INDEPENDENCE REALTY TRUST, INC.
Form 10-Q
August 02, 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 June 30, 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. 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 July 31, 2018 there were 87,656,356 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 June 30, 2018	As of December 31, 2017
ASSETS:		
Investments in real estate:		
Investments in real estate, at cost	$1,496,591	$ 1,504,156
Accumulated depreciation	(91,426)	(84,097)
Investments in real estate, net	1,405,165	1,420,059
Real estate held for sale (see Note 3)	141,132	-
Cash and cash equivalents	10,896	9,985
Restricted cash	7,051	4,634
Accounts receivable and other assets	6,712	7,556
Derivative assets	11,755	7,291
Intangible assets, net of accumulated amortization of $1,880 and $1,511, respectively	406	1,099
Total Assets	$1,583,117	$ 1,450,624
LIABILITIES AND EQUITY:		
Indebtedness, net of unamortized deferred financing costs of $5,802 and $6,198, respectively	$911,772	$ 778,442
Accounts payable and accrued expenses	24,173	17,216
Accrued interest payable	423	249
Dividends payable	15,922	5,245
Other liabilities	3,520	3,353
Total Liabilities	955,810	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, 87,044,121 and 84,708,551 shares issued and outstanding, including 318,422 and 295,847 unvested restricted common share awards, respectively	870	846
Additional paid-in capital	719,656	703,849
Accumulated other comprehensive income	9,103	4,626
Retained earnings (accumulated deficit)	(109,762)	(85,221)
Total stockholders’ equity	619,867	624,100
Noncontrolling interests	7,440	22,019
Total Equity	627,307	646,119
Total Liabilities and Equity	$1,583,117	$ 1,450,624

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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE:				
Rental income	$41,675	$35,176	$82,533	$69,913
Tenant reimbursement income	1,594	1,398	3,201	2,859
Other property income	3,465	2,857	6,616	5,554
Property management and other income	155	130	294	377
Total revenue	46,889	39,561	92,644	78,703
EXPENSES:				
Property operating expenses	18,703	15,918	37,121	31,910
Property management expenses	1,592	1,444	3,275	2,982
General and administrative expenses	2,872	2,706	5,606	4,806
Acquisition and integration expenses	-	265	-	387
Depreciation and amortization expense	11,583	8,011	22,807	15,618
Total expenses	34,750	28,344	68,809	55,703
Operating income	12,139	11,217	23,835	23,000
Interest expense	(8,594)	(7,162)	(16,934)	(14,610)
Other income (expense)	-	(12)	144	(17)
Net gains (losses) on sale of assets	-	16,050	-	15,965
Gains (losses) on extinguishment of debt	-	(572)	-	(572)
Net income (loss):	3,545	19,521	7,045	23,766
(Income) loss allocated to noncontrolling interest	(36)	(782)	(124)	(950)
Net income (loss) allocable to common shares	$3,509	$18,739	$6,921	$22,816
Earnings (loss) per share:				
Basic	$0.04	$0.27	$0.08	$0.33
Diluted	$0.04	$0.27	$0.08	$0.33
Weighted-average shares:				
Basic	86,644,716	68,832,855	85,978,431	68,810,131
Diluted	86,908,978	68,943,869	86,208,502	69,007,862

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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$3,545	$19,521	$7,045	$23,766
Other comprehensive income (loss):				
Change in fair value of interest rate hedges	1,532	(706)	4,887	(410)
Realized (gains) losses on interest rate hedges reclassified to earnings	(306)	59	(480)	191
Total other comprehensive income	1,226	(647)	4,407	(219)
Comprehensive income (loss) before allocation to noncontrolling interests	4,771	18,874	11,452	23,547
Allocation to noncontrolling interests	(49)	(764)	(54)	(946)
Comprehensive income (loss)	$4,722	$18,110	$11,398	$22,601

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 (loss)	-	-	-	-	6,921	6,921	124	7,045
Other comprehensive income	-	-	-	4,477	-	4,477	(70)	4,407
Stock compensation expense	200,490	2	1,402	-	-	1,404	-	1,404
Issuance of common shares	61,656	1	455			456		456
Repurchase of shares related to equity award tax withholding	(38,712)	-	(337)	-	-	(337)	-	(337)
Conversion of noncontrolling interest to common shares	2,112,136	21	14,287	-	-	14,308	(14,308)	-
Common dividends declared	-	-	-	-	(31,462)	(31,462)	-	(31,462)
Distribution to noncontrolling interest declared	-	-	-	-	-	-	(325)	(325)
Balance, June 30, 2018	87,044,121	$ 870	$ 719,656	$ 9,103	$ (109,762)	$ 619,867	$ 7,440	$ 627,307

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 Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$7,045	$23,766
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depreciation and amortization	22,807	15,618
Amortization of deferred financing costs	769	878
Stock compensation expense	1,404	1,126
Net (gains) losses on sale of assets	-	(15,965)
(Gains) losses on extinguishment of debt	-	572
Change in fair value of derivative instruments	(57)	-
Changes in assets and liabilities:		
Accounts receivable and other assets	(510)	(517)
Accounts payable and accrued expenses	4,192	2,839
Accrued interest payable	174	(302)
Other liabilities	(127)	18
Net cash provided by (used in) operating activities	35,697	28,033
Cash flows from investing activities:		
Disposition of real estate properties	-	34,611
Acquisition of real estate properties	(89,547)	(84,417)
Capital expenditures	(15,256)	(5,728)
Cash flow (used in) provided by investing activities	(104,803)	(55,534)
Cash flows from financing activities:		
Proceeds from unsecured credit facility	99,000	63,190
Unsecured credit facility repayments	(4,000)	(21,000)
Mortgage principal repayments	(1,566)	(1,291)
Payments for deferred financing costs	(9)	(1,166)
Proceeds from issuance of common stock	456	-
Distributions on common stock	(20,838)	(24,887)
Distributions to noncontrolling interests	(272)	(1,036)
Repurchase of shares related to equity award tax withholding	(337)	(758)
Cash flow provided by (used in) financing activities	72,434	13,052
Net change in cash and cash equivalents, and restricted cash	3,328	(14,449)
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	$17,947	$11,961
Reconciliation of cash, cash equivalents, and restricted cash to the Consolidated Balance Sheet		
Cash and cash equivalents	$10,896	$6,271
Restricted cash	7,051	5,690
Total cash, cash equivalents, and restricted cash, end of period	$17,947	$11,961

