INDEPENDENCE REALTY TRUST, INC
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-36041

INDEPENDENCE REALTY TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	26-4567130 (I.R.S. Employer Identification No.)
Two Logan Square 100 N. 18th St., 23rd Floor	19103

Philadelphia, PA
(Address of Principal Executive Offices) (Zip Code)

(215) 207-2100

(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 x No o

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 x No o

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. (Check one):

Large Accelerated filer	o	Accelerated filer	x
Non-Accelerated filer	o	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 o No x

As of August 3, 2016 there were 47,476,250 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, 2016	As of December 31, 2015
ASSETS:		
Investments in real estate:		
Investments in real estate, at cost	$1,314,115	$ 1,372,015
Accumulated depreciation	(45,059)	(39,638)
Investments in real estate, net	1,269,056	1,332,377
Cash and cash equivalents	28,051	38,301
Restricted cash	6,779	5,413
Accounts receivable and other assets	3,985	3,362
Intangible assets, net of accumulated amortization of $0 and $3,736, respectively	—	3,735
Total Assets	$1,307,871	$ 1,383,188
LIABILITIES AND EQUITY:		
Indebtedness, net of unamortized discount and deferred financing costs of $8,094 and $8,920, respectively	$880,288	$ 966,611
Accounts payable and accrued expenses	17,807	19,304
Accrued interest payable	701	1,239
Dividends payable	3,009	3,006
Derivative liabilities	1,163	-
Other liabilities	2,955	2,998
Total Liabilities	905,923	993,158
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, 47,476,250 and 47,070,678 shares issued and outstanding, including 284,339 and 117,000 unvested restricted common share awards, respectively	475	471
Additional paid-in capital	380,532	378,187
Accumulated other comprehensive income	(1,195)	(8)
Retained earnings (accumulated deficit)	(2,601)	(14,500)
Total stockholders' equity	377,211	364,150
Noncontrolling interests	24,737	25,880
Total Equity	401,948	390,030
Total Liabilities and Equity	$1,307,871	$ 1,383,188

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

Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUE:				
Rental income	$34,185	$20,268	$68,938	$39,711
Tenant reimbursement income	1,405	991	2,843	1,941
Other income	2,737	1,459	5,212	2,723
Total revenue	38,327	22,718	76,993	44,375
EXPENSES:				
Property operating expenses	16,852	10,517	33,972	20,612
General and administrative expenses	544	413	1,265	842
Stock compensation expense	380	10	585	80
Asset management fees	1,863	1,260	3,559	2,472
Acquisition and integration expenses	8	168	18	201
Depreciation and amortization expense	7,635	5,720	19,162	11,758
Total expenses	27,282	18,088	58,561	35,965
Operating income	11,045	4,630	18,432	8,410
Interest expense	(9,018)	(4,277)	(18,995)	(8,299)
Interest income	—	—	—	1
Net gains (losses) on sale of assets	29,321	—	31,774	—
Gains (losses) on extinguishment of debt	(558)	—	(558)	—
Gains (losses) on TSRE merger and property acquisitions	—	—	91	—
Net income (loss):	30,790	353	30,744	112
(Income) loss allocated to noncontrolling interest	(1,803)	(16)	(1,832)	(8)
Net income (loss) allocable to common shares	$28,987	$337	$28,912	$104
Earnings (loss) per share:				
Basic	$0.61	$0.01	$0.61	$-
Diluted	$0.61	$0.01	$0.61	$-
Weighted-average shares:				
Basic	47,183,804	31,794,822	47,138,573	31,781,718
Diluted	47,229,736	33,066,770	47,159,220	33,060,578

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,	
	2016	2015	2016	2015
Net income (loss)	$30,790	$353	$30,744	$112
Other comprehensive income (loss):				
Change in fair value of interest rate hedges	(1,169)	—	(1,187)	—
Total other comprehensive income	(1,169)	—	(1,187)	—
Comprehensive income (loss) before allocation to noncontrolling interests	29,621	353	29,557	112
Allocation to noncontrolling interests	(1,803)	(16)	(1,832)	(8)
Comprehensive income (loss)	$27,818	$337	$27,725	$104

