

INDEPENDENCE REALTY TRUST, INC.
Form 10-Q
April 30, 2018

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 March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-36041

INDEPENDENCE REALTY TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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(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 April 26, 2018, there were 86,973,397 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 March 31,	As of December 31,
	2018	2017
ASSETS:		
Investments in real estate:		
Investments in real estate, at cost	\$1,638,544	\$1,504,156
Accumulated depreciation	(94,001)	(84,097)
Investments in real estate, net	1,544,543	1,420,059
Cash and cash equivalents	10,399	9,985
Restricted cash	5,645	4,634
Accounts receivable and other assets	5,318	7,556
Derivative assets	10,525	7,291
Intangible assets, net of accumulated amortization of \$839 and \$1,511, respectively	1,449	1,099
Total Assets	\$1,577,879	\$1,450,624
LIABILITIES AND EQUITY:		
Indebtedness, net of unamortized deferred financing costs of \$6,118 and \$6,198, respectively	\$903,286	\$778,442
Accounts payable and accrued expenses	17,896	17,216
Accrued interest payable	373	249
Dividends payable	15,754	5,245
Other liabilities	3,580	3,353
Total Liabilities	940,889	804,505
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, 86,973,397 and 84,708,551 shares issued and outstanding, including 351,998 and 295,847 unvested restricted common share awards, respectively	868	846
Additional paid-in capital	718,260	703,849
Accumulated other comprehensive income	7,890	4,626
Retained earnings (accumulated deficit)	(97,581)	(85,221)
Total stockholders' equity	629,437	624,100
Noncontrolling interests	7,553	22,019
Total Equity	636,990	646,119
Total Liabilities and Equity	\$1,577,879	\$1,450,624

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

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 March 31,	
	2018	2017
REVENUE:		
Rental income	\$40,858	\$34,737
Tenant reimbursement income	1,607	1,461
Other property income	3,151	2,697
Property management and other income	139	247
Total revenue	45,755	39,142
EXPENSES:		
Property operating expenses	18,418	15,992
Property management expenses	1,683	1,538
General and administrative expenses	2,734	2,100
Acquisition and integration expenses	-	122
Depreciation and amortization expense	11,224	7,607
Total expenses	34,059	27,359
Operating income	11,696	11,783
Interest expense	(8,340)	(7,448)
Other income (expense)	144	(5)
Net gains (losses) on sale of assets	-	(85)
Net income:	3,500	4,245
(Income) loss allocated to noncontrolling interest	(88)	(168)
Net income allocable to common shares	\$3,412	\$4,077
Earnings per share:		
Basic	\$0.04	\$0.06
Diluted	\$0.04	\$0.06
Weighted-average shares:		
Basic	85,303,010	68,787,155
Diluted	85,535,089	68,958,786

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited and dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
Net income	\$3,500	\$4,245
Other comprehensive income:		
Change in fair value of interest rate hedges	3,355	296
Realized (gains) losses on interest rate hedges reclassified to earnings	(174)	132
Total other comprehensive income	3,181	428
Comprehensive income before allocation to noncontrolling interests	6,681	4,673
Allocation to noncontrolling interests	(5)	(182)
Comprehensive income	\$6,676	\$4,491

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, 2018	84,708,551	\$ 846	\$ 703,849	\$ 4,626	\$(85,221)	\$ 624,100	\$ 22,019	\$ 646,119
Net income	-	-	-	-	3,412	3,412	88	3,500
Other comprehensive income	-	-	-	3,264	-	3,264	(83)	3,181
Stock compensation expense	194,622	1	469	-	-	470	-	470
Issuance of common shares	-	-	-	-	-	-	-	-
Repurchase of shares related to equity award tax withholding	(41,912)	-	(345)	-	-	(345)	-	(345)
Conversion of noncontrolling interest to common shares	2,112,136	21	14,287	-	-	14,308	(14,308)	-
Common dividends declared	-	-	-	-	(15,772)	(15,772)	-	(15,772)
Distribution to noncontrolling interest declared	-	-	-	-	-	-	(163)	(163)
Balance, March 31, 2018	86,973,397	\$ 868	\$ 718,260	\$ 7,890	\$(97,581)	\$ 629,437	\$ 7,553	\$ 636,990

