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 September 30, 2015
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 000-54673

KBS LEGACY PARTNERS APARTMENT REIT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**27-0668930**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
800 Newport Center Drive, Suite 700 **Newport Beach, California**	**92660**
(Address of Principal Executive Offices)	(Zip Code)

(949) 417-6500
(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 website, 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 November 9, 2015, there were 20,473,365 outstanding shares of common stock of KBS Legacy Partners Apartment REIT, Inc.

KBS LEGACY PARTNERS APARTMENT REIT, INC.

FORM 10-Q

September 30, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Real estate:		
Land	$ 46,828	$ 46,828
Buildings and improvements	365,137	363,379
Total real estate, cost	411,965	410,207
Less accumulated depreciation and amortization	(33,200)	(24,344)
Total real estate, net	378,765	385,863
Cash and cash equivalents	20,706	23,878
Restricted cash	4,260	4,570
Deferred financing costs, prepaid expenses and other assets	6,613	6,923
Total assets	$ 410,344	$ 421,234
Liabilities and stockholders' equity		
Notes payable, net	$ 287,138	$ 291,214
Accounts payable and accrued liabilities	4,628	5,281
Due to affiliates	5,058	4,797
Distributions payable	1,088	1,109
Other liabilities	1,909	1,570
Total liabilities	299,821	303,971
Commitments and contingencies (Note 7)		
Redeemable common stock	1,626	1,539
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 1,000,000,000 shares authorized, 20,373,543 and 20,084,830 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	204	201
Additional paid-in capital	174,736	172,448
Cumulative distributions and net losses	(66,043)	(56,925)
Total stockholders' equity	108,897	115,724
Total liabilities and stockholders' equity	$ 410,344	$ 421,234

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rental income	$ 11,330	$ 10,909	$ 33,570	$ 31,349
Total revenues	11,330	10,909	33,570	31,349
Expenses:				
Operating, maintenance, and management	1,915	2,950	6,914	8,282
Real estate taxes and insurance	1,487	1,470	4,509	4,324
Asset management fees to affiliate	144	670	687	1,917
Property management fees and expenses to affiliate	1,368	73	2,136	207
Real estate acquisition fees to affiliate	—	—	—	701
Real estate acquisition fees and expenses	—	—	—	264
General and administrative expenses	485	556	1,697	1,803
Depreciation and amortization	3,036	3,107	9,056	9,603
Interest expense	2,636	2,644	7,879	7,581
Total expenses	11,071	11,470	32,878	34,682
Other income:				
Interest and other income	4	61	13	72
Net income (loss)	$ 263	$ (500)	$ 705	$ (3,261)
Net income (loss) per common share, basic and diluted	$ 0.01	$ (0.03)	$ 0.03	$ (0.16)
Weighted-average number of common shares outstanding, basic and diluted	20,322,618	19,953,306	20,206,023	19,788,480

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Year Ended December 31, 2014 and the Nine Months Ended September 30, 2015 (unaudited)

(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Cumulative Distributions and Net Income (Loss)	Total Stockholders' Equity
	Shares	Amounts			
Balance, December 31, 2013	19,196,501	$ 192	$ 161,328	$ (40,460)	$ 121,060
Issuance of common stock	1,081,474	11	11,239	—	11,250
Redemptions of common stock	(193,145)	(2)	(1,851)	—	(1,853)
Transfers from redeemable common stock	—	—	2,888	—	2,888
Distributions declared	—	—	—	(12,905)	(12,905)
Commissions on stock sales and related dealer manager fees to affiliates	—	—	(536)	—	(536)
Other offering costs	—	—	(620)	—	(620)
Net loss	—	—	—	(3,560)	(3,560)
Balance, December 31, 2014	20,084,830	201	172,448	(56,925)	115,724
Issuance of common stock	445,902	4	4,294	—	4,298
Redemptions of common stock	(157,189)	(1)	(1,549)	—	(1,550)
Transfers to redeemable common stock	—	—	(450)	—	(450)
Distributions declared	—	—	—	(9,823)	(9,823)
Other offering costs	—	—	(7)	—	(7)
Net income	—	—	—	705	705
Balance, September 30, 2015	20,373,543	$ 204	$ 174,736	$ (66,043)	$ 108,897

