related debt extinguishment expenses within the Consolidated Statements of Operations.

The following table summarizes the aggregate fair value of the assets and liabilities associated with the properties acquired during the nine-month period ended September 30, 2017, on the date of acquisition, accounted for under FASB ASC Topic 805.

Description	Fair Value of Assets Acquired During the Nine-Month Period Ended September 30, 2017
Assets acquired:	
Investments in real estate	$ 168,191
Accounts receivable and other assets	$ 463
Intangible assets	$ 1,963
Total assets acquired	$ 170,617
Liabilities assumed:	
Accounts payable and accrued expenses	$ 1,502
Other liabilities	$ 490
Total liabilities assumed	$ 1,992
Estimated fair value of net assets acquired	$ 168,625

The table below presents the revenue and net income (loss) for the properties acquired during the nine-month period ended September 30, 2017 as reported in our consolidated financial statements, excluding any related acquisition and integration expenses.

	For the Three-Month Period Ended September 30, 2017		For the Nine-Month Period Ended September 30, 2017	
Property	Total revenue	Net income (loss) allocable to common shares	Total revenue	Net income (loss) allocable to common shares
Lakes of Northdale	$789	$ 223	$1,829	$ 447
Haverford Place	$452	$ 107	$637	$ 179
South Terrace	$1,039	$ 198	$1,049	$ 203
Cherry Grove	$26	$ 17	$26	$ 17
Riverchase	$25	$ 13	$25	$ 13
Kensington	$35	$ 25	$35	$ 25
Schirm Farms	$35	$ 23	$35	$ 23
Total	$2,401	$ 606	$3,636	$ 907

The table below represents the revenue, net income and earnings per share effect of the acquired property, as reported in our consolidated financial statements and on a pro forma basis as if the acquisition occurred on January 1, 2016. These pro forma results are not necessarily indicative of the results that actually would have occurred if the acquisition had occurred on January 1, 2016, nor does the pro forma financial information purport to represent the results of operations for future periods.

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Description	For the Three-Month Period Ended September 30, 2017	For the Three-Month Period Ended September 30, 2016	For the Nine-Month Period Ended September 30, 2017	For the Nine-Month Period Ended September 30, 2016
Pro forma total revenue (unaudited)	43,421	42,695	128,834	128,350
Pro forma net income (loss) allocable to common shares (unaudited)	2,347	3,211	27,663	34,012
Earnings (loss) per share attributable to common shareholders:				
Basic-pro forma (unaudited)	$ 0.03	$ 0.07	$ 0.40	$ 0.72
Diluted-pro forma (unaudited)	$ 0.03	$ 0.07	$ 0.39	$ 0.72

We did not make any purchase price allocation adjustments during the nine-month period ended September 30, 2017.

On October 25, 2017, we acquired a 264 unit residential community located in Baton Rouge, LA, known as Live Oak Trace, for $28,501. This acquisition was part of the nine-property portfolio acquisition announced on September 5, 2017.

Dispositions

The table below summarizes the dispositions for the nine months ended September 30, 2017 and also presents each property’s contribution to net income (loss) allocable to common shares, excluding the impact of the gain (loss) on sale:

Property Name	Date of Sale	Sale Price	Gain (loss) on sale (1)	Net income (loss) allocable to common shares For the Three Months Ended September 30, 2017	Net income (loss) allocable to common shares For the Nine Months Ended September 30, 2017

				30, 2017	
Copper Mill	5/5/2017	$32,000	$15,616	$(3)	$ 794
Heritage Trace	6/1/2017	11,600	(1,237)	(3)	477
Berkshire	6/9/2017	16,000	1,579	(33)	457
Total		$59,600	$15,958	$(39)	$ 1,728

(1) The gain (loss) on sale for these properties is net of $2,748 of defeasance costs. All properties were previously classified as held for sale.

NOTE 4: Indebtedness

The following tables contain summary information concerning our indebtedness as of September 30, 2017:

Debt:	Outstanding Principal	Unamortized Discount and Debt Issuance Costs	Carrying Amount	Type	Weighted Average Rate	Weighted Average Maturity (in years)
Unsecured credit facility (1)(2)	$ 159,690	$ (2,527)	$ 157,163	Floating	2.7%	3.9
Mortgages-Fixed rate	577,632	(3,170)	574,462	Fixed	3.7%	6.0
Total Debt	$ 737,322	$ (5,697)	$ 731,625		3.5%	5.6

(1) The unsecured credit facility total capacity is $300,000, of which $159,690 was outstanding as of September 30, 2017.

(2) As of September 30, 2017, IRT maintained a float-to-fixed interest rate swap with a $150,000 notional amount. This swap, which expires on June 17, 2021 and has a fixed rate of 1.1325%, has converted $150,000 of our floating rate debt to fixed rate debt.

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	Original maturities on or before December 31,					
Debt:	2017	2018	2019	2020	2021	Thereafter
Unsecured credit facility	$ -	$ -	$ -	$ -	$ 109,690	$ 50,000
Mortgages-Fixed rate	685	3,245	4,660	7,611	102,597	458,834
Total	$ 685	$ 3,245	$ 4,660	$ 7,611	$ 212,287	$ 508,834

As of September 30, 2017, we were in compliance with all financial covenants contained in our indebtedness.