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

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 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 June 30, 2018, we own and operate 56 multifamily apartment properties, totaling 15,280 units, across non-gateway U.S markets, including Atlanta, Louisville, Memphis, 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 June 30, 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 June 30, 2018 and December 31, 2017, we had $7,051 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 June 30, 2018 and 2017, we recorded bad debt expense of $(115) and $255, respectively. For the six months ended June 30, 2018 and 2017, we recorded bad debt expense of $49 and $569, 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 management commits to a plan to sell, an active program to locate a buyer has been initiated, the sale 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

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 and six months ended June 30, 2018, we acquired in-place leases with a value of $0 and $1,641, 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 six months ended June 30, 2018, we recorded $1,044 and $2,336, respectively, of amortization expense for intangible assets. For the three and six months ended June 30, 2017, we recorded $193 and $248, respectively, of amortization expense for intangible assets. For the three and six months ended June 30, 2018, we wrote-off intangible assets of $0 and $1,963, respectively. For the three and six months ended June 30, 2017, we did not write-off any intangible assets. As of June 30, 2018, we expect to record additional amortization expense on current in-place intangible assets of $325 for the remainder of 2018.

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 six months ended June 30, 2018, we recorded $10,539 and $20,471 of depreciation expense, respectively. For the three and six months ended June 30, 2017, we recorded $7,818 and $15,370 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 and six months ended June 30, 2018, we recognized revenues of $64 and $106, respectively, related to recoveries of lost rental revenue due to natural disasters and other insurable events from our insurance providers. For the three and six months ended June 30, 2017, we recognized revenues of $34 and $85, 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 and six months ended June 30, 2018, we incurred $564 and $1,097 of advertising expenses, respectively. For the three and six months ended June 30, 2017, we incurred $423 and $848 of advertising expenses, respectively.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2018

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

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 June 30, 2018

(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. There were no transfers between levels in the fair value hierarchy for the six months ended June 30, 2018. The following table summarizes the carrying amount and the fair value of our financial instruments as of the periods indicated:

	As of June 30, 2018		As of December 31, 2017	
Financial Instrument	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				

Cash and cash equivalents	$10,896	$10,896	$9,985	$9,985
Restricted cash	7,051	7,051	4,634	4,634
Derivative assets	11,755	11,755	7,291	7,291
Liabilities				
Debt:				
Unsecured credit facility	196,949	199,005	101,629	104,005
Term Loan	99,130	100,000	99,105	100,000
Mortgages	615,693	598,217	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 and six months ended June 30, 2018 and 2017.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2018

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

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 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 $172 for the six months ended June 30, 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.

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.

In June 2018, the FASB issued an accounting standard classified under FASB ASC Topic 718, "Compensation – Stock Compensation." The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. As a result, the accounting for share-based payment award transactions could be impacted. 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 June 30, 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 June 30, 2018	As of December 31, 2017	Depreciable Lives (In years)
Land	$190,134	$ 193,026	—
Building	1,263,181	1,279,777	40
Furniture, fixtures and equipment	43,276	31,353	5-10
Total investment in real estate	$1,496,591	$ 1,504,156	
Accumulated depreciation	(91,426)	(84,097)	
Investments in real estate, net	$1,405,165	$ 1,420,059	

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2018

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

As of June 30, 2018, we owned five properties that were classified as held for sale and expect these properties to be sold in the next twelve months. The table below summarizes our held for sale properties. We did not have any properties classified as held for sale as of December 31, 2017.

Property Name	Location	Units	Net Carrying Value
Reserve at Eagle Ridge	Waukegan, IL	370	$26,757
Carrington Park	Little Rock, AR	202	20,312
Arbors at the Reservoir	Ridgeland, MS	170	19,321
Stonebridge at the Ranch	Little Rock, AR	260	29,478
Aventine Greenville	Greenville, SC	346	45,264
Total		1,348	$141,132

Acquisitions

The below table summarizes the acquisitions for the six months ended June 30, 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

(1) These properties were acquired as the last phase of our acquisition of a nine-community portfolio, totaling 2,352 units, which we agreed to acquire on September 3, 2017 for a total purchase price of $228,144.

The following table summarizes the aggregate fair value of the assets and liabilities associated with the properties acquired during the six-month period ended June 30, 2018, on the date of acquisition, accounted for under FASB ASC Topic 805.

Description	Fair Value

	of Assets Acquired During the Six-Month Period Ended June 30, 2018
Assets acquired:	
Investments in real estate (a)	$ 129,623
Accounts receivable and other assets	242
Intangible assets	1,641
Total assets acquired	$ 131,506
Liabilities assumed:	
Indebtedness	$ 39,362
Accounts payable and accrued expenses	566
Other liabilities	294
Total liabilities assumed	40,222
Estimated fair value of net assets acquired	$ 91,284

(a) Included $266 of property related acquisition costs capitalized during the six months ended June 30, 2018.

In July 2018, we acquired two properties, Bridgeview and Collier Park. Bridgeview is a 348-unit (unaudited) property located in Tampa, FL, which we purchased for $43,000. Collier Park is a 232-unit (unaudited) property located in Columbus, OH, which we purchased for $21,200.

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NOTE 4: Indebtedness

The following tables contain summary information concerning our indebtedness as of June 30, 2018:

Debt:	Outstanding Principal	Unamortized Discount and Debt Issuance Costs	Carrying Amount	Type	Weighted Average Rate	Weighted Average Maturity (in years)
Unsecured credit facility (1)	$ 199,005	$ (2,056)	$ 196,949	Floating	3.6%	3.1
Unsecured term loans	100,000	(870)	99,130	Floating	3.8%	6.4
Mortgages	618,569	(2,876)	615,693	Fixed	3.8%	5.4
Total Debt	$ 917,574	$ (5,802)	$ 911,772		3.7%	5.0

(1) The unsecured credit facility total capacity is $300,000, of which $199,005 was outstanding as of June 30, 2018.