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, 2016	47,070,678	$ 471	$ 378,187	$ (8)	$ (14,500)	$ 364,150	$ 25,880	$ 390,030
Net income	-	-	-	-	28,912	28,912	1,832	30,744
Common dividends declared	-	-	-	-	(17,013)	(17,013)	-	(17,013)
Other comprehensive income	-	-	-	(1,187)	-	(1,187)	-	(1,187)
Stock compensation expense	228,000	2	583	-	-	585	-	585
Common shares issued for equity compensation	(26,541)	-	(137)	-	-	(137)	-	(137)
Conversion of noncontrolling interest to common shares	204,113	2	1,899	-	-	1,901	(1,901)	-
Distribution to noncontrolling interest declared	-	-	-	-	-	-	(1,074)	(1,074)
Balance, June 30, 2016	47,476,250	$ 475	$ 380,532	$ (1,195)	$ (2,601)	$ 377,211	$ 24,737	$ 401,948

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,	
	2016	2015
Cash flows from operating activities:		
Net income	$30,744	$112
Adjustments to reconcile net income (loss) to cash flow from operating activities:		
Depreciation and amortization	19,162	11,758
Amortization of deferred financing costs and premium on indebtedness, net	1,639	(315)
Stock compensation expense	585	80
Net (gains) losses on sale of assets	(31,774)	-
(Gains) losses on extinguishment of debt	558	-
(Gains) losses on TSRE merger and property acquisitions	(91)	-
Changes in assets and liabilities:		
Accounts receivable and other assets	(297)	(332)
Accounts payable and accrued expenses	(1,261)	2,081
Accrued interest payable	(505)	(19)
Other liabilities	87	(49)
Net cash provided by operating activities	18,847	13,316
Cash flows from investing activities:		
Disposition of real estate properties	39,691	-
Acquisition of real estate properties	-	(24,746)
TSRE merger, net of cash acquired	91	-
Capital expenditures	(5,429)	(3,088)
(Increase) in restricted cash	(1,366)	(1,129)
Cash flow provided by (used in) investing activities	32,987	(28,963)
Cash flows from financing activities:		
(Payments related to) proceeds from issuance of common stock	(137)	(197)
Proceeds from Secured Credit Facility and mortgage indebtedness	199,481	58,275
Secured Credit Facility and mortgage principal repayments	(241,895)	(19,362)
Payments for deferred financing costs	(1,449)	(365)
Financing commitment fee	-	(4,000)
Distributions on common stock	(16,998)	(11,441)
Distributions to noncontrolling interests	(1,086)	(458)
Cash flow used in financing activities	(62,084)	22,452
Net change in cash and cash equivalents	(10,250)	6,805
Cash and cash equivalents, beginning of period	38,301	14,763
Cash and cash equivalents, end of the period	$28,051	$21,568
Supplemental cash flow information:		
Cash paid for interest	$17,894	$8,615
Non-cash decrease in noncontrolling interest from conversion of common limited	$1,901	$-

partnership units to share of common stock

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

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2016

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

NOTE 1: Organization

Independence Realty Trust, Inc. 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 are 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." As used herein, the terms "we," "our" and "us" refer to Independence Realty Trust, Inc. and, as required by context, Independence Realty Operating Partnership, LP, which we refer to as IROP, and their subsidiaries. We own apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We own substantially all of our assets and conduct our operations through IROP, of which we are the sole general partner.

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, 2015 included in our Annual Report on Form 10-K or the 2015 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.

Certain prior period amounts have been corrected to conform with the current period presentation, including in 2015, reclassifying $93 and $137 from other income to real estate operating expense for the three and six months ended June 30, 2015, respectively. We evaluated these error corrections and determined, based on quantitative and qualitative factors, the changes were not material to the consolidated financial statements taken as a whole for any previously filed consolidated financial statements.

b. Principles of Consolidation

The consolidated financial statements reflect our accounts and the accounts of IROP and other wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Pursuant to the accounting standard issued in February 2015 classified under Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 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, 2016

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

e. Restricted Cash

Restricted cash includes tenant escrows and our funds held by lenders to fund certain expenditures or to be released at our discretion upon the occurrence of certain pre-specified events.

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.

g. Investments in Real Estate

Allocation of Purchase Price of Acquired Assets

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

Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets (consisting of in-place leases), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months of the acquisition date. During the six months ended June 30, 2016, we made an adjustment related to the TSRE acquisition as described in NOTE 3: Investments in Real Estate.

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 six months ended June 30, 2016, we did not acquire any properties and, therefore, did not acquire any in-place leases. 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, 2016 we recorded \$0 and \$3,735, respectively, of amortization expense for intangible assets. For the three and six months ended June 30, 2015 we recorded $1,380 and $3,289, respectively, of amortization expense for intangible assets. During the six months ended June 30, 2016, $7,471 of intangible assets became fully amortized and were written off.