The following table contains summary information concerning our indebtedness as of December 31, 2016:

Debt:	Outstanding Principal	Unamortized Discount and Debt Issuance Costs	Carrying Amount	Type	Weighted Average Rate	Weighted Average Maturity (in years)
Secured credit facility (1)	$ 150,000	$ (2,720)	$ 147,280	Floating	3.0%	1.7
Mortgages-Fixed rate	600,188	(3,651)	596,537	Fixed	3.8%	6.7
Total Debt	$ 750,188	$ (6,371)	$ 743,817		3.6%	5.7

(1) The secured credit facility total capacity was $312,500, of which $150,000 was outstanding as of December 31, 2016.

In February 2017, IROP drew down $22,000 on the secured credit facility in connection with the Lakes of Northdale acquisition.

On May 1, 2017, we closed on a new $300,000 unsecured credit facility, refinancing and terminating the previous secured credit facility. The new facility is comprised of a $50,000 term loan and a revolving commitment of up to $250,000. The maturity date on the new term loan is May 1, 2022, and the maturity date on borrowings outstanding under the revolving commitment is May 1, 2021, extending the September 17, 2018 maturity of the previous secured credit facility. Based on our current leverage levels, our annual interest cost is LIBOR plus 145 basis points under the term loan and LIBOR plus 150 basis points for borrowings outstanding under the revolving commitments. We recognized the refinance as a partial extinguishment of our prior secured credit facility and recognized a loss on extinguishment of debt of $572.

In May 2017, IROP drew down $9,000 on the unsecured credit facility in connection with the Haverford Place acquisition.

In June 2017, IROP drew down $31,250 on the unsecured credit facility in connection with the South Terrace acquisition.

In September 2017, IROP (1) paid down $117,500 on the unsecured credit facility using proceeds from the common stock offering on September 11, 2017, which is discussed in Note 6: Shareholders Equity, and (2) drew down $85,000 in connection with the four properties acquired on September 26, 2017.

In connection with the three property dispositions during the nine months ended September 30, 2017, we extinguished, through defeasance, property mortgages totaling $20,586.

NOTE 5: Derivative Financial Instruments

We may use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with our operating and financial structure as well as to hedge specific anticipated transactions. While these instruments may impact our periodic cash flows, they benefit us by minimizing the risks and/or costs previously described.

Interest Rate Swaps and Caps

We have entered into an interest rate cap contract and an interest rate swap contract to hedge interest rate exposure on floating rate indebtedness.

On June 24, 2016, we entered into an interest rate swap contract with a notional value of $150,000, a strike rate of 1.145% and a maturity date of June 17, 2021. We designated this interest rate swap as a cash flow hedge at inception and determined that the hedge

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is highly effective in offsetting interest rate fluctuations associated with the identified indebtedness. We did not recognize any ineffectiveness associated with this cash flow hedge through April 2017. On April 17, 2017, in conjunction with the refinance of our credit facility, we restructured our existing interest rate swap to remove the LIBOR floor. This resulted in a decrease in the strike rate to 1.1325%. The notional value and maturity date remained the same. We designated the restructured interest rate swap as a cash flow hedge at inception and determined that the hedge is highly effective in offsetting interest rate fluctuations associated with the identified indebtedness. However, since the fair value of the swap at inception of the hedging relationship was not zero, we expect some ineffectiveness to be recognized over the life of the instrument. During the three and nine months ended September 30, 2017, we recognized $(12) and $0 of ineffectiveness based on the hypothetical derivative method. Our interest rate cap is not designated as a cash flow hedge.

The following table summarizes the aggregate notional amount and estimated net fair value of our derivative instruments as of September 30, 2017 and December 31, 2016:

	As of September 30, 2017			As of December 31, 2016		
	Notional	Fair Value of Assets	Fair Value of Liabilities	Notional	Fair Value of Assets	Fair Value of Liabilities
Cash flow hedges:						
Interest rate swap	$150,000	$ 3,581	$ —	$150,000	$ 3,867	$ —
Freestanding derivatives:						
Interest rate cap	200,000	—	—	200,000	—	—
Net fair value	$350,000	$ 3,581	$ —	$350,000	$ 3,867	$ —

Effective interest rate swaps and caps are reported in accumulated other comprehensive income, and the fair value of these hedge agreements is included in other assets or other liabilities.

For our interest rate swap that is considered a highly effective hedge, we reclassified realized gains of $27 and losses of $156 to earnings within interest expense for the three and nine months ended September 30, 2017, respectively, and we expect $471 to be reclassified out of accumulated other comprehensive income to earnings over the next 12 months.

NOTE 6: Shareholder Equity and Noncontrolling Interests

Stockholder Equity

Our board of directors has declared the following dividends in 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
April 2017	April 12, 2017	April 28, 2017	May 15, 2017	$ 0.06
May 2017	April 12, 2017	May 31, 2017	June 15, 2017	$ 0.06
June 2017	April 12, 2017	June 30, 2017	July 17, 2017	$ 0.06
July 2017	July 14, 2017	July 31, 2017	August 15, 2017	$ 0.06
August 2017	July 14, 2017	August 31, 2017	September 15, 2017	$ 0.06
September 2017	July 14, 2017	September 29, 2017	October 13, 2017	$ 0.06
October 2017	October 12, 2017	October 31, 2017	November 15, 2017	$ 0.06
November 2017	October 12, 2017	November 30, 2017	December 15, 2017	$ 0.06
December 2017	October 12, 2017	December 29, 2017	January 15, 2018	$ 0.06

Common Shares

During the three and nine months ended September 30, 2017, we also paid $0 and $126, respectively, of dividends on restricted common share awards that vested during the period.

