

American Homes 4 Rent
Form 10-Q
August 03, 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: 001-36013 (American Homes 4 Rent)

Commission File Number: 333-221878-02 (American Homes 4 Rent, L.P.)

AMERICAN HOMES 4 RENT
AMERICAN HOMES 4 RENT, L.P.
(Exact name of registrant as specified in its charter)

Maryland (American Homes 4 Rent) 46-1229660
Delaware (American Homes 4 Rent, L.P.) 80-0860173
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

30601 Agoura Road, Suite 200
Agoura Hills, California 91301
(Address of principal executive offices) (Zip Code)

(805) 413-5300
(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.

American Homes 4 Rent Yes No American Homes 4 Rent, L.P. 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).

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American Homes 4 Rent Yes No

American Homes 4 Rent, L.P. 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.

American Homes 4 Rent

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

American Homes 4 Rent, L.P.

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.

American Homes 4 Rent

American Homes 4 Rent, L.P.

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

American Homes 4 Rent Yes No

American Homes 4 Rent, L.P. Yes No

There were 295,383,219 shares of American Homes 4 Rent's Class A common shares, \$0.01 par value per share, and 635,075 shares of American Homes 4 Rent's Class B common shares, \$0.01 par value per share, outstanding on August 1, 2018.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018, of American Homes 4 Rent and American Homes 4 Rent, L.P. Unless stated otherwise or the context otherwise requires, references to "AH4R" or "the General Partner" mean American Homes 4 Rent, a Maryland real estate investment trust ("REIT"), and references to "the Operating Partnership," "our operating partnership" or "the OP" mean American Homes 4 Rent, L.P., a Delaware limited partnership, and its subsidiaries taken as a whole. References to "the Company," "we," "our," and "us" mean collectively AH4R, the Operating Partnership and those entities/subsidiaries owned or controlled by AH4R and/or the Operating Partnership.

AH4R is the general partner of, and as of June 30, 2018, owned an approximate 84.2% common partnership interest in, the Operating Partnership. The remaining 15.8% common partnership interest was owned by limited partners. As the sole general partner of the Operating Partnership, AH4R has exclusive control of the Operating Partnership's day-to-day management. The Company's management operates AH4R and the Operating Partnership as one business, and the management of AH4R consists of the same members as the management of the Operating Partnership.

The Company believes that combining the quarterly reports on Form 10-Q of the Company and the Operating Partnership into this single report provides the following benefits:

- enhances investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and

- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between AH4R and the Operating Partnership in the context of how AH4R and the Operating Partnership operate as a consolidated company. AH4R's primary function is acting as the general partner of the Operating Partnership. The only material asset of AH4R is its partnership interest in the Operating Partnership. As a result, AH4R generally does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing certain debt of the Operating Partnership. AH4R itself is not directly obligated under any indebtedness, but guarantees some of the debt of the Operating Partnership. The Operating Partnership owns substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures, either directly or through its subsidiaries, conducts the operations of the Company's business and is structured as a limited partnership with no publicly traded equity. One difference between the Company and the Operating Partnership is \$25.7 million of asset-backed securitization certificates issued by the Operating Partnership and purchased by AH4R. The asset-backed securitization certificates are recorded as an asset-backed securitization certificates receivable by the Company and as an amount due from affiliates by the Operating Partnership. AH4R contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, AH4R receives Operating Partnership units ("OP units") equal to the number of shares it has issued in the equity offering. Based on the terms of the Agreement of Limited Partnership of the Operating Partnership, as amended (the "Agreement of Limited Partnership"), OP units can be exchanged for shares on a one-for-one basis. Except for net proceeds from equity issuances by AH4R, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's incurrence of indebtedness or through the issuance of OP units.

Shareholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The limited partnership

interests in the Operating Partnership are accounted for as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in the Company's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include an outside ownership interest in a consolidated subsidiary of the Company. The noncontrolling interests in the Company's financial statements include the same noncontrolling interests at the Operating Partnership level, as well as the limited partnership interests in the Operating Partnership. The differences between shareholders' equity and partners' capital result from differences in the equity and capital issued at the Company and Operating Partnership levels.

