

BERKSHIRE INCOME REALTY, INC.

Form 10-Q

November 14, 2013

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

or

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

Commission File Number 001-31659

BERKSHIRE INCOME REALTY, INC.

Maryland

(State or other jurisdiction of incorporation or organization)

32-0024337

(I. R. S. Employer Identification No.)

One Beacon Street, Boston, Massachusetts

(Address of principal executive offices)

02108

(Zip Code)

(617) 523-7722

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 1,406,196 shares of Class B common stock outstanding as of November 13, 2013.

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BERKSHIRE INCOME REALTY, INC.

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Part I FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Multifamily apartment communities, net of accumulated depreciation of \$235,968,144 and \$235,825,752, respectively	\$379,127,145	\$402,999,104
Cash and cash equivalents	9,312,414	12,224,361
Cash restricted for tenant security deposits	1,267,396	1,332,178
Replacement reserve escrow	1,086,540	986,790
Prepaid expenses and other assets	8,275,848	9,545,966
Investments in unconsolidated multifamily entities	14,655,404	16,873,924
Acquired in-place leases and tenant relationships, net of accumulated amortization of \$0 and \$599,702, respectively	—	5,377
Deferred expenses, net of accumulated amortization of \$3,252,650 and \$3,096,284, respectively	2,838,489	3,210,510
Total assets	\$416,563,236	\$447,178,210
LIABILITIES AND DEFICIT		
Liabilities:		
Mortgage notes payable	\$461,726,623	\$478,185,998
Note payable - other	1,250,000	1,250,000
Due to affiliates, net	2,051,898	3,446,460
Due to affiliate, incentive advisory fees	7,592,536	6,634,261
Dividend and distributions payable	3,637,607	1,137,607
Accrued expenses and other liabilities	9,882,792	15,081,550
Tenant security deposits	1,549,398	1,475,298
Total liabilities	487,690,854	507,211,174
Commitments and contingencies (Note 9)	—	—
Deficit:		
Noncontrolling interest in properties	1,046,067	1,527,431
Noncontrolling interest in Operating Partnership (Note 10)	(100,096,200)	(89,708,267)
Series A 9% Cumulative Redeemable Preferred Stock, no par value, \$25 stated value, 5,000,000 shares authorized, 2,978,110 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively		70,210,830
Class A common stock, \$.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	—	—
Class B common stock, \$.01 par value, 5,000,000 shares authorized, 1,406,196 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively		14,062

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Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	—	—
Accumulated deficit	(42,302,377) (42,077,020)
Total deficit	(71,127,618) (60,032,964)
Total liabilities and deficit	\$416,563,236	\$447,178,210