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On August 4, 2017, we entered into an At-the-Market Issuance Sales Agreement (the “Sales Agreement”) with various sales agents. Pursuant to the Sales Agreement, we may offer and sell shares of our common stock, $0.01 par value per share, having an aggregate offering price of up to $150,000, from time to time through the sales agents. The sales agents are entitled to compensation in an agreed amount not to exceed 2.0% of the gross sales price per share for any shares sold from time to time under the Sales Agreement. We have no obligation to sell any of the shares under the Sales Agreement and may at any time suspend solicitations and offers under the Sales Agreement. No shares were issued pursuant to the Sales Agreement as of September 30, 2017.

On September 11, 2017, we issued 12,500,000 shares of our common stock at a public offering price of $9.25 per share. We also closed on the underwriters’ option to purchase an additional 1,875,000 shares of common stock at the public offering price. As a result of the offering and exercise or the underwriters’ option, we received approximately $126,100 in net proceeds, after deducting the underwriting discount and offering expenses.

Noncontrolling Interest

In June 2017, we issued 166,604 IROP units in connection with our acquisition of South Terrace. The IROP units were valued at $1,654 based on the price of our common stock. See Note 3: Investments in Real Estate for details on the property acquisition.

As of September 30, 2017, 3,035,654 IROP units held by unaffiliated third parties remain outstanding with a redemption value of $30,873, based on IRT’s stock price of $10.17 as of September 29, 2017.

Our board of directors has declared the following distributions on IROP’s LP units in 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
April 2017	April 12, 2017	April 28, 2017	May 15, 2017	$ 0.06
May 2017	April 12, 2017	May 31, 2017	June 15, 2017	$ 0.06
June 2017	April 12, 2017	June 30, 2017	July 17, 2017	$ 0.06
July 2017	July 14, 2017	July 31, 2017	August 15, 2017	$ 0.06
August 2017	July 14, 2017	August 31, 2017	September 15, 2017	$ 0.06
September 2017	July 14, 2017	September 29, 2017	October 13, 2017	$ 0.06

October 2017	October 12, 2017	October 31, 2017	November 15, 2017	$ 0.06
November 2017	October 12, 2017	November 30, 2017	December 15, 2017	$ 0.06
December 2017	October 12, 2017	December 29, 2017	January 15, 2018	$ 0.06

NOTE 7: Equity Compensation Plans

Long Term Incentive Plan

In May 2016, our shareholders approved and our board of directors adopted an amended and restated Long Term Incentive Plan, or the incentive plan, which provides for the grants of awards to our directors, officers and full-time employees, full-time employees of our former advisor and its affiliates, full-time employees of entities that provide services to our former advisor, directors of our former advisor or of entities that provide services to it, certain of our consultants and certain consultants to our former advisor and its affiliates or to entities that provide services to our former advisor. The incentive plan authorizes the grant of restricted or unrestricted shares of our common stock, non-qualified and incentive stock options, restricted stock units, stock appreciation rights, dividend equivalents and other stock- or cash-based awards. In conjunction with the amendment, the number of shares of common stock issuable under the incentive plan was increased to 4,300,000 shares, and the term of the incentive plan was extended to May 12, 2026.

Under the incentive plan or predecessor incentive plans, we granted restricted shares and stock appreciation rights, or SARs, to our employees and employees of our former advisor. These awards generally vested over a three-year period. In addition, we granted unrestricted shares to our directors. These awards generally vested immediately.

On February 28, 2017, our compensation committee awarded 143,180 restricted stock awards, valued at $9.19 per share, or $1,316 in the aggregate. The restricted stock awards vest over a three-year period except for 6,585 awards that vested immediately. In addition, our compensation committee awarded performance share units, or PSUs, to eligible officers under a newly adopted 2017 Annual Equity Award Program pursuant to the incentive plan. The number of PSUs awarded will be based on attainment of certain performance criteria over a three-year period, with 226,469 PSUs granted for achieving the maximum performance criteria. The aggregate grant date fair value of the PSUs was $1,076.

On May 16, 2017, our compensation committee granted stock under the incentive plan such that our independent directors received an aggregate of 24,830 shares of our common stock, valued at $225 using our closing stock price of $9.06. These awards vested immediately.

NOTE 8: Related Party Transactions and Arrangements

Fees and Expenses Paid to Our Former Advisor

On December 20, 2016, in connection with our management internalization, we acquired our former advisor and, therefore, fees and expenses to our former advisor are no longer incurred.

For the three months ended September 30, 2017 and 2016, our former advisor earned $0 and $1,727 of asset management fees, respectively, and $0 and $5,141 for the nine months ended September 30, 2017 and 2016, respectively. These fees are included within general and administrative expenses in our consolidated statements of operations.