Debt:	Original maturities on or before December 31, 2018	2019	2020	2021	2022	2023	Thereafter
Unsecured credit facility	$ -	$ -	$ -	$ 149,005	$ 50,000	$ -	$ -
Unsecured term loans	-	-	-	-	-	-	100,000
Mortgages	1,679	5,581	8,726	103,764	74,977	106,972	316,870
Total	$ 1,679	$ 5,581	$ 8,726	$ 252,769	$ 124,977	$ 106,972	$ 416,870

As of June 30, 2018, we were in compliance with all financial covenants contained in documents governing our indebtedness.

The following table contains summary information concerning our indebtedness as of December 31, 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)	$ 104,005	$ (2,376)	$ 101,629	Floating	3.0%	3.8
Unsecured term loans	100,000	(895)	99,105	Floating	3.2%	6.9
Mortgages	580,635	(2,927)	577,708	Fixed	3.7%	5.8
Total Debt	$ 784,640	$ (6,198)	$ 778,442		3.6%	5.7

(1) The unsecured credit facility total capacity was $300,000, of which $104,005 was outstanding as of December 31, 2017.

On January 3, 2018, in connection with the acquisition of our Hartshire Lakes property, we assumed a $16,000 loan secured by a first mortgage on the property. The loan bears interest at a rate of 4.68% per annum, provides for monthly payments of interest only through January 2019, when principal and interest payments will be due monthly based on a 30-year amortization schedule, and matures January 2025. The loan was recorded at its fair value of $15,936 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.

On January 3, 2018, in connection with the acquisition of our Creekside Corners property, we assumed a $23,500 loan secured by a first mortgage on the property. The loan bears interest at a rate of 4.56% per annum, provides for monthly payments of interest only through January 2019, when principal and interest payments will be due monthly based on a 30-year amortization schedule, and matures January 2025. The loan was recorded at its fair value of $23,426 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.

In July 2018, we drew down $70,000 on our unsecured credit facility in connection with the acquisitions of Bridgeview and Collier Park and for capital expenditures.

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

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. 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.

The following table summarizes the aggregate notional amount and estimated net fair value of our derivative instruments as of June 30, 2018 and December 31, 2017:

	As of June 30, 2018			As of December 31, 2017		
	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	$ 6,697	$ —	$150,000	$ 4,700	$ —
Interest rate collar	100,000	5,058	—	50,000	1,297	—
	250,000	11,755	—	200,000	5,997	—
Freestanding derivatives:						
Interest rate collar	—	—	—	50,000	1,294	—
Net fair value	$250,000	$ 11,755	$ —	$250,000	$ 7,291	$ —

Interest Rate Swaps

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 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. Upon our early adoption of accounting standard updates to ASC Topic 815, “Derivatives”, ineffectiveness is no longer measured or reported.

Interest Rate Collar

On November 17, 2017, in connection with our then new $100,000 unsecured term loan, we purchased an interest rate collar with a notional value of $100,000, a 2.00% cap and 1.25% floor, and a maturity date of November 17, 2024. We designated $50,000 of the interest rate collar 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. We concluded that this hedging relationship was and will continue to be highly effective using the hypothetical derivative method.

The other $50,000 notional value interest rate collar was accounted for as a freestanding derivative from inception. On January 4, 2018, we designated this other $50,000 notional value interest rate collar as a cash flow hedge and determined that the hedge is highly effective in offsetting interest rate fluctuations associated with the identified indebtedness. During the six months ended June 30, 2018, we recognized a $52 gain within other income (expense) in our consolidated statements of operations reflecting the change in fair value of the instrument.

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.

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For our interest rate swap that is considered a highly effective hedge, we reclassified realized gains of $306 and $480 to earnings within interest expense for the three and six months ended June 30, 2018, respectively, and we expect $2,177 to be reclassified out of accumulated other comprehensive income to earnings over the next 12 months.

NOTE 6: Stockholder Equity and Noncontrolling Interests

Stockholder Equity

Effective the first quarter of 2018, we transitioned to a quarterly distribution of cash dividends on our common stock.

On March 13, 2018, our board of directors declared a distribution of $0.18 per share, which was paid on April 20, 2018 to common shareholders of record as of April 4, 2018.

On June 13, 2018, our board of directors declared a distribution of $0.18 per share, which was paid on July 20, 2018 to common shareholders of record as of July 6, 2018.

During the three and six months ended June 30, 2018, we also paid $0 and $181, respectively, of dividends on restricted common share awards that vested during the period.

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. For the quarter ended June 30, 2018, 61,656 shares were issued at a weighted average price of $10.29, resulting in $622 of net proceeds, after deducting $13 of commissions. No shares were issued during the quarter ended March 31, 2018. Pursuant to the Sales Agreement $137,273 remained available for issuance as of June 30, 2018. In July 2018, 594,127 shares were issued at a weighted average price of $10.31, resulting in net proceeds of $6,005, after deducting $123 of commissions.

Noncontrolling Interest

During the six months ended June 30, 2018, holders of IROP units exchanged 2,112,136 units for 2,112,136 shares of our common stock. Based on the cost basis of the IROP units on the dates of these exchanges, $14,308 was reclassified from noncontrolling interests to stockholders’ equity.

As of June 30, 2018, 899,215 IROP units held by unaffiliated third parties remain outstanding.

On March 13, 2018, our board of directors declared a distribution of $0.18 per unit, which was paid on April 20, 2018 to IROP LP unitholders of record as of April 4, 2018.

On June 13, 2018, our board of directors declared a distribution of $0.18 per share, which was paid on July 20, 2018 to IROP LP unitholders of record as of July 6, 2018.