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

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BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended		Nine months ended	
	September 30, 2013	2012	September 30, 2013	2012
Revenue:				
Rental	\$ 18,468,549	\$ 17,303,581	\$ 54,397,584	\$ 51,217,005
Utility reimbursement	866,346	722,752	2,556,845	2,176,382
Other	867,340	768,984	2,518,973	2,285,058
Total revenue	20,202,235	18,795,317	59,473,402	55,678,445
Expenses:				
Operating	4,587,613	4,473,126	13,662,836	13,034,206
Maintenance	1,384,633	1,321,345	3,497,705	3,556,043
Real estate taxes	1,770,935	1,694,010	5,606,147	5,119,712
General and administrative	505,702	554,381	1,743,601	1,878,723
Management fees	1,208,938	1,170,760	3,605,724	3,458,423
Incentive advisory fees	423,153	173,217	1,796,933	1,973,195
Depreciation	6,397,609	5,984,472	19,157,233	18,483,621
Interest, inclusive of amortization of deferred financing fees	6,784,545	5,680,646	19,841,847	17,986,913
Amortization of acquired in-place leases and tenant relationships	—	16,104	5,377	52,176
Total expenses	23,063,128	21,068,061	68,917,403	65,543,012
Loss before equity in loss of unconsolidated multifamily entities	(2,860,893)	(2,272,744)	(9,444,001)	(9,864,567)
Equity in loss of unconsolidated multifamily entities	(24,499)	(653,110)	(1,655,602)	(245,871)
Loss from continuing operations	(2,885,392)	(2,925,854)	(11,099,603)	(10,110,438)
Discontinued operations:				
Income (loss) from discontinued operations	(12,444)	223,502	47,336	(484,772)
Gain on disposition of real estate assets	—	—	18,689,058	6,622,210
Net income (loss) from discontinued operations	(12,444)	223,502	18,736,394	6,137,438
Net income (loss)	(2,897,836)	(2,702,352)	7,636,791	(3,973,000)
Net income attributable to noncontrolling interest in properties	(25,553)	(127,684)	(40,361)	(345,990)
Net (income) loss attributable to noncontrolling interest in Operating Partnership (Note 10)	4,488,677	4,397,555	(2,509,405)	9,121,238
Net income attributable to the Company	1,565,288	1,567,519	5,087,025	4,802,248
Preferred dividend	(1,675,194)	(1,675,194)	(5,025,582)	(5,025,583)
Net income (loss) available to common shareholders	\$(109,906)	\$(107,675)	\$ 61,443	\$(223,335)
Net loss from continuing operations attributable to the Company per common share, basic and diluted	\$(0.07)	\$(0.24)	\$(13.28)	\$(4.52)
Net income (loss) from discontinued operations attributable to the Company per common share, basic and diluted	\$(0.01)	\$ 0.16	\$ 13.32	\$ 4.36
Net income (loss) available to common shareholders per common share, basic and diluted	\$(0.08)	\$(0.08)	\$ 0.04	\$(0.16)
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196

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

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BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(unaudited)

	Company Shareholders				Accumulated Deficit	Noncontrolling Interests – Properties	Noncontrolling Interests – Operating Partnership	Total Deficit
	Series A Preferred Stock		Class B Common Stock					
	Shares	Amount	Shares	Amount				
Balance at January 1, 2012	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(41,802,722)	\$346,524	\$(76,785,818)	\$(48,017,124)
Net income (loss)	—	—	—	—	4,802,248	345,990	(9,121,238)	(3,973,000)
Contributions	—	—	—	—	—	291,701	—	291,701
Distributions	—	—	—	—	—	(1,295,182)	(1,685,796)	(2,980,978)
Distributions to preferred shareholders	—	—	—	—	(5,025,583)	—	—	(5,025,583)
Balance at September 30, 2012	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(42,026,057)	\$(310,967)	\$(87,592,852)	\$(59,704,984)

	Company Shareholders				Accumulated Deficit	Noncontrolling Interests – Properties	Noncontrolling Interests – Operating Partnership	Total Deficit
	Series A Preferred Stock		Class B Common Stock					
	Shares	Amount	Shares	Amount				
Balance at January 1, 2013	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(42,077,020)	\$1,527,431	\$(89,708,267)	\$(60,032,964)
Net income	—	—	—	—	5,087,025	40,361	2,509,405	7,636,791
Contributions	—	—	—	—	—	399,718	—	399,718
Distributions	—	—	—	—	(286,800)	(921,443)	(12,897,338)	(14,105,581)
Distributions to preferred shareholders	—	—	—	—	(5,025,582)	—	—	(5,025,582)
Balance at September 30, 2013	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(42,302,377)	\$1,046,067	\$(100,096,200)	\$(71,127,618)