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.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2016

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

Depreciation and Amortization 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. Expenditures for tenant improvements are capitalized and amortized over the initial term of each lease. For the three and six months ended June 30, 2016 we recorded $7,635 and $15,427 of depreciation expense, respectively. For the three and six months ended June 30, 2015 we recorded $4,340 and $8,469 of depreciation expense, respectively.

h. Revenue and Expenses

Minimum rents are recognized on an accrual basis, over the terms of the related leases on a straight-line basis. Any above market lease value and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term. Recoveries from residential tenants for utility costs are recognized as revenue in the period that the applicable costs are incurred.

For the three and six months ended June 30, 2016, we recognized revenues of $38 and $113, 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, 2016, we incurred $443 and $890 of advertising expenses, respectively. For the three and six months ended June 30, 2015, we incurred $311 and $623 of advertising expenses, respectively.

i. Derivative Instruments

We may use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings.

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 sheet as either an asset or liability. For derivatives designated as fair value hedges, derivatives not designated as 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 recorded in earnings. 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. Changes in the ineffective portions of cash flow hedges, if any, are recognized in earnings.

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 the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB ASC Topic 820, "Fair Value Measurements and Disclosures" and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

- Level 1: Valuations are based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are equity securities listed in active markets. As such, valuations of these investments do not entail a significant degree of judgment.

- Level 2: Valuations are based on quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3: Inputs are unobservable inputs 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.

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

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

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.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2016

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

FASB ASC Topic 825, “Financial Instruments” requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. The fair value of mortgage indebtedness is based on a discounted cash flows valuation technique. As this technique utilizes current credit spreads, which are generally unobservable, this is classified as a Level 3 fair value measurement within the fair value hierarchy. We determine appropriate credit spreads based on the type of debt and its maturity. The fair value of our secured credit facility, term loan facility, cash and cash equivalents and restricted cash as of June 30, 2016 and December 31, 2015 approximated their respective unpaid principal balances due to the nature of these instruments. 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 the secured credit facility and term loan facility are classified as Level 2 fair value measurements within the fair value hierarchy. The following table summarizes the carrying amount and the fair value of our financial instruments as of the periods indicated:

	As of June 30, 2016		As of December 31, 2015	
Financial Instrument	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$28,051	$28,051	$38,301	$38,301
Restricted cash	6,779	6,779	5,413	5,413
Derivative assets	—	—	24	24
Liabilities				
Debt:				
Secured credit facility	243,604	247,335	267,155	271,500
Term loan	39,559	40,000	118,418	120,000
Mortgages	597,125	629,876	581,038	589,320
Derivative liabilities	1,163	1,163	—	—

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, 2016 and for the three and six months ended June 30, 2015.

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

Adopted Within these Financial Statements

In February 2015, the FASB issued an accounting standard classified under FASB ASC Topic 810, “Consolidation”. This accounting standard amends the consolidation analysis required under GAAP and requires management to reevaluate all previous consolidation conclusions. This standard considers limited partnerships to be VIEs, unless the limited partners have either substantive kick-out or participating rights. The presumption that a general partner should consolidate a limited partnership has also been eliminated. The standard amends the effect that fees paid to a decision maker or service provider have on the consolidation analysis, as well as amends how variable interests held by a reporting entity's related parties affect the consolidation conclusion. This standard also clarifies how to determine whether equity holders as a group have power over an entity. This standard was effective for interim and annual reporting periods beginning after December 15, 2015, with an early adoption permitted. The adoption of this accounting standard did not have an impact on our consolidated financial statements as it did not change any of our existing consolidation conclusions.

In April 2015, the FASB issued an accounting standard classified under FASB ASC Topic 835, "Interest". This accounting standard amends existing guidance to change reporting requirements for debt issuance costs by requiring debt issuance costs to be presented on the balance sheet as a direct deduction from the debt liability. This standard was effective for interim and annual reporting periods beginning after December 15, 2015, with an early adoption permitted. Retrospective application to prior periods is required. The adoption of this accounting standard resulted in the reclassification in our December 31, 2015 consolidated balance sheet of $9,226 of net deferred costs to total indebtedness on our consolidated balance sheet.

In September 2015, the FASB issued an accounting standard classified under FASB ASC Topic 805, "Business Combinations". This accounting standard amends existing guidance related to measurement period adjustments by requiring the adjustments to be recognized prospectively with disclosure of the impact of the adjustments had they been applied previously. This standard was effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. As this standard only applied to measurement period adjustments that occur after the effective date, this standard did not have a material impact on our consolidated financial statements.