For the three months ended September 30, 2017 and 2016, our former advisor earned $0 and $206 of incentive fees, respectively, and $0 and $350 for the nine months ended September 30, 2017 and 2016, respectively. These fees are included within general and administrative expenses in our consolidated statements of operations.

For the nine months ended September 30, 2017 and 2016, we incurred costs of $727 and $0, respectively, with respect to our shared services agreement with our former advisor. The term of the agreement was from December 21, 2016 to June 20, 2017 and the associated fees are included within general and administrative expenses in our consolidated statements of operations.

As of September 30, 2017 and December 31, 2016, we had no liabilities payable to our former advisor for asset management fees, incentive fees or shared service fees.

Property Management Fees Paid to Our Former Property Manager

On December 20, 2016, in connection with our management internalization, we acquired property management agreements with respect to each of our properties from RAIT Residential, our former property manager, which is wholly owned by RAIT.

For the three months ended September 30, 2017 and 2016, our former property manager earned $0 and $1,219, respectively, and $0 and $3,710 for the nine months ended September 30, 2017 and 2016, respectively, of property management and leasing fees. As of September 30, 2017 and December 31, 2016, we had no liabilities payable to our property manager for property management and leasing fees.

Dividends Paid to Affiliates of Our Former Advisor

On October 5, 2016, we repurchased and retired all 7,269,719 shares of our common stock owned by subsidiaries of RAIT.

Since October 5, 2016, RAIT has not owned any shares of our common stock. For the three months ended September 30, 2017 and 2016, we declared and subsequently paid dividends of $0 and $1,309, respectively, and $0 and $3,926 for the nine months ended September 30, 2017 and 2016, respectively, related to shares of common stock owned by subsidiaries of RAIT.

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RAIT Indebtedness

In the second quarter of 2016, we repaid $38,075 of mortgage indebtedness with proceeds from two property dispositions. This indebtedness was held by RAIT. Total interest expense paid to RAIT for the three and nine months ended September 30, 2017 and 2016 was $0 and $486, respectively.

Related Party Transaction

In June 2017, we acquired South Terrace, a 328-unit property in Durham, NC for $42,950 from a joint venture, of which a subsidiary of RAIT was a controlling member. For further information, see Note 3: Investment in Real Estate.

NOTE 9: Earnings (Loss) Per Share

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2017 and 2016:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$1,156	$2,407	$24,922	$33,151
(Income) loss allocated to non-controlling interests	(59)	(140)	(1,009)	(1,972)
Net income (loss) allocable to common shares	1,097	2,267	23,913	31,179
Weighted-average shares outstanding—Basic	71,972,394	47,215,918	69,875,802	47,164,543
Weighted-average shares outstanding—Diluted	72,144,544	47,314,629	70,105,571	47,190,139
Earnings (loss) per share—Basic	$0.02	$0.05	$0.34	$0.66
Earnings (loss) per share—Diluted	$0.02	$0.05	$0.34	$0.66

Certain IROP units, stock appreciation rights, or SARs, and unvested shares were excluded from the earnings (loss) per share computation because their effect would have been anti-dilutive, totaling 3,035,654 for the three and nine months ended September 30, 2017, and 2,915,008 and 3,091,380 for the three and nine months ended September 30, 2016, respectively.

NOTE 10: Other Disclosures

Litigation

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.

Other Matters

To the extent that a natural disaster or similar event occurs with more than a remote risk of having a material impact on the consolidated financial statements, we will disclose the estimated range of possible outcomes, and, if an outcome is probable, accrue an appropriate liability.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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" and "us" refer to Independence Realty Trust, Inc., which we refer to as IRT, 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 our 2016 Annual Report on Form 10-K, 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.

Overview

General

We are a Maryland corporation that owns and operates multifamily apartment properties across non-gateway U.S. markets, including Louisville, Memphis, Atlanta and Raleigh. Our investment strategy is focused on gaining scale within key amenity rich submarkets that offer good school districts, high-quality retail and major employment centers. We aim to provide stockholders attractive risk-adjusted returns through diligent portfolio management, strong operational performance, and a consistent return of capital through 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 when we see opportunities for increased rents; and

- present opportunities to apply tailored marketing and management strategies to attract and retain residents and enable rent increases.

Property Portfolio

As of September 30, 2017, we owned 50 multifamily apartment properties, totaling 13,729 units. Below is a summary of our property portfolio by market.