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 8, 2018, our compensation committee awarded, to our non-executive officer employees, 93,700 restricted stock awards, valued at $8.37 per share, or $784 in the aggregate. The restricted stock awards vest over a three-year period. On February 23, 2018, our compensation committee awarded, to our named executive officers, 100,922 restricted stock awards and performance share units, or PSUs. The restricted stock awards vest over a four-year period and were valued at $8.67 per share, or $875 in the aggregate. The number of PSUs earned will be based on attainment of certain performance criteria over a three-year period, with 454,151 PSUs granted for achieving the maximum performance criteria. The aggregate grant date fair value of the PSUs was $2,513.

On May 17, 2018, our compensation committee granted stock under the incentive plan such that our non-employee directors received an aggregate of 39,084 shares of our common stock, valued at $360 using our closing stock price of $9.21. These awards vested immediately.

NOTE 8: Related Party Transactions and Arrangements

Fees and Expenses Paid to and by Our Former Advisor

On December 20, 2016, we completed our management internalization, which provided for transactions that changed us from being externally managed by our former advisor, RAIT, to being internally managed and separated 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.

Subsequent to our management internalization, from December 21, 2016 through June 20, 2017 we were party to a shared services agreement whereby RAIT provided us with certain back office services. For the three and six months ended June 30, 2017, we incurred costs of $340 and $727, respectively, with respect to this shared services agreement which are included within general and administrative expenses in our consolidated statements of operations.

Subsequent to our management internalization, we are party to property management agreements with RAIT under which we provide property management services to RAIT owned properties. For the three and six months ended June 30, 2018, we earned

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property management fees from RAIT of $24 and $47, respectively. For the three and six months ended June 30, 2017, we earned property management fees from RAIT of $75 and $212, respectively.

As of June 30, 2018 and December 31, 2017, we had no payables to or receivables from RAIT for shared service fees or property management fees.

NOTE 9: Earnings (Loss) Per Share

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$3,545	$19,521	$7,045	$23,766
(Income) loss allocated to noncontrolling interests	(36)	(782)	(124)	(950)
Net income (loss) allocable to common shares	3,509	18,739	6,921	22,816
Weighted-average shares outstanding—Basic	86,644,716	68,832,855	85,978,431	68,810,131
Weighted-average shares outstanding—Diluted	86,908,978	68,943,869	86,208,502	69,007,862
Earnings (loss) per share—Basic	$0.04	$0.27	$0.08	$0.33
Earnings (loss) per share—Diluted	$0.04	$0.27	$0.08	$0.33

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 899,215 and 1,038,824 for the three and six months ended June 30, 2018, and 3,037,496 and 3,035,654 for the three and six months ended June 30, 2017, 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 2017 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 Atlanta, Louisville, Memphis, 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 have solid economic demand fundamentals, including an expectation of low levels of 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 June 30, 2018, we owned 56 multifamily apartment properties, totaling 15,280 units. Below is a summary of our property portfolio by market.

(Dollars in thousands, except per unit data)	As of June 30, 2018				For the Three Months Ended June 30, 2018		
Market	Number of Properties	Units	Gross Real Estate Assets	Period End Occupancy	Average Effective Monthly Rent per Unit	Net Operating Income (a)	% of NOI
Atlanta, GA	4	1,536	$184,905	91.8 %	$ 1,092	$ 3,213	11.5 %
Louisville, KY	6	1,710	184,928	90.5 %	951	2,822	10.1 %
Raleigh - Durham, NC	5	1,372	184,972	91.0 %	1,101	2,714	9.7 %
Memphis, TN	4	1,383	138,678	96.1 %	1,027	2,594	9.3 %
Columbus, OH	5	1,315	125,195	95.0 %	937	2,154	7.7 %
Oklahoma City, OK	5	1,658	74,489	95.1 %	645	1,860	6.6 %
Indianapolis, IN	4	916	88,731	94.1 %	951	1,583	5.6 %
Dallas, TX	3	734	85,951	96.2 %	1,161	1,583	5.6 %
Charleston, SC	2	518	79,269	94.2 %	1,302	1,141	4.1 %
Little Rock, AR (a)	2	462	54,860	96.1 %	975	842	3.0 %
Orlando, FL	1	297	47,807	96.6 %	1,422	821	2.9 %
Greenville, SC (b)	1	346	48,320	95.1 %	1,079	705	2.5 %
Chicago, IL (b)	1	370	29,619	91.6 %	1,020	702	2.5 %
Austin, TX	1	300	35,755	96.0 %	1,279	666	2.4 %
Myrtle Beach, SC	2	340	30,681	98.8 %	944	612	2.2 %
Charlotte, NC	1	208	41,921	97.1 %	1,432	606	2.2 %
Wilmington, NC	1	288	30,579	92.7 %	851	558	2.0 %
Asheville, NC	1	252	28,393	98.0 %	1,080	529	1.9 %
Tampa-St. Petersburg, FL	1	216	29,959	92.1 %	1,228	470	1.7 %
St. Louis, MO	1	152	33,150	98.0 %	1,399	449	1.6 %
Chattanooga, TN	2	295	26,451	95.6 %	957	435	1.6 %
Jackson, MS (b)	1	170	21,404	96.5 %	1,124	393	1.4 %
Huntsville, AL	1	178	16,272	98.9 %	872	311	1.1 %
Baton Rouge, LA	1	264	28,504	79.2 %	889	268	1.0 %
Total/Weighted Average	56	15,280	$1,650,793	93.8 %	$ 1,009	$ 28,031	100.0 %

(a) Market includes two properties which have been classified as held for sale as of June 30, 2018.
(b) Market includes one property which has been classified as held for sale as of June 30, 2018.

As of June 30, 2018, our same-store portfolio consisted of 37 multifamily apartment properties, totaling 10,329 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 June 30, 2018, on a same-store basis, our total revenues were up 1.8% as compared to the second quarter of 2017 driven by higher average effective monthly rents. Revenue growth was strong in the Dallas, TX and Atlanta, GA markets driven by steady occupancy and higher average effective rent per unit in the second quarter of 2018 as compared to the second quarter of 2017.