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

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BERKSHIRE INCOME REALTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the nine months ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$7,636,791	\$(3,973,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred financing costs	433,159	448,287
Amortization of acquired in-place leases and tenant relationships	5,377	52,176
Loss on extinguishment of debt	3,807	40,812
Depreciation	19,762,355	20,993,891
Equity in loss of unconsolidated multifamily entities	1,655,602	245,871
Gain on disposition of real estate assets	(18,689,058)	(6,622,210)
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Tenant security deposits, net	138,882	127,615
Prepaid expenses and other assets	1,270,118	1,422,614
Due to/from affiliates	(1,394,562)	1,534,662
Due to affiliate - incentive advisory fees	958,275	1,590,076
Accrued expenses and other liabilities	(1,053,427)	1,220,523
Net cash provided by operating activities	10,727,319	17,081,317
Cash flows from investing activities:		
Capital improvements	(12,308,567)	(33,065,794)
Proceeds from sale of multifamily apartment communities	30,958,927	13,929,990
Investments in unconsolidated multifamily entities	(305,175)	(581,030)
Distributions from investment in unconsolidated multifamily entities	868,093	700,075
Interest earned on replacement reserve deposits	(446)	(2,219)
Deposits to replacement reserve escrow	(140,785)	(131,985)
Withdrawal from replacement reserve escrow	41,481	—
Net cash provided by (used in) investing activities	19,113,528	(19,150,963)
Cash flows from financing activities:		
Borrowings from mortgage notes payable	2,770,663	22,645,466
Principal payments on mortgage notes payable	(4,396,752)	(4,047,055)
Prepayments of mortgage notes payable	(14,833,286)	(5,506,728)
Borrowings from revolving credit facility - affiliate	1,627,000	1,691,000
Principal payments on revolving credit facility - affiliate	(1,627,000)	(7,349,422)
Deferred financing costs	(61,974)	(226,989)
Contributions from noncontrolling interest holders in properties	399,718	291,701
Distributions to noncontrolling interest holders in properties	(1,221,443)	(1,295,182)
Distributions to noncontrolling interest partners in Operating Partnership	(10,164,258)	(1,685,796)
Distributions to common shareholders	(219,880)	—
Distributions to preferred shareholders	(5,025,582)	(5,025,583)
Net cash used in financing activities	(32,752,794)	(508,588)

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Net decrease in cash and cash equivalents	(2,911,947) (2,578,234)
Cash and cash equivalents at beginning of period	12,224,361	9,645,420	
Cash and cash equivalents at end of period	\$9,312,414	\$7,067,186	

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

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BERKSHIRE INCOME REALTY, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)

	For the nine months ended September 30,	
	2013	2012
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest	\$20,622,669	\$19,434,715
Capitalization of interest	425,271	1,814,313
Supplemental disclosure of non-cash investing and financing activities:		
Capital improvements included in accrued expenses and other liabilities	120,308	2,465,914
Dividends declared and payable to preferred shareholders	837,607	837,607
Dividends declared and payable to common stockholders	66,920	—
Distributions payable	2,733,080	—
Write-off of fully amortized acquired in-place leases and tenant relationships	605,079	—
Sale of real estate:		
Gross selling price	\$31,500,000	\$14,200,000
Cost of sale	(541,073) (270,010
Cash flows from sale of multifamily apartment communities	\$30,958,927	\$13,929,990

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

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BERKSHIRE INCOME REALTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Berkshire Income Realty, Inc. (the "Company"), a Maryland corporation, was incorporated on July 19, 2002 and 100 Class B common shares were issued upon organization. The Company is in the business of acquiring, owning, operating, developing and rehabilitating multifamily apartment communities. As of September 30, 2013, the Company owned, or had an interest in, 20 multifamily apartment communities consisting of 5,499 total apartment units, one multifamily development project and two unconsolidated multifamily entities. The Company conducts its business through Berkshire Income Realty-OP, L.P. (the "Operating Partnership").

The Company elected to be treated as a real estate investment trust ("REIT") under Section 856 of the Tax Code (the "Code"), with the filing of its first tax return. As a result, the Company generally is not subject to federal corporate income tax on its taxable income that is distributed to its shareholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income. The Company's policy is to make sufficient distributions of its taxable income to meet the REIT distribution requirements. The Company must also meet other operational requirements with respect to its investments, assets and income. The Company monitors these various requirements on a quarterly basis and believes that as of and for the nine months ended September 30, 2013 and 2012, it was in compliance on all such requirements. Accordingly, the Company has made no provision for federal income taxes in the accompanying consolidated financial statements. The Company is subject to certain state level taxes based on the location of its properties.

Discussion of acquisitions for the nine months ended September 30, 2013

The Company did not acquire any properties during the nine-month p