(Dollars in thousands, except per unit data)	As of September 30, 2017			For the Three Months Ended September 30, 2017		
Market	Units	Gross Real Estate Assets	Period End Occupancy	Average Effective Monthly Rent per Unit	Net Operating Income (a)	% of NOI
Louisville. KY	1,709	$ 179,557	94.7 %	$ 941	$ 2,945	12.4 %
Memphis, TN	1,383	137,777	95.0 %	1,029	2,549	10.8 %
Atlanta, GA	1,092	136,681	96.1 %	1,105	2,419	10.2 %
Raleigh, NC	1,372	182,511	95.3 %	1,101	2,907	12.3 %
Oklahoma City, OK	1,658	73,256	92.8 %	642	1,595	6.7 %
Dallas, TX	734	85,390	95.9 %	1,138	1,480	6.3 %
Charleston, SC	690	94,948	95.8 %	1,220	1,217	5.1 %
Jackson, MS (b)	602	44,699	94.0 %	892	924	3.9 %
Little Rock, AR	462	54,298	94.8 %	992	849	3.6 %
Orlando, FL	297	47,517	94.9 %	1,380	760	3.2 %
Chicago, IL	370	29,385	93.8 %	1,007	675	2.9 %
Indianapolis, IN	645	60,600	95.0 %	928	710	3.0 %
Greenville, SC	346	48,176	93.9 %	1,092	687	2.9 %
Austin, TX	300	35,471	95.0 %	1,276	625	2.6 %
Charlotte, NC	208	41,749	93.8 %	1,461	628	2.7 %
Asheville, NC	252	28,291	94.8 %	1,054	576	2.4 %
Chattanooga, TN	295	25,951	95.9 %	961	486	2.1 %
Tampa-St. Petersburg, FL	216	29,735	92.6 %	1,212	489	2.1 %
St. Louis, MO	152	32,967	92.8 %	1,568	450	1.9 %
Columbus, OH	768	65,639	96.5 %	854	409	1.7 %
Huntsville, AL	178	16,070	98.3 %	849	277	1.2 %
Total/Weighted Average	13,729	$ 1,450,668	94.8 %	$ 1,004	$ 23,657	100.0 %

(a) Net operating income for the three months ended September 30, 2017 excludes $11 primarily related to sold properties.

(b) Includes $23,611 of properties classified as held-for-sale.

As of September 30, 2017, our same-store portfolio consisted of 42 multifamily apartment properties, totaling 11,676 units. See "Non-GAAP Financial Measures – Same Store Portfolio Net Operating Income" below for our definition of same store and definitions and reconciliations related to our net operating income and net operating income margin.

Property Operations

During the three months ended September 30, 2017, we saw strong operational results. On a same-store basis, our total revenues were up 3.0% as compared to the third quarter of 2016 driven by higher average effective monthly rents and higher average occupancy. Revenue growth was especially strong in the Columbus, OH and Atlanta, GA markets driven by steady occupancy and higher average effective rent per unit in the third quarter of 2017 as compared to the third quarter of 2016.

Same-store net operating income increased 4.0% during the third quarter of 2017 as compared to the same period in the prior year driven by the higher revenues and operating expenses that increased just 1.5% as we continued to focus on expense management. For the nine months ended September 30, 2017, our same-store total revenues were 4.0% higher and our same-store net operating income was 4.9% higher than for the nine months ended September 30, 2016.

Other Matters

On June 20, 2017, we completed our use of shared services previously provided by RAIT and fully completed our previously disclosed management internalization. The shared services previously provided included certain transitional services such as information technology, human resources, insurance, investor relations, legal, tax and accounting.

On July 31, 2017, we transferred the listing of our common stock to the New York Stock Exchange (“NYSE”) from the NYSE MKT. Our common stock continues to trade under the ticker symbol “IRT”.

On September 3, 2017, IRT reached an agreement to acquire a portfolio of nine communities (the “HPI Portfolio”), totaling 2,353 units, for a gross purchase price of $228.1 million. The acquisition accelerates IRT’s penetration into a number of core existing markets, including Columbus, OH, Indianapolis, IN and Atlanta, GA, while providing entry into two new markets. The portfolio contains nine communities that were built or renovated between 2000 and 2011, had period end occupancy of 95% as of July 31, 2017, and had an average effective rent per unit of $884 for the three months ended July 31, 2017. On September 26, 2017, IRT closed on the acquisition of four of these multifamily apartment communities, aggregating 917 units, representing the consummation of the first phase of the portfolio acquisition. The acquisition of the remaining five communities are expected to close in succession during the fourth quarter of 2017, after and subject to the satisfaction of customary closing conditions, as well as the debt assumption process on three of the five. On October 25, 2017, we acquired one of the remaining five communities, a 264 unit community located in Baton Rouge, LA, known as Live Oak Trace for $28,501.

On September 11, 2017, IRT announced the closing of its public offering of 12,500,000 shares of its common stock at a public offering price of $9.25 per share. IRT also closed on the underwriters’ option to purchase an additional 1,875,000 shares of common stock at the public offering price. As a result of the offering and the exercise of the underwriters’ option, IRT received approximately $126.1 million in net proceeds, after deducting the underwriting discount and estimated offering expenses. IRT is using the net proceeds from the offering to pay a portion of the purchase price for the HPI portfolio. Any remaining proceeds will be used for general corporate purposes.

Results of Operations

Three Months Ended September 30, 2017 compared to the Three Months Ended September 30, 2016

(Dollars in thousands)	SAME STORE PROPERTIES Three Months Ended September 30,				NON SAME STORE PROPERTIES Three Months Ended September 30,				CONSOLIDATED Three Months Ended September 30,			
	2017	2016	Increase (Decrease)	% Change	2017	2016	Increase (Decrease)	% Change	2017	2016	Increase (Decrease)	% Change
Revenue:												
Rental income	$32,483	$31,698	$785	2.5%	$3,048	$2,635	$413	15.7%	$35,531	$34,333	$1,198	3.5%
Reimbursement and other income	3,913	3,645	268	7.4%	420	386	34	8.8%	4,333	4,031	302	7.5%
Total revenue	36,396	35,343	1,053	3.0%	3,468	3,021	447	14.8%	39,864	38,364	1,500	3.9%
Expenses:												
Real estate operating expenses	14,744	14,520	224	1.5%	1,452	1,587	(135)	-8.5%	16,196	16,107	89	0.6%
	$21,652	$20,823	$829	4.0%	$2,016	$1,434	$582	40.6%	$23,668	$22,257	$1,411	6.3%

