

BERKSHIRE INCOME REALTY, INC.
Form 10-Q
November 14, 2011
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, 2011

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 (Do not check if a smaller reporting company)

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 10, 2011.

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, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
Multifamily apartment communities, net of accumulated depreciation of \$223,639,968 and \$200,045,487, respectively	\$458,746,887	\$419,531,860
Cash and cash equivalents	10,600,628	12,893,665
Cash restricted for tenant security deposits	1,610,022	1,610,659
Replacement reserve escrow	1,451,457	3,990,924
Prepaid expenses and other assets	12,366,828	9,258,604
Investment in Multifamily Venture Limited Partnership and Multifamily Limited Liability Company	18,322,319	6,047,858
Acquired in-place leases and tenant relationships, net of accumulated amortization of \$476,900 and \$1,226,117, respectively	128,179	43,962
Deferred expenses, net of accumulated amortization of \$2,711,670 and \$2,270,646, respectively	4,392,352	3,488,897
Total assets	\$507,618,672	\$456,866,429
LIABILITIES AND DEFICIT		
Liabilities:		
Mortgage notes payable	\$512,884,253	\$476,386,979
Note payable, affiliate	33,375,000	—
Due to affiliates, net	1,369,393	1,820,827
Due to affiliate, incentive advisory fees	2,914,535	2,207,795
Dividend and distributions payable	837,607	837,607
Accrued expenses and other liabilities	13,250,647	11,092,336
Tenant security deposits	1,868,387	1,827,837
Total liabilities	566,499,822	494,173,381
Commitments and contingencies (Note 9)	—	—
Deficit:		
Noncontrolling interest in properties	411,987	(191,881)
Noncontrolling interest in Operating Partnership (Note 10)	(87,454,092)	(65,806,083)
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, 2011 and December 31, 2010, respectively		70,210,830
Class A common stock, \$.01 par value, 5,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	—	—
Class B common stock, \$.01 par value, 5,000,000 shares authorized, 1,406,196 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	14,062	14,062

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Excess stock, \$.01 par value, 15,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	—	—
Accumulated deficit	(42,063,937	) (41,533,880)
Total deficit	(58,881,150	) (37,306,952)
Total liabilities and deficit	\$507,618,672	\$456,866,429

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,		September 30,	
	2011	2010 Adjusted*	2011	2010 Adjusted*
Revenue:				
Rental	\$20,645,812	\$18,877,415	\$60,934,736	\$56,243,615
Interest	1,738	2,785	6,497	10,665
Utility reimbursement	848,752	580,331	2,530,735	1,700,033
Other	1,049,764	1,091,937	3,001,072	3,083,232
Total revenue	22,546,066	20,552,468	66,473,040	61,037,545
Expenses:				
Operating	5,399,595	4,786,823	15,642,205	14,798,017
Maintenance	1,649,864	1,410,435	4,436,220	4,079,628
Real estate taxes	2,206,524	2,149,371	6,429,581	6,438,603
General and administrative	914,262	1,025,223	3,761,984	3,171,056
Management fees	1,272,898	1,198,849	3,774,741	3,594,308
Incentive advisory fees	319,074	988,245	706,740	1,113,904
Depreciation	7,903,053	7,554,925	23,594,481	23,598,368
Interest, inclusive of amortization of deferred financing fees	7,373,125	6,825,935	21,952,124	20,622,465
Amortization of acquired in-place leases and tenant relationships	95,950	28,218	485,816	104,480
Total expenses	27,134,345	25,968,024	80,783,892	77,520,829
Loss before equity in loss of Multifamily Venture Limited Partnership and Multifamily Limited Liability Company	(4,588,279)	(5,415,556)	(14,310,852)	(16,483,284)
Equity in loss of Multifamily Venture Limited Partnership and Multifamily Limited Liability Company	(802,017)	(761,278)	(2,634,595)	(3,107,821)
Net loss	(5,390,296)	(6,176,834)	(16,945,447)	(19,591,105)
Net (income) loss attributable to noncontrolling interest in properties	(88,216)	(18,305)	(207,050)	80,006
Net loss attributable to noncontrolling interest in Operating Partnership (Note 10)	6,982,733	7,682,225	21,648,009	23,950,251
Net income attributable to Parent Company	1,504,221	1,487,086	4,495,512	4,439,152
Preferred dividend	(1,675,195)	(1,675,187)	(5,025,569)	(5,025,579)
Net loss available to common shareholders	\$(170,974)	\$(188,101)	\$(530,057)	\$(586,427)
Net loss from continuing operations attributable to Parent Company per common share, basic and diluted	\$(0.12)	\$(0.13)	\$(0.38)	\$(0.42)
Net income (loss) from discontinued operations attributable to Parent Company per common share, basic and diluted	\$—	\$—	\$—	\$—
Net loss available to common shareholders per common share, basic and diluted	\$(0.12)	\$(0.13)	\$(0.38)	\$(0.42)
Weighted average number of common shares outstanding, basic and diluted	1,406,196	1,406,196	1,406,196	1,406,196
Dividend declared per common share	\$—	\$—	\$—	\$—

*See Note 3.

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, 2011 AND 2010
(unaudited)

	Parent 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				
Adjusted balance at January 1, 2010*	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(40,759,319)	\$416,382	\$(34,172,349)	\$(4,290,394)
Net income (loss)	—	—	—	—	4,439,152	(80,006)	(23,950,251)	(19,591,105)
Contributions	—	—	—	—	—	—	—	—
Distributions	—	—	—	—	—	(480,013)	—	(480,013)
Distributions to preferred shareholders	—	—	—	—	(5,025,579)	—	—	(5,025,579)
Adjusted balance at September 30, 2010*	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(41,345,746)	\$(143,637)	\$(58,122,600)	\$(29,387,091)

* See Note 3.