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income (loss)	$ 705	$ (3,261)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,056	9,603
Bad debt expense	351	285
Loss due to property damages	78	576
Amortization of discount and premium on notes payable, net	65	57
Amortization of deferred financing costs	311	311
Changes in operating assets and liabilities:		
Restricted cash for operational expenditures	310	(421)
Prepaid expenses and other assets	(949)	(733)
Accounts payable and accrued liabilities	(744)	96
Due to affiliates	261	1,826
Other liabilities	(24)	134
Net cash provided by operating activities	9,420	8,473
Cash Flows from Investing Activities:		
Acquisitions of real estate	—	(13,141)
Improvements to real estate	(1,745)	(3,865)
Restricted cash for capital expenditures	—	539
Insurance proceeds received for property damages	397	—
Net cash used in investing activities	(1,348)	(16,467)
Cash Flows from Financing Activities:		
Principal payments on mortgage notes payable	(4,141)	(2,733)
Payments of deferred financing costs	—	(90)
Proceeds from issuance of common stock	—	5,785
Payments to redeem common stock	(1,550)	(1,642)
Payments of commissions on stock sales and related dealer manager fees	—	(536)
Payments of other offering costs	(7)	(335)
Reimbursements of other offering costs from affiliates	—	745
Distributions paid	(5,546)	(5,426)
Net cash used in financing activities	(11,244)	(4,232)
Net decrease in cash and cash equivalents	(3,172)	(12,226)
Cash and cash equivalents, beginning of period	23,878	36,698
Cash and cash equivalents, end of period	$ 20,706	$ 24,472
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 7,534	$ 7,072
Supplemental Disclosure of Noncash Transactions:		
Distributions paid to common stockholders through common stock issuances pursuant to the dividend reinvestment plan	$ 4,298	$ 4,180
Mortgage debt assumed in connection with real estate acquisitions at fair value	$ —	$ 52,268
Application of escrow deposits to purchase real estate	$ —	$ 1,500
Increase in redeemable common stock payable	$ 363	$ 322
Increase in distributions payable	$ —	$ 14

See accompanying condensed notes to consolidated financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

(unaudited)

1. ORGANIZATION

KBS Legacy Partners Apartment REIT, Inc. (the "Company") was formed on July 31, 2009 as a Maryland corporation that elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2010. Substantially all of the Company's business is conducted through KBS Legacy Partners Limited Partnership (the "Operating Partnership"), a Delaware limited partnership formed on August 4, 2009. The Company is the sole general partner of and owns a 0.1% partnership interest in the Operating Partnership. KBS Legacy Partners Holdings LLC ("REIT Holdings"), a Delaware limited liability company formed on August 4, 2009, owns the remaining 99.9% interest in the Operating Partnership and is its sole limited partner. The Company is the sole member and manager of REIT Holdings.

Subject to certain restrictions and limitations, the business of the Company is externally managed by KBS Capital Advisors LLC (the "Advisor"), an affiliate of the Company, pursuant to an advisory agreement the Company renewed with the Advisor on January 25, 2015 (the "Advisory Agreement").

On August 7, 2009, the Company issued 20,000 shares of its common stock to KBS-Legacy Apartment Community REIT Venture, LLC (the "Sub-Advisor"), an affiliate of the Company, at a purchase price of $10.00 per share. As of September 30, 2015, the Sub-Advisor owned 20,000 shares of common stock of the Company.

The Company has invested in and manages a portfolio of high quality apartment communities located throughout the United States. The Company's portfolio consists of "core" apartment buildings that were already well-positioned and producing rental income at acquisition. As of September 30, 2015, the Company owned 11 apartment complexes.

On August 19, 2009, the Company filed a registration statement on Form S-11 with the Securities and Exchange Commission (the "SEC") to offer a minimum of 250,000 shares and a maximum of 280,000,000 shares of common stock for sale to the public (the "Initial Offering"), of which 80,000,000 shares would be offered pursuant to the Company's dividend reinvestment plan.

The SEC declared the Company's registration statement for the Initial Offering effective on March 12, 2010, and the Company retained KBS Capital Markets Group LLC (the "Dealer Manager"), an affiliate of the Company, to serve as the dealer manager for the Initial Offering pursuant to a dealer manager agreement dated March 12, 2010 (the "Initial Dealer Manager Agreement"). Under the Initial Dealer Manager Agreement, the Dealer Manager was responsible for marketing the Company's shares being offered pursuant to the Initial Offering.

On May 31, 2012, the Company filed a registration statement on Form S-11 with the SEC to register a follow-on public offering (the "Follow-on Offering" and together with the Initial Offering, the "Offerings"). Pursuant to the registration statement, as amended, the Company registered up to an additional $2,000,000,000 of shares of common stock for sale to the public and up to an additional $760,000,000 of shares of common stock pursuant to the dividend reinvestment plan. The SEC declared the Company's registration statement for the Follow-on Offering effective on March 8, 2013.