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited and dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$3,500	\$4,245
Adjustments to reconcile net income to cash flow from operating activities:		
Depreciation and amortization	11,224	7,607
Amortization of deferred financing costs	444	513
Stock compensation expense	470	481
Net (gains) losses on sale of assets	-	85
Change in fair value of derivative instruments	(53)	-
Changes in assets and liabilities:		
Accounts receivable and other assets	829	503
Accounts payable and accrued expenses	(633)	(1,020)
Accrued interest payable	124	49
Other liabilities	(67)	(42)
Net cash provided by operating activities	15,838	12,421
Cash flows from investing activities:		
Acquisition of real estate properties	(89,297)	(28,700)
Capital expenditures	(4,954)	(2,359)
Cash flow used in investing activities	(94,251)	(31,059)
Cash flows from financing activities:		
Proceeds from unsecured credit facility and term loan	90,000	22,000
Credit facility repayments	(4,000)	-
Mortgage principal repayments	(736)	(635)
Distributions on common stock	(5,245)	(12,498)
Distributions to noncontrolling interests	(181)	(520)
Repurchase of shares related to equity award tax withholding	-	(479)
Cash flow provided by financing activities	79,838	7,868
Net change in cash and cash equivalents, and restricted cash	1,425	(10,770)
Cash and cash equivalents, and restricted cash, beginning of period	14,619	26,410
Cash and cash equivalents, and restricted cash, end of the period	\$16,044	\$15,640

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 March 31, 2018

(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. 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).

As of March 31, 2018, we own and operate 56 multifamily apartment properties, totaling 15,280 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.

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, 2017 included in our Annual Report on Form 10-K, or the 2017 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.

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.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of March 31, 2018

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

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 March 31, 2018 and December 31, 2017, we had \$5,645 and \$4,634, 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 March 31, 2018 and 2017, we recorded bad debt expense of \$164 and \$314, 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 Properties

Effective January 1, 2018, FASB ASC Topic 805, "Business Combinations" was amended to clarify the definition of a business by more clearly outlining the requirements for an integrated set of assets and activities to be considered a business and by establishing a practical framework to determine when the integrated set of assets and activities is a business. Prior to January 1, 2018, the properties we acquired were generally considered businesses and were accounted for as business combinations. Subsequent to January 1, 2018, we expect the properties we acquire to generally not be considered businesses and, therefore, to be accounted for as asset acquisitions.

Under business combination accounting, 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. Transaction costs and fees incurred related to the acquisition are expensed as incurred. Under asset acquisition accounting, the costs to acquire real estate, including transaction costs related to the acquisition, are accumulated and then allocated to the individual assets and liabilities acquired

based upon their relative fair value. Under both business combination and asset acquisition accounting, transaction costs and fees incurred related to the financing of an acquisition are capitalized and amortized over the life of the related financing.

We estimate the fair value of acquired tangible assets (consisting of land, building and improvements), 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.

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 months ended March 31, 2018, we acquired in-place leases with a value of \$1,641, 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 months ended March 31, 2018 and 2017, we recorded \$1,291 and \$55, respectively, of amortization expense for intangible assets. For the three months ended March 31, 2018 and 2017, we wrote-off intangible assets of \$1,963 and \$0, respectively. As of March 31, 2018, we expect to record additional amortization expense on current intangible assets of \$1,373 for the remainder of 2018.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of March 31, 2018

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

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 months ended March 31, 2018 and 2017, we recorded \$9,931 and \$7,552 of depreciation expense, respectively.

h. Revenue and Expenses

Rental Income

We apply FASB ASC Topic 840, "Leases" with respect to our accounting for rental income. We primarily lease apartments units under operating leases generally with terms of one year or less. Rental payments are generally due monthly and rental revenues are recognized on an accrual basis when earned.

Tenant Reimbursement and Other Property Income

We apply FASB ASC Topic 606, "Revenue from Contracts with Customers" with respect to tenant reimbursement and other property income. Tenant reimbursement income represents reimbursement from tenants for utility charges, while other property income includes cable, parking, trash, late fees, application fees, and other miscellaneous property related income. The performance obligations of providing residents with these services are stipulated within the lease agreement and may be provided over time or at a point in time. The services provided over time include cable, parking, and trash services, which are generally provided over a monthly period for the term of the respective lease. The services provided at a point in time include late fees and application fees. Given the short period of time over which this revenue is then recognized and since payments with respect to tenant reimbursement and other property income are generally due monthly, no contract assets or liabilities have been recognized.

For the three months ended March 31, 2018 and 2017, we recognized revenues of \$42 and \$51, respectively, related to recoveries of lost rental revenue due to natural disasters and other insurable events from our insurance providers.

Advertising Expenses

For the three months ended March 31, 2018 and 2017, we incurred \$533 and \$426 of advertising expenses, respectively.

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.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of March 31, 2018

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

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.

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.