Not Yet Adopted Within these Financial Statements

In May 2014, the FASB issued an accounting standard classified under FASB ASC Topic 606, "Revenue from Contracts with Customers". This accounting standard generally replaces existing guidance by requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers.

In March 2016, the FASB issued an accounting standard classified under FASB ASC Topic 606, "Revenue from Contracts with Customers". This accounting standard clarifies the implementation guidance on principal versus agent considerations in Topic 606. This accounting standard clarifies the following: (i) an entity determines whether it is a principal or an agent for each specified good or service promised to the customer; (ii) an entity determines the nature of each specified good or service (for example, whether it is a good, a service, or a right to a good or service); (iii) when a principal obtains control of a good or right to service whether another party is involved in providing goods or services to a customer; and (iv) the indicators in the assessment of control may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances.

In April 2016, the FASB issued an accounting standard classified under FASB ASC Topic 606, “Revenue from Contracts with Customers.” The amendments in this standard add further guidance on identifying performance obligations and clarifying the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606.

In May 2016, the FASB issued an accounting standard classified under FASB ASC Topic 606, “Revenue from Contracts with Customers.” The amendments in this standard provide clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. The amendments provide a practical expedient for contract modifications. The amendments do not change the core principle of the guidance in Topic 606.

These standards classified under FASB ASC Topic 606 are currently effective for annual reporting periods beginning after December 15, 2017. Management is currently evaluating the impact that these standards may have on our consolidated financial statements.

In January 2016, the FASB issued an accounting standard classified under FASB ASC Topic 825, “Financial Instruments”. This accounting standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other things, the amendment (i) eliminates certain disclosure requirements for financial instruments measured at amortized cost; (ii) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (iii) requires separate presentation, in other comprehensive income, of the change in fair value of a liability, when the fair value option has been elected, resulting from a change in the instrument-specific credit risk; and (iv) requires separate presentation of financial instruments by measurement category and form. This standard is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for the separate presentation of changes in fair value due to changes in instrument-specific credit risk. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

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

In March 2016, the FASB issued an accounting standard classified under FASB ASC Topic 815, “Derivatives and Hedging”. This accounting standard clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Management does not expect this standard to have a significant impact on our consolidated financial statements.

In March 2016, the FASB issued an accounting standard classified under FASB ASC Topic 815, “Derivatives and Hedging”. This accounting standard clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. This accounting standard clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. This standard is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Management does not expect this standard to have a significant impact on our consolidated financial statements.

In March 2016, the FASB issued an accounting standard classified under FASB ASC Topic 718, “Compensation – Stock Compensation”. This accounting standard simplifies several aspects of the accounting for share-based payment award transactions, including: (i) income tax consequences; (ii) classification of awards as either equity or liabilities; and (iii) classification on the statement of cash flows. This standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. Management is currently evaluating the impact that this standard may have on our consolidated financial statements.

Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of June 30, 2016

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

NOTE 3: Investments in Real Estate

As of June 30, 2016, our investments in real estate consisted of 46 apartment properties with 12,982 units (unaudited). The table below summarizes our investments in real estate:

	As of June 30, 2016	As of December 31, 2015	Depreciable Lives (In years)
Land	$178,515	$ 190,585	—
Building	1,119,457	1,168,453	40
Furniture, fixtures and equipment	16,143	12,977	5-10
Total investment in real estate	$1,314,115	$ 1,372,015	
Accumulated depreciation	(45,059)	(39,638)	
Investments in real estate, net	$1,269,056	$ 1,332,377	

Acquisitions

During the first quarter of 2016, we received additional information regarding estimates we had made for certain accrued expenses related to our acquisition of Trade Street Residential Inc., or the TSRE acquisition, that was completed on September 17, 2015. This information led to an increase in fair value of the net assets we acquired of $91, which we recognized during the six months ended June 30, 2016.

Dispositions

The below table summarizes the dispositions for the six months ended June 30, 2016 and also presents each property's contribution to net income (loss) allocable to common shares, excluding the impact of the gain (loss) on sale:

				Net income (loss) allocable to common shares	
Property Name	Date of Sale	Sale Price	Gain (loss) on sale	For the Three Months Ended June 30,	For the Six Months Ended June 30, 2016

2016

Cumberland Glen