

AVIV REIT, INC.  
Form 10-Q  
August 05, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2014**

**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 333-173824-103 (Aviv REIT, Inc.)**

**Commission file number 333-173824 (Aviv Healthcare Properties Limited Partnership)**

**AVIV REIT, INC.**

**AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP**

(Exact Name of Registrant as Specified in Its Charter)

Maryland (Aviv REIT, Inc.)

27-3200673 (Aviv REIT, Inc.)

Delaware (Aviv Healthcare Properties Limited

35-2249166 (Aviv Healthcare Properties Limited

Partnership)  
(State or Other Jurisdiction of

Partnership)  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

303 W. Madison Street, Suite 2400

Chicago, Illinois  
(Address of Principal Executive Offices)

60606  
(Zip Code)

Registrant's telephone number, including area code: (312) 855-0930

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. (Check one):

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

As of July 31, 2014, Aviv REIT, Inc. had 47,248,463 shares of common stock outstanding, \$0.01 par value per share. As of July 31, 2014, Aviv Healthcare Properties Limited Partnership had 11,416,426 OP units outstanding.



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**EXPLANATORY NOTE**

This combined Quarterly Report on Form 10-Q is being filed by Aviv REIT, Inc., or AVIV, and Aviv Healthcare Properties Limited Partnership, or the Partnership. Unless the context requires otherwise or except as otherwise noted, as used herein the words we, the Company, us and our refer to AVIV and AVIV's controlled subsidiaries and the Partnership and the Partnership's controlled subsidiaries collectively, as the operations of the two aforementioned entities are materially comparable for the periods presented.

AVIV is a real estate investment trust, or REIT, and the sole general partner of the Partnership. The Partnership's capital is comprised of units of beneficial interest, or OP units. As of June 30, 2014, AVIV owned 80.5% of the economic interest in the Partnership, with the remaining interest being owned by other investors. The other investors may redeem their OP units for cash or, at the election of AVIV, for shares of AVIV's common stock, on a one-for-one basis. As the sole general partner of the Partnership, AVIV has exclusive control of the Partnership's day-to-day management.

The Company believes combining the Quarterly Reports on Form 10-Q of AVIV and the Partnership into this single report provides the following benefits:

enhances investors' understanding of AVIV and the 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 because a substantial portion of the disclosure in this report applies to both AVIV and the Partnership; and

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

Management operates AVIV and the Partnership as one business. The management of AVIV consists of the same employees as the management of the Partnership.

The Company believes it is important for investors to understand the few differences between AVIV and the Partnership in the context of how AVIV and the Partnership operate as a consolidated company. AVIV is a REIT, whose only material asset is its ownership of OP units of the Partnership. As a result, AVIV does not conduct business itself, other than acting as the sole general partner of the Partnership, issuing public equity from time to time and guaranteeing unsecured debt of the Partnership. AVIV has not issued any indebtedness, but has guaranteed all of the unsecured debt of the Partnership. The Partnership indirectly holds all the real estate assets of the Company. Except for net proceeds from public equity issuances by AVIV, which are contributed to the Partnership in exchange for OP units, the Partnership generates all remaining capital required by the Company's business. The sources of the remaining capital include the operations of the Partnership's direct and indirect subsidiaries, its direct or indirect incurrence of indebtedness, and the issuance of OP units.

As general partner with control of the Partnership, AVIV consolidates the Partnership for financial reporting purposes. The presentation of stockholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of AVIV and those of the Partnership. The Partnership's capital consists of OP units that are owned by AVIV and the other investors. AVIV's stockholders' equity consists of common stock, additional paid in

capital and retained earnings (accumulated deficit). The OP units held by the other investors in the Partnership are presented as noncontrolling interests-operating partnership in AVIV's consolidated financial statements. There was no difference between the assets and liabilities or net income of AVIV and the Partnership as of and for the three and six month periods ended June 30, 2014.

In order to highlight the few differences between AVIV and the Partnership, there are sections in this report that discuss AVIV and the Partnership separately, including separate financial statements and controls and procedures sections. In the sections that combine disclosure for AVIV and the Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Partnership is generally the entity that enters into contracts, holds assets and issues debt, we believe that reference to the Company in this context is appropriate because the business is one enterprise and the Company operates the business through the Partnership.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****AVIV REIT, INC.****Consolidated Balance Sheets****(unaudited)****(in thousands except share data)**

	June 30, 2014	December 31, 2013
<b>Assets</b>		
Income producing property		
Land	\$ 159,238	\$ 138,150
Buildings and improvements	1,325,129	1,138,173
Assets under direct financing leases	11,234	11,175
	1,495,601	1,287,498
Less accumulated depreciation	(166,356)	(147,302)
Construction in progress and land held for development	19,273	23,292
Net real estate	1,348,518	1,163,488
Cash and cash equivalents	49,056	50,764
Straight-line rent receivable, net	42,274	40,580
Tenant receivables, net	2,516	1,647
Deferred finance costs, net	18,614	16,643
Secured loan receivables, net	36,736	41,686
Other assets	16,670	15,625
Total assets	\$ 1,514,384	\$ 1,330,433
<b>Liabilities and equity</b>		
Secured loan	\$ 13,537	\$ 13,654
Unsecured notes payable	652,527	652,752
Line of credit		20,000
Accrued interest payable	14,797	15,284
Dividends and distributions payable	21,077	17,694
Accounts payable and accrued expenses	11,101	10,555
Tenant security and escrow deposits	24,613	21,586
Other liabilities	10,296	10,463
Total liabilities	747,948	761,988