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.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of March 31, 2018

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

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:

Financial Instrument	As of March 31, 2018		As of December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$10,399	\$10,399	\$9,985	\$9,985
Restricted cash	5,645	5,645	4,634	4,634
Derivative assets	10,525	10,525	7,291	7,291
Liabilities				
Debt:				
Unsecured credit facility	187,789	190,005	101,629	104,005
Term loan	99,106	100,000	99,105	100,000
Mortgages	616,391	589,414	577,708	564,333

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.

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 months ended March 31, 2018 and 2017.

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.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of March 31, 2018

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

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 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. Subsequently, the FASB issued amendments to this accounting standard that provided further clarification. These standards amending FASB ASC Topic 606 were effective for annual reporting periods beginning after December 15, 2017. We adopted these accounting standard updates on January 1, 2018 using the modified retrospective approach. A majority of our revenue is derived from real estate lease contracts, which are specifically excluded from the scope of these standards. The portion of our revenue that was impacted by these standards included revenue recorded within the tenant reimbursement income, other property income, and property management and other income captions of our Consolidated Statements of Operations. The adoption of these standards did not have a material impact on our consolidated financial statements and no cumulative effect adjustment was recorded upon adoption.

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. Subsequently, the FASB issued amendments to this accounting standard that required companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the statement of cash flows. The amendments were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted these standards as of January 1, 2018. The adoption of this accounting standard resulted in a decrease in net cash used in investing activities of \$57 for the three months ended March 31, 2017.

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 new definition will be applied prospectively to any transactions occurring within the period of adoption. We adopted this standard on January 1, 2018. 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, with these costs

instead being capitalized as part of the acquired asset.

In February 2017, the FASB issued an accounting standard update under FASB ASC Topic 610 “Other Income.” The amendments in this update provide guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. This new standard reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. Partial sales of nonfinancial assets are common in the real estate industry and include transactions in which the seller retains an equity interest in the entity that owns the assets or has an equity interest in the buyer. This update was effective for interim and annual periods beginning after December 15, 2017. We adopted this standard as of January 1, 2018. While this is common in the real estate industry, we have never participated in a transaction of this nature, therefore, the adoption of this accounting standard did not have any impact on our consolidated financial statements.

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 was adopted by us on January 1, 2018. The new definition will be applied prospectively to an award modified on or after the adoption date. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of March 31, 2018

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

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 is effective for us on January 1, 2019 with early adoption permitted. We early adopted this update on October 1, 2017. The adoption of this update did not have a material impact on our consolidated financial statements. In accordance with this accounting standard update, upon adoption, we revised our approach to recognizing interest expense for our interest rate swap that was designated as an off-market cash flow hedge. Rather than record interest expense based on the hypothetical derivative method with differences from actual net settlements reflected as ineffectiveness, we will record actual net settlements to interest expense adjusted for the straight-line amortization of the inception clean value of the hedging instrument over the hedge term. The result will be that no ineffectiveness will be recorded in future periods related to our off-market interest rate swap. Since we entered into the off-market hedging relationship in 2017, no transition entry was necessary upon adoption.

Not Yet Adopted Within these Financial Statements

In February 2016, the FASB issued an accounting standard classified under FASB ASC Topic 842, “Leases”. For lessees, this accounting standard amends lease accounting by requiring (1) the recognition of lease assets and lease liabilities for those leases classified as operating leases on the balance sheet and (2) additional disclosure about leasing arrangements. For lessors, the guidance under the new lease standard is substantially similar to existing accounting guidance. 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.

NOTE 3: Investments in Real Estate

As of March 31, 2018, our investments in real estate consisted of 56 apartment properties with 15,280 units. The table below summarizes our investments in real estate:

	As of March 31,	As of December 31,	Depreciable Lives
	2018	2017	(In years)
Land	\$209,164	\$193,026	—
Building	1,393,235	1,279,777	40
Furniture, fixtures and equipment	36,145	31,353	5-10

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Total investment in real estate	\$1,638,544	\$1,504,156
Accumulated depreciation	(94,001)	(84,097)
Investments in real estate, net	\$1,544,543	\$1,420,059

Acquisitions

The below table summarizes the acquisitions for the three months ended March 31, 2018.

Property Name	Date of Purchase	Location	Units	Contract Price
Creekside Corners (1)	1/3/2018	Atlanta, GA	444	\$43,901
Hartshire Lakes (1)	1/3/2018	Indianapolis, IN	272	27,597
The Chelsea	1/4/2018	Columbus, OH	312	36,750
Avalon Oaks	2/27/2018	Columbus, OH	235	23,000
Total			1,263	\$131,248