	Parent 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, 2011	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(41,533,880)	\$(191,881)	\$(65,806,083)	\$(37,306,952)
Net income (loss)	—	—	—	—	4,495,512	207,050	(21,648,009)	(16,945,447)
Contributions	—	—	—	—	—	783,997	—	783,997
Distributions	—	—	—	—	—	(387,179)	—	(387,179)
Distributions to preferred shareholders	—	—	—	—	(5,025,569)	—	—	(5,025,569)
Balance at September 30, 2011	2,978,110	\$70,210,830	1,406,196	\$14,062	\$(42,063,937)	\$411,987	\$(87,454,092)	\$(58,881,150)

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,	2010 Adjusted*
	2011	
Cash flows from operating activities:		
Net loss	\$(16,945,447	) \$(19,591,105)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of deferred financing costs	483,374	439,035
Amortization of acquired in-place leases and tenant relationships	485,816	104,480
Amortization of fair value discount on mortgage debt	177,885	369,178
Depreciation	23,594,481	23,598,368
Equity in loss of Multifamily Venture Limited Partnership and Multifamily Limited Liability Company	2,634,595	3,107,821
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Tenant security deposits, net	(13,328	) 279,048
Prepaid expenses and other assets	(914,323	) 579,660
Due to/from affiliates	(451,434	) (1,032,851)
Due to affiliates, incentive advisory fees	706,740	1,113,904
Accrued expenses and other liabilities	2,039,962	633,765
Net cash provided by operating activities	11,798,321	9,601,303
Cash flows from investing activities:		
Capital improvements	(11,851,249	) (6,370,827)
Acquisition of multifamily apartment communities	(53,558,329) —
Investment in Multifamily Limited Liability Company	(14,909,056) —
Restricted cash	—	12,621,014
Interest earned on replacement reserve deposits	(2,238	) (2,532)
Deposits to replacement reserve escrow	(201,863	) (513,176)
Withdrawal from replacement reserve escrow	2,752,568	269,159
Net cash (used in) provided by investing activities	(77,770,167	) 6,003,638
Cash flows from financing activities:		
Borrowings from mortgage notes payable	66,083,190	17,013,537
Principal payments on mortgage notes payable	(29,763,801	) (14,934,631)
Borrowings from note payable, affiliate	33,375,000	—
Principal payments on note payable, affiliate	—	(15,720,000)
Deferred financing costs	(1,386,829	) (646,512)
Contribution from noncontrolling interest holders in properties	783,997	—
Distributions to noncontrolling interest holders in properties	(387,179	) (480,013)
Distributions to preferred shareholders	(5,025,569	) (5,025,579)
Net cash provided by (used in) financing activities	63,678,809	(19,793,198)
Net decrease in cash and cash equivalents	(2,293,037	) (4,188,257)
Cash and cash equivalents at beginning of period	12,893,665	17,956,617
Cash and cash equivalents at end of period	\$ 10,600,628	\$ 13,768,360

* See Note 3.

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,	
	2011	2010
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest	\$21,215,037	\$19,816,418
Capitalization of interest	\$687,656	\$—
Supplemental disclosure of non-cash investing and financing activities:		
Capital improvements included in accrued expenses and other liabilities	\$105,609	\$46,877
Dividends declared and payable to preferred shareholders	\$837,607	\$837,607
Write-off of fully amortized acquired in-place leases and tenant relationships	\$1,235,033	\$—
Acquisition of multifamily apartment communities:		
Assets acquired:		
Multifamily apartment communities	\$ (50,872,722) \$—
Acquired in-place leases	(605,080) —
Replacement reserve escrow	(9,000) —
Prepaid expenses and other assets	(2,193,901) —
Liabilities acquired:		
Accrued expenses	67,859	—
Tenant security deposit liability	54,515	—
Net cash used for acquisition of multifamily apartment communities	\$ (53,558,329) \$—

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, 2011, the Company owned, or had an interest in, 27 multifamily apartment communities consisting of a total 6,988 apartment units and one multifamily development project.

Discussion of acquisitions for the nine months ended September 30, 2011

On January 31, 2011, the Operating Partnership, through its subsidiary, BIR Estancia Limited Partnership, completed the acquisition of Estancia Townhomes, a 207-unit townhome style apartment community located in Dallas, Texas. The sellers were unaffiliated third parties. The purchase price for the property was \$42,000,000 and was subject to normal operating prorations as provided for in the purchase and sale agreement. Simultaneously with the acquisition, the Company closed on a \$26,500,000 bridge loan used to acquire the property. The loan had an interest rate of 6.5% and a term of three months with a one month extension available.

On March 25, 2011, the Company closed on \$29,004,000 of first mortgage debt on the Estancia Townhomes property. The loan is a non-recourse first mortgage note collateralized by the property with a fixed interest rate of 5.15% and a term of 10 years. Proceeds from the loan were used to repay the \$26,500,000 bridge loan used to acquire the property, pay expenses related to the new loan and for other general operating activities of the Company.

ASC 805-10 requires that identifiable assets acquired and liabilities assumed to be recorded at fair value as of the acquisition date. As of the acquisition date, the amounts recognized for each major class of assets acquired and liabilities assumed is as follows:

Asset acquired:	
Multifamily Apartment Communities	\$41,394,920
Acquired in-place leases	605,080
Prepaid expense and other assets	487,506
Total assets acquired	\$42,487,506
Liabilities acquired:	
Accrued expenses	\$67,859