Same-store net operating income increased 1.7% during the second quarter of 2018 as compared to the same period in the prior year driven by the higher revenues and operating expenses that increased just 1.9% as we continued to focus on expense management. For the six months ended June 30, 2018, our same-store total revenues were 2.1% higher and our same-store net operating income was 2.3% higher than for the six months ended June 30, 2017. Excluding the four properties that are in our same store property portfolio and are currently undergoing renovations, NOI increased 2.3% and 2.1% for the three and six months ended June 30, 2018.

Property Acquisitions

During the six months ended June 30, 2018, we acquired four properties. On January 3, 2018, IRT acquired two communities representing the completion of the nine-property portfolio acquisition initially announced in September 2017. In whole, the nine-community portfolio totaled 2,352 units and was acquired for a gross purchase price of $228.1 million. IRT assumed $58.5 million of property level debt in association with three of the acquired assets. On January 4, 2018, IRT acquired a 312-unit community located in Columbus, OH for approximately $36.8 million. On February 27, 2018, IRT acquired a 235-unit community located in Columbus, OH for approximately $23.0 million. On July 10, 2018, IRT acquired a 348-unit community located in Tampa, FL for approximately $43.0 million. On July 26, 2018 IRT acquired a 232-unit community located in Columbus, OH for approximately $21.2 million.

During the second quarter, IRT commenced a capital recycling program that consists of disposing of assets in smaller markets where we lack scale and/or markets where management believes that growth is slowing. Management intends to invest the proceeds from these contemplated dispositions into higher growth non gateway markets. As of June 30, 2018, IRT has five properties classified as held for sale as part of this capital recycling program, totaling 1,348 units and $154.2 million in gross real estate investments.

Value Add

Value add initiatives, comprised of renovations and upgrades at selected communities to drive increased rental rates, remain a core component of IRT's growth strategy for 2018 and beyond. IRT currently has plans to execute on two phases of value add projects covering 4,317 units across 14 properties. During the second quarter of 2018, IRT had redevelopment completed or underway in 3,258 units across ten properties. The renovations for the remaining four properties will commence in the third quarter of 2018.

Results of Operations

Three Months Ended June 30, 2018 compared to the Three Months Ended June 30, 2017

	SAME STORE PROPERTIES				NON SAME STORE PROPERTIES				CONSOLIDATED			
(Dollars in thousands)	Three Months Ended June 30,				Three Months Ended June 30,				Three Months Ended June 30,			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
Property Data:												
Number of properties	37	37	-	0.0%	19	9	10	111.1%	56	46	10	21.7 %
Number of units	10,329	10,329	-	0.0%	4,951	2,483	2,468	99.4 %	15,280	12,812	2,468	19.3 %
Revenue:												
Rental income	$28,860	$28,478	$382	1.3%	$12,815	$6,698	$6,117	91.3 %	$41,675	$35,176	$6,499	18.5 %
Reimbursement and other income	3,621	3,434	187	5.4%	1,438	821	617	75.2 %	5,059	4,255	804	18.9 %
Total revenue	32,481	31,912	569	1.8%	14,253	7,519	6,734	89.6 %	46,734	39,431	7,303	18.5 %
Expenses:												

Real estate operating expenses	13,016	12,776	240	1.9%	5,687	3,142	2,545	81.0%	18,703	15,918	2,785	17.5%
Net Operating Income	$19,465	$19,136	$329	1.7%	$8,566	$4,377	$4,189	95.7%	$28,031	$23,513	$4,518	19.2%
Other Income:												
Property management and other income									155	130	25	19.2%
Total other income									155	130	25	19.2%
Corporate and other expenses:												
Property management expenses									1,592	1,444	148	10.2%
General and administrative expenses									2,872	2,706	166	6.1%
Acquisition and integration expenses									-	265	(265)	NM
Depreciation and amortization expense									11,583	8,011	3,572	44.6%
Total corporate and other expenses									16,047	12,426	3,621	29.1%
Operating Income (loss)									12,139	11,217	922	8.2%
Interest expense									(8,594)	(7,162)	(1,432)	-20.0%
Hedge ineffectiveness									-	(12)	12	N/M
Net gains (losses) on sale of assets									-	16,050	(16,050)	NM
Gains (losses) on extinguishment of debt									-	(572)	572	-100.0%
Net income (loss)									3,545	19,521	(15,976)	-81.8%
(Income) loss allocated to noncontrolling interests									(36)	(782)	746	95.4%
Net income (loss) available to common shares									$3,509	$18,739	$(15,230)	-81.3%

Revenue

Rental income. Rental revenue increased $6.5 million to $41.7 million for the three months ended June 30, 2018 from $35.2 million for the three months ended June 30, 2017. The increase was primarily attributable to a $0.4 million increase in same store rental income driven by higher average effective monthly rents than the prior year period and a $6.1 million increase in non same store rental income. The non same store rental income 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 $0.8 million to $5.1 million for the three months ended June 30, 2018 from $4.3 million for the three months ended June 30, 2017. The increase was primarily due to a $0.2 million increase in same store reimbursement and other income attributable to our continued focus on driving non-rental revenue and fee income and a $0.6 million increase in non same store reimbursement and other income. The non same store reimbursement income 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.

Property management income. Property management income increased $0.1 million to $0.2 million for the three months ended June 30, 2018 compared to $0.1 million for the three months ended June 30, 2017.

Expenses

Real estate operating expenses. Property operating expenses increased $2.8 million to $18.7 million for the three months ended June 30, 2018 from $15.9 million for the three months ended June 30, 2017. The increase was primarily due to a $0.2 million increase in same store real estate operating expenses and a $2.6 million increase in non same store real estate operating expenses. The non same store real estate operating expense 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.

Property management expenses. Property management expenses increased $0.2 million to $1.6 million for the three months ended June 30, 2018 from $1.4 million for the three months ended June 30, 2017.

General and administrative expenses. General and administrative expenses increased $0.2 million to $2.9 million for the three months ended June 30, 2018 from $2.7 million for the three months ended June 30, 2017. This increase was primarily due to an increase in compensation expense and professional services.