Net Operating Income				
Other Income:				
Property management and other income	202	-	202	NM
Total other income	202	-	202	NM
Corporate and other expenses:				
Property management expenses	1,328	1,219	109	8.9 %
General and administrative expenses	2,322	2,665	(343)	-12.9 %
Acquisition and integration expenses	569	19	550	NM
Depreciation and amortization expense	8,671	7,765	906	11.7 %
Total corporate and other expenses	12,890	11,668	1,222	10.5 %
Operating Income (loss)	10,980	10,589	391	3.7 %
Interest expense	(6,963)	(8,820)	1,857	21.1 %
Hedge ineffectiveness	12	-	12	N/M
Other income (expense)	-	(2)	2	N/M
Net gains (losses) on sale of assets	(92)	(1)	(91)	NM
Gains (losses) on extinguishment of debt	-	-	-	N/M
Acquisition related debt extinguishment expenses	(2,781)	-	(2,781)	N/M
Gains (losses) on TSRE merger and property acquisitions	-	641	(641)	-100.0 %
Net income (loss)	1,156	2,407	(1,251)	-51.97 %
(Income) loss allocated to noncontrolling interests	(59)	(140)	81	57.9 %
Net income (loss) available to common shares	$ 1,097	$ 2,267	$ (1,170)	-51.61 %

Revenue

Rental income. Rental revenue increased $1.2 million to $35.5 million for the three months ended September 30, 2017 from $34.3 million for the three months ended September 30, 2016. The increase was primarily attributable to a $0.8 million increase in same store rental income driven by higher average effective monthly rents and higher occupancy than the prior year period and a $0.4 million increase in non same store rental income. The non same store increase was due to the number of properties included in each period being different as a result of the timing of property sales and acquisitions.

Reimbursement and other income. Reimbursement and other income increased $0.3 million to $4.3 million for the three months ended September 30, 2017 from $4.0 million for the three months ended September 30, 2016. The increase was primarily due to a $0.3 million increase in same store reimbursement and other income attributable to our continued focus on driving non-rental revenue and fee income.

Property management income. Property management income was $0.2 million for the three months ended September 30, 2017 compared to $0.0 million for the three months ended September 30, 2016. This was due to third party property management income that we received for managing properties on behalf of third parties during the current period. This service did not exist prior to our management internalization in December 2016.

Expenses

Real estate operating expenses. Property operating expenses increased $0.1 million to $16.2 million for the three months ended September 30, 2017 from $16.1 million for the three months ended September 30, 2016.

Property management expenses. Property management expenses increased $0.1 million to $1.3 million for the three months ended September 30, 2017 from $1.2 million for the three months ended September 30, 2016. This increase coincides with the above-mentioned increase in property management income driven by our management internalization. After our management internalization, property management expenses include costs incurred to directly support on-site management. Prior to this, property management expenses included property and construction management fees paid to our former property manager.

General and administrative expenses. General and administrative expenses decreased $0.4 million to $2.3 million for the three months ended September 30, 2017 from $2.7 million for the three months ended September 30, 2016. The decrease was due to cost savings from our management internalization.

Acquisition and integration expenses. Acquisition and integration expenses were $0.6 million for the three months ended September 30, 2017 compared to $0.0 million for the three months ended September 30, 2016. This increase was due to our acquisition of the HPI Portfolio. Acquisition and integration expenses include costs to identify, underwrite, close, and integrate new acquisitions.

Depreciation and amortization expense. Depreciation and amortization expense increased $0.9 million to $8.7 million for the three months ended September 30, 2017 from $7.8 million for the three months ended September 30, 2016. The increase was primarily attributable to $0.4 million of in-place lease intangible amortization recognized during the three months ended September 30, 2017 related to 2017 property acquisitions and a $0.5 million increase in depreciation expense due to property acquisitions during 2017.

Interest expense. Interest expense decreased $1.8 million to $7.0 million for the three months ended September 30, 2017 from $8.8 million for the three months ended September 30, 2016. The decrease was due to debt reductions during 2016 when our term loan was fully repaid and our credit facility balance decreased by $121.5 million.

Acquisition related debt extinguishment expenses. Acquisition related debt extinguishment expenses were $2.8 million for the three months ended September 30, 2017 due to defeasance related costs incurred in connection with the HPI portfolio acquisitions.