Equity:		
Stockholders' equity		
Common stock (par value \$0.01; 47,190,078 and 37,593,910 shares issued and outstanding, as of June 30, 2014 and December 31, 2013, respectively)	472	376
Additional paid-in-capital	721,297	523,658
Accumulated deficit	(104,788)	(89,742)
Total stockholders' equity	616,981	434,292
Noncontrolling interests - operating partnership	149,455	134,153
Total equity	766,436	568,445
Total liabilities and equity	\$ 1,514,384	\$ 1,330,433

*See accompanying notes.*

**Table of Contents****AVIV REIT, INC.****Consolidated Statements of Operations****(unaudited)****(in thousands except share and per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues</b>				
Rental income	\$ 41,440	\$ 33,874	\$ 81,862	\$ 67,514
Interest on secured loans and financing lease	1,076	1,082	2,162	2,141
Interest and other income	674	77	1,041	79
<b>Total revenues</b>	<b>43,190</b>	<b>35,033</b>	<b>85,065</b>	<b>69,734</b>
<b>Expenses</b>				
Interest expense incurred	11,991	8,578	24,112	21,022
Amortization of deferred financing costs	975	805	1,956	1,706
Depreciation and amortization	10,439	8,099	19,948	16,097
General and administrative	6,271	3,446	11,664	17,283
Transaction costs	1,048	460	2,593	696
Loss on impairment			862	
Reserve for uncollectible secured loans and other receivables	3,496	16	3,500	30
Loss (gain) on sale of assets, net	9	225	13	(39)
Loss on extinguishment of debt	501		501	10,974
<b>Total expenses</b>	<b>34,730</b>	<b>21,629</b>	<b>65,149</b>	<b>67,769</b>
<b>Net income</b>	<b>8,460</b>	<b>13,404</b>	<b>19,916</b>	<b>1,965</b>
Net income allocable to noncontrolling interests - operating partnership	(1,699)	(3,257)	(4,306)	(560)
<b>Net income allocable to common stockholders</b>	<b>\$ 6,761</b>	<b>\$ 10,147</b>	<b>\$ 15,610</b>	<b>\$ 1,405</b>
<b>Earnings per common share:</b>				
<b>Basic:</b>				
Net income allocable to common stockholders	\$ 0.15	\$ 0.27	\$ 0.37	\$ 0.05
<b>Diluted:</b>				
Net income allocable to common stockholders	\$ 0.14	\$ 0.26	\$ 0.36	\$ 0.04
<b>Weighted average common shares outstanding:</b>				

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Basic	45,745,874	37,271,273	41,728,111	29,937,107
Diluted	59,366,873	51,154,412	55,173,714	38,166,793
Dividends declared per common share	\$ 0.36	\$ 0.36	\$ 0.72	\$ 0.684

*See accompanying notes.*

**Table of Contents****AVIV REIT, INC.****Consolidated Statement of Changes in Equity****(unaudited)****(in thousands except share data)**

	Stockholders' Equity				Noncontrolling		
	Common Stock		Additional Paid-In- Capital	Accumulated Deficit	Total Stockholders Equity	Interests - Operating Partnership	Total Equity
	Shares	Amount					
Balance at January 1, 2014	37,593,910	\$ 376	\$ 523,658	\$ (89,742)	\$ 434,292	\$ 134,153	\$ 568,445
Non-cash stock-based compensation			2,632		2,632		2,632
Shares issued for settlement of vested stock and exercised stock options, net	223,197	2	3,051		3,053		3,053
Distributions to partners						(8,264)	(8,264)
Capital contributions						60	60
Proceeds from issuance of common stock	9,200,000	92	221,628		221,720		221,720
Cost of raising capital			(10,470)		(10,470)		(10,470)
Dividends to stockholders				(30,656)	(30,656)		(30,656)
Conversion of OP Units	172,971	2	1,990		1,992	(1,992)	
Adjustment of noncontrolling interests-operating partnership ownership			(21,192)		(21,192)	21,192	
Net income				15,610	15,610	4,306	19,916
Balance at June 30, 2014	47,190,078	\$ 472	\$ 721,297	\$ (104,788)	\$ 616,981	\$ 149,455	\$ 766,436

*See accompanying notes.*

**Table of Contents****AVIV REIT, INC.****Consolidated Statements of Cash Flows****(unaudited)****(in thousands)**

	Six Months Ended June 30,	
	2014	2013
<b>Operating activities</b>		
Net income	\$ 19,916	\$ 1,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,948	16,097
Amortization of deferred financing costs	1,956	1,706
Accretion of debt premium	(264)	(248)
Straight-line rental income, net	(1,694)	(4,224)
Rental income from intangible amortization, net	(407)	(732)
Non-cash stock-based compensation	2,632	10,392
Loss (gain) on sale of assets, net	13	(39)
Non-cash loss on extinguishment of debt	494	5,161
Loss on impairment	862	
Reserve for uncollectible secured loan and other receivables	3,500	30
Changes in assets and liabilities:		
Tenant receivables	(1,157)	(2,273)
Other assets	(1,251)	625
Accounts payable and accrued expenses	(3,180)	(2,915)
Tenant security deposits and other liabilities	3,479	(4,047)
Net cash provided by operating activities	44,847	21,498
<b>Investing activities</b>		
Purchase of real estate	(187,070)	(25,626)
Proceeds from sales of real estate	&nbs	