Acquisition and integration expenses. Acquisition and integration expenses were $0.3 million for the three months ended June 30, 2017. Acquisitions costs during the three months ended June 30, 2018 were capitalized because any acquisition after January 1, 2018 was accounted for as an asset acquisition rather than a business combination.

Depreciation and amortization expense. Depreciation and amortization expense increased $3.6 million to $11.6 million for the three months ended June 30, 2018 from $8.0 million for the three months ended June 30, 2017. The increase was primarily attributable to $0.9 million of in-place lease intangible amortization recognized during the three months ended June 30, 2018 related to 2017 property acquisitions, a $1.9 million increase in depreciation expense due to property acquisitions during 2017 and 2018, and a $0.8 million increase in the depreciation and amortization for our same store portfolio.

Interest expense. Interest expense increased $1.4 million to $8.6 million for the three months ended June 30, 2018 from $7.2 million for the three months ended June 30, 2017. This is primarily due to a $107.0 million increase in the balance of our unsecured credit facility from June 30, 2017 to June 30, 2018.

Six Months Ended June 30, 2018 compared to the Six Months Ended June 30, 2017

	SAME STORE PROPERTIES				NON SAME STORE PROPERTIES				CONSOLIDATED			
Dollars in housands)	Six Months Ended June 30,				Six Months Ended June 30,				Six Months Ended June 30,			
	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change	2018	2017	Increase (Decrease)	% Change
roperty Data:												
umber of roperties	37	37	-	0.0%	19	9	10	111.1%	56	46	10	21.7 %
umber of nits	10,329	10,329	-	0.0%	4,951	2,483	2,468	99.4 %	15,280	12,812	2,468	19.3 %
evenue:												
ental income	$57,387	$56,411	$976	1.7%	$25,146	$13,502	$11,644	86.2 %	$82,533	$69,913	$12,620	18.1 %
eimbursement nd other ncome	7,124	6,760	364	5.4%	2,693	1,653	1,040	62.9 %	9,817	8,413	1,404	16.7 %
otal revenue	64,511	63,171	1,340	2.1%	27,839	15,155	12,684	83.7 %	92,350	78,326	14,024	17.9 %
xpenses:												
eal estate perating xpenses	25,923	25,448	475	1.9%	11,198	6,462	4,736	73.3 %	37,121	31,910	5,211	16.3 %
et Operating ncome	$38,588	$37,723	$865	2.3%	$16,641	$8,693	$7,948	91.4 %	$55,229	$46,416	$8,813	19.0 %
ther Income:												
roperty management and other income									294	377	(83)	-22.0 %
otal other income									294	377	(83)	-22.0 %
orporate and other expenses:												
roperty management expenses									3,275	2,982	293	9.8 %
eneral and administrative expenses									5,606	4,806	800	16.6 %
cquisition and integration expenses									-	387	(387)	NM
epreciation and amortization expense									22,807	15,618	7,189	46.0 %
otal corporate and other expenses									31,688	23,793	7,895	33.2 %
perating Income (loss)									23,835	23,000	835	3.6 %
nterest expense									(16,934)	(14,610)	(2,324)	-15.9 %
ther income (expense)									144	(17)	161	-947.1%
et gains (losses) on sale of assets									-	15,965	(15,965)	-100.0%
ains (losses) on extinguishment of debt									-	(572)	572	-100.0%
et income (loss)									7,045	23,766	(16,721)	-70.4 %
ncome) loss allocated to noncontrolling interests									(124)	(950)	826	86.9 %
et income (loss) available to common shares									$6,921	$22,816	$(15,895)	-69.7 %

Revenue

Rental income. Rental revenue increased $12.6 million to $82.5 million for the six months ended June 30, 2018 from $69.9 million for the six months ended June 30, 2017. The increase was primarily attributable to a $1.0 million increase in same store rental income driven by higher average effective monthly rents than the prior year period and a

$11.6 million increase in non same store rental income. The non same store rental income 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 $1.4 million to $9.8 million for the six months ended June 30, 2018 from $8.4 million for the six months ended June 30, 2017. The increase was primarily due to a $0.4 million increase in same store reimbursement and other income attributable to our continued focus on driving non-rental revenue and fee income and a $1.0 million increase in non same store reimbursement and other income. The non same store reimbursement income 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.

Property management income. Property management income decreased $0.1 million to $0.3 million for the six months ended June 30, 2018 compared to $0.4 million for the six months ended June 30, 2017.

Expenses

Real estate operating expenses. Property operating expenses increased $5.2 million to $37.1 million for the six months ended June 30, 2018 from $31.9 million for the six months ended June 30, 2017. The increase was primarily due to a $0.5 million increase in same store real estate operating expenses and a $4.7 million increase in our non same store real estate operating expenses. The non same store real estate operating expenses 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.

Property management expenses: Property management expenses increased $0.3 million to $3.3 million for the six months ended June 30, 2018 from $3.0 million for the six months ended June 30, 2017.

General and administrative expenses. General and administrative expenses increased $0.8 million to $5.6 million for the six months ended June 30, 2018 from $4.8 million for the six months ended June 30, 2017. This increase was primarily due to a $0.5 million increase in compensation expense, a $0.1 million increase in professional fees, and a $0.1 million increase in rent expense.

Acquisition and integration expenses. Acquisition and integration expenses were $0.4 million for the six months ended June 30, 2017. Acquisitions costs during the six months ended June 30, 2018 were capitalized because any acquisition after January 1, 2018 was accounted for as an asset acquisition rather than a business combination.

Depreciation and amortization expense. Depreciation and amortization expense increased $7.2 million to $22.8 million for the six months ended June 30, 2018 from $15.6 million for the six months ended June 30, 2017. The increase was primarily due to $2.1 million of in-place lease intangible amortization recognized during the six months ended June 30, 2018 related to 2017 property acquisitions, a $3.8 million increase in depreciation expense due to property acquisitions during 2017 and 2018, and a $1.3 million increase in the depreciation and amortization for our same store portfolio.

Interest expense. Interest expense increased $2.3 million to $16.9 million for the six months ended June 30, 2018 from $14.6 million for the six months ended June 30, 2017. This is primarily due to a $107.0 million increase in the balance of our unsecured credit facility from June 30, 2017 to June 30, 2018.