To help investors understand the differences between the Company and the Operating Partnership, this report provides separate consolidated financial statements for the Company and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity's debt, noncontrolling interests and shareholders' equity or partners' capital, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the Company and the Operating Partnership in order to establish that the requisite certifications have been made and that the Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the Company and the Operating Partnership, the separate sections in this report for the Company and the Operating Partnership specifically refer to the Company and the Operating Partnership. In the sections that combine disclosure of the Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the Company is one business and the Company operates that business through the Operating Partnership. The separate discussions of the Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

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 American Homes 4 Rent, L.P.
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this Quarterly Report on Form 10-Q of American Homes 4 Rent ("AH4R," "the General Partner") and of American Homes 4 Rent, L.P. ("the Operating Partnership," "our operating partnership," or "the OP") including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future operations, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "intend," "anticipate," "potential," "plan," "goal" or other words that convey the uncertainty of future events or outcomes. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These and other important factors, including those discussed or incorporated by reference under Part II, Item 1A."Risk Factors", Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance, and you should not unduly rely on them. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date of this report. We are not obligated to update or revise these statements as a result of new information, future events or otherwise, unless required by applicable law.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

American Homes 4 Rent

Condensed Consolidated Balance Sheets

(Amounts in thousands, except share data)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Single-family properties:		
Land	\$1,670,214	\$ 1,665,631
Buildings and improvements	7,276,606	7,303,270
Single-family properties held for sale, net	284,012	35,803
	9,230,832	9,004,704
Less: accumulated depreciation	(1,046,911)	(939,724)
Single-family properties, net	8,183,921	8,064,980
Cash and cash equivalents	53,504	46,156
Restricted cash	159,010	136,667
Rent and other receivables, net	28,049	30,144
Escrow deposits, prepaid expenses and other assets	246,877	171,851
Deferred costs and other intangibles, net	13,142	13,025
Asset-backed securitization certificates	25,666	25,666
Goodwill	120,279	120,279
Total assets	\$8,830,448	\$ 8,608,768
Liabilities		
Revolving credit facility	\$—	\$ 140,000
Term loan facility, net	99,120	198,023
Asset-backed securitizations, net	1,969,322	1,977,308
Unsecured senior notes, net	492,406	—
Exchangeable senior notes, net	113,533	111,697
Secured note payable	—	48,859
Accounts payable and accrued expenses	282,734	222,867
Amounts payable to affiliates	4,571	4,720
Participating preferred shares derivative liability	—	29,470
Total liabilities	2,961,686	2,732,944
Commitments and contingencies		
Equity		
Shareholders' equity:		
Class A common shares, \$0.01 par value per share, 450,000,000 shares authorized, 295,383,159 and 286,114,637 shares issued and outstanding at June 30, 2018, and December 31, 2017, respectively	2,954	2,861
Class B common shares, \$0.01 par value per share, 50,000,000 shares authorized, 635,075 shares issued and outstanding at June 30, 2018, and December 31, 2017	6	6
Preferred shares, \$0.01 par value per share, 100,000,000 shares authorized, 30,750,000 and 38,350,000 shares issued and outstanding at June 30, 2018, and December 31, 2017, respectively	308	384

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Additional paid-in capital	5,630,321	5,600,256
Accumulated deficit	(494,326)	(453,953)
Accumulated other comprehensive income	9,267	75
Total shareholders' equity	5,148,530	5,149,629
Noncontrolling interest	720,232	726,195
Total equity	5,868,762	5,875,824
Total liabilities and equity	\$8,830,448	\$ 8,608,768

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

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American Homes 4 Rent
 Condensed Consolidated Statements of Operations
 (Amounts in thousands, except share and per share data)
 (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rents from single-family properties	\$227,211	\$ 204,648	\$445,234	\$ 405,755
Fees from single-family properties	2,754	2,690	5,587	5,294
Tenant charge-backs	32,917	27,382	68,724	55,755
Other	1,601	2,288	2,942	3,958
Total revenues	264,483	237,008	522,487	470,762
Expenses:				
Property operating expenses	98,843	85,954	199,830	169,259
Property management expenses	18,616	17,442	37,603	34,920
General and administrative expense	9,677	8,926	18,908	18,221
Interest expense	31,978	28,392	61,279	60,281
Acquisition fees and costs expensed	1,321	1,412	2,632	2,508
Depreciation and amortization	78,319	72,716	157,622	146,669
Other	1,624	1,359	2,451	2,917
Total expenses	240,378	216,201	480,325	434,775
Gain on sale of single-family properties and other, net	3,240	2,454	5,496	4,480
Loss on early extinguishment of debt	(1,447)	(6,555)	(1,447)	(6,555)
Remeasurement of participating preferred shares	—	(1,640)	1,212	(7,050)
Net income	25,898	15,066	47,423	26,862
Noncontrolling interest	(3,150)	(30)	(2,036)	(331)
Dividends on preferred shares	11,984	15,282	26,581	28,869
Redemption of participating preferred shares	32,215	—	32,215	—
Net loss attributable to common shareholders	\$(15,151)	\$(186)	\$(9,337)	\$(1,676)
Weighted-average shares outstanding basic and diluted	295,462,572	258,900,456	290,848,633	251,685,993
Net loss attributable to common shareholders per share basic and diluted	\$(0.05)	\$—	\$(0.03)	\$(0.01)
Dividends declared per common share	\$0.05	\$0.05	\$0.10	\$0.10