Nine Months Ended September 30, 2017 compared to the Nine Months Ended September 30, 2016

ollars in ousands)	SAME STORE PROPERTIES Nine Months Ended September 30,				NON SAME STORE PROPERTIES Nine Months Ended September 30,				CONSOLIDATED Nine Months Ended September 30,			
	2017	2016	Increase (Decrease)	% Change	2017	2016	Increase (Decrease)	% Change	2017	2016	Increase (Decrease)	% Change
venue:												
ntal income	$96,587	$93,313	$3,274	3.5%	$8,857	$9,958	$(1,101)	-11.1%	$105,444	$103,271	$2,173	2.1
imbursement d other come	11,513	10,640	873	8.2%	1,233	1,446	(213)	-14.7%	12,746	12,086	660	5.5
tal revenue	108,100	103,953	4,147	4.0%	10,090	11,404	(1,314)	-11.5%	118,190	115,357	2,833	2.5
penses:												
al estate erating penses	43,297	42,199	1,098	2.6%	4,809	5,389	(580)	-10.8%	48,106	47,588	518	1.1
t Operating come	$64,803	$61,754	$3,049	4.9%	$5,281	$6,015	$(734)	-12.2%	$70,084	$67,769	$2,315	3.4
her Income:												
operty anagement d other come									579	-	579	-
tal other come									579	-	579	-
rporate and her expenses:												
operty anagement penses									4,310	3,710	600	16.2
neral and administrative expenses									7,128	8,074	(946)	-11.7
quisition and integration expenses									956	37	919	NM
preciation and amortization expense									24,289	26,927	(2,638)	-9.8
tal corporate and other expenses									36,683	38,748	(2,065)	-5.3
erating Income (loss)									33,980	29,021	4,959	17.1
erest expense									(21,573)	(27,815)	6,242	22.4
dge ineffectiveness									-	-	-	N/M
her income (expense)									(5)	(2)	(3)	150.0
t gains (losses) on sale of assets									15,873	31,773	(15,900)	-50.0
ins (losses) on extinguishment of debt									(572)	(558)	(14)	2.5
quisition related debt extinguishment expenses									(2,781)	-	(2,781)	N/M
ins (losses) on TSRE merger and property acquisitions									-	732	(732)	N/M
t income (loss)									24,922	33,151	(8,229)	-24.8

come) loss allocated to noncontrolling interests	(1,009)	(1,972)	963	48.8
t income (loss) available to common shares	$23,913	$31,179	$(7,266)	-23.30

Revenue

Rental income. Rental revenue increased $2.2 million to $105.4 million for the nine months ended September 30, 2017 from $103.3 million for the nine months ended September 30, 2016. The increase was primarily attributable to a $3.3 million increase in same store rental income driven by higher average effective monthly rents and higher occupancy than the year-ago period. This increase was partially offset by $1.1 million of lower non same store rental income due to the number of properties included in each period being different as a result of the timing of property sales and acquisitions.

Reimbursement and other income. Reimbursement and other income increased $0.6 million to $12.7 million for the nine months ended September 30, 2017 from $12.1 million for the nine months ended September 30, 2016. The increase was primarily due to a $0.9 million increase in same store reimbursement and other income attributable to our continued focus on driving non-rental revenue and fee income and a $0.3 million increase in reimbursement and other income due to the seven properties acquired during 2017. These increases were partially offset by a $0.6 million decrease in reimbursement and other income due to six properties sold in 2017 and 2016.

Property management income. Property management income was $0.6 million for the nine months ended September 30, 2017 compared to $0.0 million for the nine months ended September 30, 2016. This was due to third party property management income that we received for managing properties on behalf of third parties during the current period. This service did not exist prior to our management internalization in December 2016.

Expenses

Real estate operating expenses. Property operating expenses increased $0.5 million to $48.1 million for the nine months ended September 30, 2017 from $47.6 million for the nine months ended September 30, 2016. The increase was due to higher personnel and real estate tax expenses, which drove a $1.1 million increase in real estate operating expenses at our same store properties partially offset by lower non-same store real estate operating expenses due to sold properties.

Property management expenses: Property management expenses increased $0.6 million to $4.3 million for the nine months ended September 30, 2017 from $3.7 million for the nine months ended September 30, 2016. This increase coincides with the above-mentioned increase in property management income driven by our management internalization. After our management internalization, property management expenses include costs incurred to directly support on-site management. Prior to this, property management expenses included property and construction management fees paid to our former property manager.

General and administrative expenses. General and administrative expenses decreased $1.0 million to $7.1 million for the nine months ended September 30, 2017 from $8.1 million for the nine months ended September 30, 2016. The decrease was due to cost savings from our management internalization.

Acquisition and integration expenses. Acquisition and integration expenses were $1.0 million for the nine months ended September 30, 2017 compared to $0.0 million for the nine months ended September 30, 2016. This increase was primarily due to our acquisition of the HPI Portfolio. Acquisition and integration expenses include costs to identify, underwrite, close, and integrate new acquisitions.

Depreciation and amortization expense. Depreciation and amortization expense decreased $2.6 million to $24.3 million for the nine months ended September 30, 2017 from $26.9 million for the nine months ended September 30, 2016. The decrease was primarily due to a $3.7 million decrease in amortization of in-place leases related to 2015 property acquisitions as they were fully amortized during 2016. This was partially offset by a $0.7 million increase in amortization of in-place leases for acquisitions in 2017.

Interest expense. Interest expense decreased $6.2 million to $21.6 million for the nine months ended September 30, 2017 from $27.8 million for the nine months ended September 30, 2016. The decrease was due to debt reductions during 2016 when our term loan was fully repaid and our credit facility balance decreased by $121.5 million.