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 financial 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-cash or non-operating gains or losses related to items such as defeasance costs we incur when we sell a property subject to secured debt, asset sales, debt extinguishments, and acquisition related debt extinguishment expenses from the determination of FFO.

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 believes they are also useful to investors, because they facilitate an understanding of our operating performance after adjustment for certain non-cash or non-operating 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 provide investors with additional useful measures 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 six months ended June 30, 2018 and 2017 (in thousands, except share and per share information):

	For the Three Months Ended June 30, 2018		For the Three Months Ended June 30, 2017	
	Amount	Per Share (1)	Amount	Per Share (2)
Funds From Operations (FFO):				
Net income (loss)	$3,545	$0.04	$19,521	$0.27
Adjustments:				
Real estate depreciation and amortization	11,550	0.13	7,987	0.11

Net (gains) losses on sale of assets excluding defeasance costs	-	-	(18,798)	(0.26)
Funds From Operations (FFO)	$15,095	$0.17	$8,710	$0.12
Core Funds From Operations (CFFO):				
Funds From Operations (FFO)	$15,095	$0.17	$8,710	$0.12
Adjustments:				
Stock compensation expense	933	0.01	738	0.01
Amortization of deferred financing costs	325	0.01	359	0.01
Acquisition and integration expenses	-	-	265	-
Other depreciation and amortization	33	-	24	-
Other expense (income)	-	-	12	-
Defeasance costs included in net gains (losses) on sale of assets	-	-	2,748	0.04
(Gains) losses on extinguishment of debt	-	-	572	0.01
Core Funds From Operations (CFFO)	$16,386	$0.19	$13,428	$0.19

	For the Six Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
	Amount	Per Share (1)	Amount	Per Share (2)
Funds From Operations (FFO):				
Net income (loss)	$7,045	$0.08	$23,766	$0.33
Adjustments:				
Real estate depreciation and amortization	22,751	0.26	15,582	0.22
Net (gains) losses on sale of assets excluding defeasance costs	-	-	(18,713)	(0.26)
Funds From Operations (FFO)	$29,796	$0.34	$20,635	$0.29
Core Funds From Operations (CFFO):				
Funds From Operations (FFO)	$29,796	$0.34	$20,635	$0.29
Adjustments:				
Stock compensation expense	1,403	0.02	1,126	0.02
Amortization of deferred financing costs	769	0.01	878	0.01
Acquisition and integration expenses	-	-	387	-
Other depreciation and amortization	56	-	36	-
Other expense (income)	(52)	-	12	-
Defeasance costs included in net gains (losses) on sale of assets	-	-	2,748	0.04
(Gains) losses on extinguishment of debt	-	-	572	0.01
Core Funds From Operations (CFFO)	$31,972	$0.37	$26,394	$0.37

(1) Based on 87,543,931 an 87,506,300 weighted-average shares and units outstanding for the three and six months ended June 30, 2018, respectively.
(2) Based on 71,703,735 and 71,680,542 weighted-average shares and units outstanding for the three and six months ended June 30, 2017, respectively.

Same Store Portfolio Net Operating Income

We believe that Net Operating Income ("NOI"), a non-GAAP financial measure, is a useful measure of its operating performance. We define NOI as total property revenues less total property operating expenses, excluding interest expenses, depreciation and amortization, acquisition expenses, property management expenses, and general and administrative expenses. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to other REITs. We believe that this measure provides an operating perspective not immediately apparent from GAAP operating income or net income. We use NOI to evaluate our performance on a same store and non-same store basis because NOI measures the core operations of property performance by excluding corporate level expenses, financing expenses, and other items not related to property operating performance and captures trends in rental housing and property operating expenses. However, NOI should only be used as an alternative measure of our financial performance.

We review our same store properties or portfolio at the beginning of each calendar year. Properties are added into the same store portfolio if they were owned at the beginning of the previous year. Properties that have been sold or are classified as held for sale are excluded from the same store portfolio.

Set forth below is a reconciliation of same store net operating income to net income (loss) available to common shares for the three and six months ended June 30, 2018 and 2017 (in thousands, except per unit data):

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	Three Months Ended June 30, (a)			Six Months Ended June 30, (a)		
	2018	2017	% change	2018	2017	% change
Revenue:						
Rental income	$28,860	$28,478	1.3 %	$57,387	$56,411	1.7 %
Reimbursement and other income	3,621	3,434	5.4 %	7,124	6,760	5.4 %
Total revenue	32,481	31,912	1.8 %	64,511	63,171	2.1 %
Operating Expenses						
Real estate taxes	3,990	3,928	1.6 %	8,029	7,756	3.5 %
Property insurance	646	689	-6.2 %	1,359	1,414	-3.9 %
Personnel expenses	3,198	3,085	3.7 %	6,262	6,117	2.4 %
Utilities	1,964	1,907	3.0 %	4,071	3,899	4.4 %
Repairs and maintenance	1,274	1,195	6.6 %	2,163	2,287	-5.4 %
Contract services	1,068	994	7.4 %	2,065	1,930	7.0 %
Advertising expenses	370	347	6.6 %	751	689	9.0 %
Casualty expense (income)	-	(2)	NM	34	(3)	NM
Other expenses	506	633	-20.1 %	1,189	1,359	-12.5 %
Total operating expenses	13,016	12,776	1.9 %	25,923	25,448	1.9 %
Net operating income	$19,465	$19,136	1.7 %	$38,588	$37,723	2.3 %
NOI Margin	59.9 %	60.0 %	-0.1 %	59.8 %	59.7 %	0.1 %
Average Occupancy	94.8 %	95.1 %	-0.3 %	94.6 %	94.5 %	0.1 %
Average effective monthly rent, per unit	$1,025	$1,006	1.9 %	$1,022	$1,003	1.8 %
Reconciliation of Same-Store Net Operating Income to Net Income (Loss)						
Same-store portfolio net operating income (a)	$19,465	$19,136		$38,588	$37,723	
Non same-store net operating income	8,566	4,377		16,641	8,693	
Property management income	155	130		294	377	
Property management expenses	(1,592)	(1,444)		(3,275)	(2,982)	
General and administrative expenses	(2,872)	(2,706)		(5,606)	(4,806)	
Acquisition and integration expenses	-	(265)		-	(387)	
Depreciation and amortization	(11,583)	(8,011)		(22,807)	(15,618)	
Interest expense	(8,594)	(7,162)		(16,934)	(14,610)	
Other income (expense)	-	(12)		144	(17)	
Net gains (losses) on sale of assets	-	16,050		-	15,965	
Gains (losses) on extinguishment of debt	-	(572)		-	(572)	
Net income (loss)	$3,545	$19,521		$7,045	$23,766	

