

American Homes 4 Rent
Form 10-Q
May 03, 2019

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 March 31, 2019

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)

Title of each class Trading symbol Name of each exchange on which registered

Class A common shares of
beneficial interest, \$.01 par value AMH New York Stock Exchange

Edgar Filing: American Homes 4 Rent - Form 10-Q

Series D perpetual preferred shares of beneficial interest, \$.01 par value AMH-D New York Stock Exchange

Series E perpetual preferred shares of beneficial interest, \$.01 par value AMH-E New York Stock Exchange

Series F perpetual preferred shares of beneficial interest, \$.01 par value AMH-F New York Stock Exchange

Series G perpetual preferred shares of beneficial interest, \$.01 par value AMH-G New York Stock Exchange

Series H perpetual preferred shares of beneficial interest, \$.01 par value AMH-H New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files).

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 Smaller reporting company

Emerging growth company

American Homes 4 Rent, L.P.

Large accelerated filer Accelerated filer

Non-accelerated filer 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.

Edgar Filing: American Homes 4 Rent - Form 10-Q

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 299,082,222 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 April 30, 2019.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2019, 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 March 31, 2019, owned an approximate 84.4% common partnership interest in, the Operating Partnership. The remaining 15.6% 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, which was liquidated during the second quarter of 2018. 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.

American Homes 4 Rent
 American Homes 4 Rent, L.P.
 Form 10-Q
 INDEX

	Page
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	i
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>American Homes 4 Rent</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2019, and December 31, 2018</u>	1
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2019 and 2018</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2019 and 2018</u>	3
<u>Condensed Consolidated Statements of Equity for the three months ended March 31, 2019 and 2018</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	6
<u>American Homes 4 Rent, L.P.</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2019, and December 31, 2018</u>	8
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2019 and 2018</u>	9
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2019 and 2018</u>	10
<u>Condensed Consolidated Statements of Capital for the three months ended March 31, 2019 and 2018</u>	11
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	13
<u>American Homes 4 Rent and American Homes 4 Rent, L.P.</u>	
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	15
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42

<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>42</u>
<u>PART II OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>43</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>43</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>43</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>44</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>44</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>44</u>
	<u>Exhibit Index</u>	<u>45</u>
	<u>Signatures</u>	<u>47</u>

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this Quarterly Report on Form 10-Q of American Homes 4 Rent (“AH4R” or “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 and their 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, 2018, 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)

	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Single-family properties:		
Land	\$ 1,729,528	\$ 1,713,496
Buildings and improvements	7,561,372	7,483,600
	9,290,900	9,197,096
Less: accumulated depreciation	(1,250,323)	(1,176,499)
Single-family properties in operation, net	8,040,577	8,020,597
Single-family properties under development and development land	205,046	153,651
Single-family properties held for sale, net	297,317	318,327
Total real estate assets, net	8,542,940	8,492,575
Cash and cash equivalents	154,584	30,284
Restricted cash	158,163	144,930
Rent and other receivables, net	32,813	29,027
Escrow deposits, prepaid expenses and other assets	145,940	146,034
Deferred costs and other intangibles, net	10,653	12,686
Asset-backed securitization certificates	25,666	25,666
Goodwill	120,279	120,279
Total assets	\$9,191,038	\$ 9,001,481
Liabilities		
Revolving credit facility	\$—	\$ 250,000
Term loan facility, net	99,286	99,232
Asset-backed securitizations, net	1,957,200	1,961,511
Unsecured senior notes, net	887,439	492,800
Accounts payable and accrued expenses	266,797	219,229
Amounts payable to affiliates	4,944	4,967
Total liabilities	3,215,666	3,027,739
Commitments and contingencies		
Equity		
Shareholders' equity:		
Class A common shares, \$0.01 par value per share, 450,000,000 shares authorized, 296,592,376 and 296,014,546 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	2,966	2,960
Class B common shares, \$0.01 par value per share, 50,000,000 shares authorized, 635,075 shares issued and outstanding at March 31, 2019 and December 31, 2018	6	6
Preferred shares, \$0.01 par value per share, 100,000,000 shares authorized, 35,350,000 shares issued and outstanding at March 31, 2019 and December 31, 2018	354	354
Additional paid-in capital	5,739,162	5,732,466
Accumulated deficit	(489,820)	(491,214)

Edgar Filing: American Homes 4 Rent - Form 10-Q

Accumulated other comprehensive income	7,202	7,393
Total shareholders' equity	5,259,870	5,251,965
Noncontrolling interest	715,502	721,777
Total equity	5,975,372	5,973,742
Total liabilities and equity	\$9,191,038	\$9,001,481

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

1

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

	For the Three Months Ended March 31,	
	2019	2018
Revenues:		
Rents and other single-family property revenues	\$277,694	\$ 256,663
Other	1,510	1,341
Total revenues	279,204	258,004
Expenses:		
Property operating expenses	106,684	100,987
Property management expenses	20,709	18,987
General and administrative expense	9,435	9,231
Interest expense	31,915	29,301
Acquisition fees and costs expensed	834	1,311
Depreciation and amortization	81,161	79,303
Other	1,024	827
Total expenses	251,762	239,947
Gain on sale of single-family properties and other, net	5,649	2,256
Remeasurement of participating preferred shares	—	1,212
Net income	33,091	21,525
Noncontrolling interest	3,026	1,114
Dividends on preferred shares	13,782	14,597
Net income attributable to common shareholders	\$16,283	\$ 5,814
Weighted-average shares outstanding:		
Basic	296,833,758	286,183,429
Diluted	297,444,941	286,727,863
Net income attributable to common shareholders per share:		
Basic	\$0.05	\$ 0.02
Diluted	\$0.05	\$ 0.02

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 March 31,	
	2019	2018
Net income	\$33,091	\$21,525
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)	(120)
Other comprehensive (loss) income	(241)	9,433
Comprehensive income	32,850	30,958
Comprehensive income attributable to noncontrolling interests	2,988	2,643
Dividends on preferred shares	13,782	14,597
Comprehensive income attributable to common shareholders	\$16,080	\$13,718

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

Edgar Filing: American Homes 4 Rent - Form 10-Q

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

	Class A common shares		Class B common shares		Preferred shares	Additional	Accumulated	Accumulated other	Shareholders'	Noncontrolling	
	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	\$726,195
Share-based compensation	—	—	—	—	—	975	—	—	975	—	
Common stock issued under share-based compensation plans, net of shares withheld for employee taxes	59,187	1	—	—	—	(409)	—	—	(408)	—	
Repurchase of Class A common shares	(1,804,163)	(18)	—	—	—	(34,951)	—	—	(34,969)	—	
Distributions to equity holders:											
Preferred shares (Note 10)	—	—	—	—	—	—	(14,597)	—	(14,597)	—	
Noncontrolling interests	—	—	—	—	—	—	—	—	—	(2,768)	
Common shares (\$0.05 per share)	—	—	—	—	—	—	(14,365)	—	(14,365)	—	
Net income	—	—	—	—	—	—	20,411	—	20,411	1,114	
Total other comprehensive income	—	—	—	—	—	—	—	9,433	9,433	—	