Net gains (losses) on sale of assets. Net gains on sale of assets decreased $15.9 million to $15.9 million for the nine months ended September 30, 2017 from $31.8 million for the nine months ended September 30, 2016. The 2017 net gains were driven primarily by a $15.6 million gain on the sale of Copper Mill, a 320-unit apartment property in Austin, TX. The 2016 net gains were driven primarily by gains of $15.1 million and $14.2 million realized upon the sales of Tresa at Arrowhead and Belle Creek.

Gains (losses) on extinguishment of debt. Loss on extinguishment of debt was $0.6 million from the partial extinguishment of our prior secured credit facility.

Acquisition related debt extinguishment expenses. Acquisition related debt extinguishment expenses were $2.8 million for the nine months ended September 30, 2017 due to defeasance related costs incurred in connection with the HPI portfolio acquisitions.

Non-GAAP Financial Measures

Funds from Operations (FFO) and Core Funds from Operations (CFFO)

We believe that FFO and CFFO, each of which is a non-GAAP measure, are additional appropriate measures of the operating performance of a REIT and IRT in particular. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT, as net income or loss (computed in accordance with GAAP), excluding real estate-related depreciation and amortization expense, gains or losses on sales of real estate and the cumulative effect of changes in accounting principles.

CFFO is a computation made by analysts and investors to measure a real estate company's operating performance by removing the effect of items that do not reflect ongoing property operations, including stock compensation expense, depreciation and amortization of other items not included in FFO, amortization of deferred financing costs, acquisition and integration expenses, and other non-operating gains or losses related to items such as hedge ineffectiveness, defeasance costs we incur when we sell a property subject to secured debt, asset sales, debt extinguishments, acquisition related debt extinguishment expenses, gains on the TSRE merger, and management internalization expenses, from the determination of FFO. IRT incurs acquisition expenses in connection with acquisitions of real estate properties and expenses those costs when incurred in accordance with U.S. GAAP. As these expenses are one-time and reflective of investing activities rather than operating performance, IRT adds back these costs to FFO in determining CFFO.

Our calculation of CFFO differs from the methodology used for calculating CFFO by certain other REITs and, accordingly, our CFFO may not be comparable to CFFO reported by other REITs. Our management utilizes FFO and CFFO as measures of our operating performance, and believe they are also useful to investors, because they facilitate an understanding of IRT's operating performance after adjustment for certain non-cash or non-recurring items that are required by GAAP to be expensed but may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. Furthermore, although FFO, CFFO and other supplemental performance measures are defined in various ways throughout the REIT industry, we believe that FFO and CFFO may provide us and our investors with an additional useful measure to compare our financial performance to certain other REITs.

Neither FFO nor CFFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore, FFO and CFFO do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor CFFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

Set forth below is a reconciliation of net income (loss) to FFO and CFFO for the three and nine months ended September 30, 2017 and 2016 (in thousands, except share and per share information):

	For the Three Months Ended September 30, 2017		For the Three Months Ended September 30, 2016	
	Amount	Per Share (1)	Amount	Per Share (2)
Funds From Operations (FFO):				
Net income (loss)	$1,156	$0.02	$2,407	$0.05
Adjustments:				
Real estate depreciation and amortization	8,645	0.11	7,765	0.15
Net (gains) losses on sale of assets excluding defeasance costs	92	-	1	-
Funds From Operations (FFO)	$9,893	$0.13	$10,173	$0.20
Core Funds From Operations (CFFO):				
Funds From Operations (FFO)	$9,893	$0.13	$10,173	$0.20
Adjustments:				
Stock compensation expense	422	0.01	247	0.01
Amortization of deferred financing costs	282	-	597	0.01
Acquisition and integration expenses	569	0.01	19	-
Other depreciation and amortization	26	-	-	-
Hedge ineffectiveness	(12)	-	-	-
Defeasance costs included in net gains (losses) on sale of assets	-	-	-	
(Gains) losses on extinguishment of debt	-	-	(641)	(0.01)
Acquisition related debt extinguishment expenses	2,781	0.04	-	-
Core Funds From Operations (CFFO)	$13,961	$0.19	$10,395	$0.21

	For the Nine Months Ended September 30, 2017		For the Nine Months Ended September 30, 2016	
	Amount	Per Share (1)	Amount	Per Share (2)
Funds From Operations (FFO):				
Net income (loss)	$24,922	$0.34	$33,151	$0.66
Adjustments:				
Real estate depreciation and amortization	24,227	0.34	26,927	0.54

Net (gains) losses on sale of assets excluding defeasance costs	(18,621)	(0.26)	(33,169)	(0.66)
Funds From Operations (FFO)	$30,528	$0.42	$26,909	$0.54
Core Funds From Operations (CFFO):				
Funds From Operations (FFO)	$30,528	$0.42	$26,909	$0.54
Adjustments:				
Stock compensation expense	1,548	0.02	832	0.02
Amortization of deferred financing costs	1,160	0.01	2,543	0.05
Acquisition and integration expenses	956	0.01	37	-
Other depreciation and amortization	62	-	-	-
Hedge ineffectiveness	-	-	-	-
Defeasance costs included in net gains (losses) on sale of assets	2,748	0.04	1,396	0.03
(Gains) losses on extinguishment of debt	572	0.01	558	0.01
Acquisition related debt extinguishment expenses	2,781			