(a) Same store portfolio for the three and six months ended June 30, 2018 and 2017 included 37 properties containing 10,329 units.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay distributions and other general business needs. We believe our available cash balances, financing arrangements and cash flows from operations will be sufficient to fund our liquidity requirements with respect to our existing portfolio for the next 12 months and the foreseeable future.

Our primary cash requirements are to:

- make investments and fund the associated costs, including expenditures, to continue our value add initiatives to improve the quality and performance of our properties;
- repay our indebtedness;

- fund recurring maintenance necessary to maintain our properties;
- pay our operating expenses; and
- distribute a minimum of 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gain) and to make investments in a manner that enables us to maintain our qualification as a REIT.

We intend to meet our liquidity requirements primarily through a combination of one or more of the following:

- the use of our cash and cash equivalent of $10.9 million as of June 30, 2018;
- existing and future financing secured directly or indirectly by the apartment properties in our portfolio;
- cash generated from operating activities;
- net cash proceeds from property sales, including sales undertaken as part of our capital recycling strategy and other sales;
- proceeds from the sales of our common stock and other equity securities, including common stock that may be sold under our at-the-market program; and advances under our unsecured credit facility.

Cash Flows

As of June 30, 2018 and 2017, we maintained cash and cash equivalents, and restricted cash of approximately $17.9 million and $12.0 million, respectively. Our cash and cash equivalents were generated from the following activities (dollars in thousands):

	For the Six Months Ended June 30,	
	2018	2017
Cash flow provided by operating activities	$35,697	$28,033
Cash flow (used in) provided by investing activities	(104,803)	(55,534)
Cash flow (used in) provided by financing activities	72,434	13,052
Net change in cash and cash equivalents, and restricted cash	3,328	(14,449)
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	$17,947	$11,961

The increase in our cash flow from operating activities during the six months ended June 30, 2018 was primarily driven by the increased performance of our property portfolio.

Our cash outflow from investing activities during the six months ended June 30, 2018 was primarily due to four property acquisitions. Our cash outflow from investing activities during the six months ended June 30, 2017 was primarily due to the acquisition of three properties partially offset by the disposition of three properties.

Our cash inflow from financing activities during the six months ended June 30, 2018 was primarily due to draws on our current and previous credit facilities related to the acquisitions of four properties, partially offset by the distribution of dividends of our common stock. Our cash inflow from financing activities during the six months ended June 30, 2017 was primarily due to repayments of mortgage indebtedness and the interim facility with proceeds from the three property dispositions.

As a REIT, we evaluate our dividend coverage based on our cash flow from operating activities, excluding acquisition and integration expenses and changes in other assets and liabilities. During the six months ended June 30, 2018, we paid distributions to our common stockholders and noncontrolling interests of $21.1 million and generated cash flow from operating activities excluding acquisition and integration expenses and changes in other assets and liabilities of $32.0 million.

Contractual Commitments

Our Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 23, 2018, includes a table of contractual commitments. There were no material changes to these commitments since the filing of our Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the six months ended June 30, 2018 that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our interests.

Critical Accounting Estimates and Policies

Our 2017 Annual Report on Form 10-K contains a discussion of our critical accounting policies. On January 1, 2018, we adopted several new accounting pronouncements and revised our accounting policies as described in Note 2 to the Consolidated Financial Statements included in Part I, Item 1 of this report. Management discusses our critical accounting policies and management's judgments and estimates with the audit committee of our board of directors.

Item 3. Qualitative and Quantitative Disclosure About Market Risk.

Market risk is the adverse effect on the value of a financial instruments that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. With regard to variable rate financing, we assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy is designed to minimize the impact on our net income and funds from operations of changes in interest rates, the overall returns on any investment in our securities may be reduced. We currently have limited exposure to financial market risks.

We may also be exposed to credit risk in derivative contracts we may use. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty will owe us, which creates credit risk for us. If the fair value of a derivative contract is negative, we will owe the counterparty and, therefore, do not have credit risk. We seek to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

There have been no material changes in quantitative and qualitative market risks during the six months ended June 30, 2018 from the disclosures included in our 2017 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our chief executive officer and chief financial officer and with the participation of our disclosure committee, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting or in other factors during the quarter ended June 30, 2018, that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have not been any material changes from the risk factors previously disclosed in Item 1A—"Risk Factors" in our 2017 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

12.1 Statements regarding computation of ratios as of June 30, 2018, filed herewith.

31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

99.1 Material U.S. Federal Income Tax Considerations, incorporated by reference to Exhibit 99.1 to IRT's Current Report on Form 8-K filed on June 8, 2018.

101 XBRL (eXtensible Business Reporting Language). The following materials, formatted in XBRL: (i) Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017, (iii) Consolidated Statement of Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017, (iv) Consolidated Statements of Changes in Equity for the six months ended June 30, 2018, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 and (vi) notes to the consolidated financial statements as of June 30, 2018.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Independence Realty Trust, Inc.

Date: August 2, 2018	By:	/s/ Scott f. Schaeffer Scott F. Schaeffer Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Date: August 2, 2018	By:	/s/ James J. Sebra James J. Sebra Chief Financial Officer and Treasurer (Principal Financial Officer)
Date: August 2, 2018	By:	/s/ Jason R. Delozier Jason R. Delozier Chief Accounting Officer (Principal Accounting Officer)