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

American Homes 4 Rent
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Amounts in thousands)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$25,898	\$15,066	\$47,423	\$26,862
Other comprehensive (loss) income:				
Gain on cash flow hedging instruments:				
Gain on settlement of cash flow hedging instrument	—	—	9,553	—
Reclassification adjustment for amortization of interest expense included in net income	(241)	—	(361)	(28)
Gain on investment in equity securities:				
Reclassification adjustment for realized gain included in net income	—	—	—	(67)
Other comprehensive (loss) income	(241)	—	9,192	(95)
Comprehensive income	25,657	15,066	56,615	26,767
Comprehensive loss attributable to noncontrolling interests	(3,209)	(31)	(566)	(314)
Dividends on preferred shares	11,984	15,282	26,581	28,869
Redemption of participating preferred shares	32,215	—	32,215	—
Comprehensive loss attributable to common shareholders	\$(15,333)	\$(185)	\$(1,615)	\$(1,788)

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

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American Homes 4 Rent
Condensed Consolidated Statement of Equity
(Amounts in thousands, except share data)
(Unaudited)

	Class A common shares		Class B common shares		Preferred shares	Additional	Accumulated	Accumulated	Other	Shareholders'	Non-
	Number of shares	Amount	Number of shares	Amount	Number of shares	paid-in capital	deficit	comprehensive income	equity	interest	
Balances at December 31, 2017	286,114,637	\$2,861	635,075	\$6	38,350,000	\$384	\$5,600,256	\$(453,953)	\$75	\$5,149,629	\$726
Share-based compensation	—	—	—	—	—	1,918	—	—	1,918	—	
Common stock issued under share-based compensation plans, net of shares withheld for employee taxes	223,858	2	—	—	—	2,658	—	—	2,660	—	
Redemption of Series C participating preferred shares into Class A common shares	10,848,827	109	—	—	(7,600,000)	(76)	60,440	(32,215)	—	28,258	—
Repurchase of Class A common shares	(1,804,163)	(18)	—	—	—	(34,951)	—	—	(34,969)	—	
Liquidation of consolidated joint venture	—	—	—	—	—	—	(1,849)	—	(1,849)	1,608	
Distributions to equity holders:											
Preferred shares	—	—	—	—	—	—	(26,581)	—	(26,581)	—	
Noncontrolling interests	—	—	—	—	—	—	—	—	—	(5,531)	
Common shares	—	—	—	—	—	—	(29,187)	—	(29,187)	—	

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Net income	—	—	—	—	—	—	—	49,459	—	49,459	(2,03
Total other comprehensive income	—	—	—	—	—	—	—	—	9,192	9,192	—
Balances at June 30, 2018	295,383,159	\$2,954	635,075	\$6	30,750,000	\$308	\$5,630,321	\$(494,326)	\$9,267	\$5,148,530	\$720

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

American Homes 4 Rent
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	For the Six Months Ended	
	June 30, 2018	2017
Operating activities		
Net income	\$ 47,423	\$ 26,862
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157,622	146,669
Noncash amortization of deferred financing costs	3,888	4,410
Noncash amortization of discounts on debt instruments	1,941	1,714
Noncash amortization of cash flow hedging instrument	(361)	—
Noncash share-based compensation	1,918	2,059
Provision for bad debt	3,616	2,843
Loss on early extinguishment of debt	1,447	6,555
Remeasurement of participating preferred shares	(1,212)	7,050
Equity in net earnings of unconsolidated ventures	(587)	(1,623)
Net gain on sale of single-family properties and other	(5,496)	(4,480)
Loss on impairment of single-family properties	2,236	2,487
Net gain on resolutions of mortgage loans	—	(16)
Other changes in operating assets and liabilities:		
Rent and other receivables	(5,522)	(4,497)
Prepaid expenses and other assets	(12,167)	(7,440)
Deferred leasing costs	(5,834)	(3,401)

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Accounts payable and accrued expenses	61,061		40,967
Amounts payable to affiliates	(8)	5,047
Net cash provided by operating activities	249,965		