The Company retained the Dealer Manager to serve as the dealer manager for the Follow-on Offering pursuant to a dealer manager agreement dated March 8, 2013 (the "Follow-on Dealer Manager Agreement" and together with the Initial Dealer Manager Agreement, the "Dealer Manager Agreements"). On March 12, 2013, the Company ceased offering shares pursuant to the Initial Offering and on March 13, 2013, the Company commenced offering shares to the public pursuant to the Follow-on Offering.

In the Initial Offering, the Company sold 18,088,084 shares of common stock for gross offering proceeds of $179.2 million, including 368,872 shares of common stock under the dividend reinvestment plan for gross offering proceeds of $3.5 million. The Company ceased offering shares in the primary Follow-on Offering on March 31, 2014 and completed subscription processing procedures on April 30, 2014. The Company sold 1,496,198 shares of common stock in the primary Follow-on Offering for gross offering proceeds of $15.9 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

As of September 30, 2015, the Company had sold an aggregate of 20,948,181 shares of common stock in the Offerings for gross offering proceeds of $208.7 million, including an aggregate of 1,732,771 shares of common stock under the dividend reinvestment plan for gross offering proceeds of $17.2 million. Also, as of September 30, 2015, the Company had redeemed 594,638 shares sold in the Offerings for $5.7 million.

The Company continues to offer shares of common stock under the dividend reinvestment plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2014. For further information about the Company's accounting policies, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements and condensed notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as contained within the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and the rules and regulations of the SEC, including the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the financial statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair and consistent presentation of the results for such periods. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The consolidated financial statements include the accounts of the Company, REIT Holdings, the Operating Partnership and their direct and indirect wholly owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements and condensed notes thereto in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

Reclassifications

Certain amounts in the Company's prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

Segments

The Company had invested in 11 apartment complexes as of September 30, 2015. Substantially all of the Company's revenue and net income (loss) is from real estate, and therefore, the Company currently operates in one reportable segment.

Per Share Data

Basic net income (loss) per share of common stock is calculated by dividing net income (loss) by the weighted-average number of shares of common stock issued and outstanding during such period. Diluted net income (loss) per share of common stock equals basic net income (loss) per share of common stock as there were no potentially dilutive securities outstanding during the nine months ended September 30, 2015 and 2014.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

Distributions declared per common share were $0.164 and $0.486 for the three and nine months ended September 30, 2015, respectively, and $0.164 and $0.486 for the three and nine months ended September 30, 2014, respectively. Distributions declared per common share assumes each share was issued and outstanding each day during the three and nine months ended September 30, 2015 and 2014. For the three and nine months ended September 30, 2015 and 2014, distributions were based on daily record dates and calculated at a rate of $0.00178082 per share per day. Each day during the periods from January 1, 2014 through September 30, 2014 and January 1, 2015 through September 30, 2015 was a record date for distributions.

Recently Issued Accounting Standards Update

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09"). ASU No. 2014-09 requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU No. 2014-09 supersedes the revenue requirements in *Revenue Recognition (Topic 605)* and most industry-specific guidance throughout the Industry Topics of the Codification. ASU No. 2014-09 does not apply to lease contracts within the scope of *Leases (Topic 840)*. ASU No. 2014-09 was to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU No. 2015-14"), which defers the effective date of ASU No. 2014-09 by one year. Early adoption is permitted but not before the original effective date. The Company is still evaluating the impact of adopting ASU No. 2014-09 on its financial statements, but does not expect the adoption of ASU No. 2014-09 to have a material impact on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements (Subtopic 205-40)*, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU No. 2014-15"). The amendments in ASU No. 2014-15 require management to evaluate, for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or are available to be issued when applicable) and, if so, provide related disclosures. ASU No. 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect the adoption of ASU No. 2014-15 to have a significant impact on its financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* ("ASU No. 2015-01"). The amendments in ASU No. 2015-01 eliminate from GAAP the concept of extraordinary items. Although the amendments will eliminate the requirements in Subtopic 225-20 for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. ASU No. 2015-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU No. 2015-01 to have a significant impact on its financial statements.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs* ("ASU No. 2015-03"). The amendments in ASU No. 2015-03 require debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. ASU No. 2015-03 is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. Given the absence of authoritative guidance within ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, in August 2015, the FASB issued ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU No. 2015-15"), which clarifies ASU No. 2015-03 by stating that the staff of the SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU No. 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 and is to be applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU No. 2015-03 would change the presentation of debt issuance costs, as the Company presents debt issuance costs as deferred financing costs, prepaid expenses and other assets on the accompanying consolidated balance sheets.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments* ("ASU No. 2015-16"). The amendments in ASU No. 2015-16 require that in a business combination, an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU No. 2015-16 is effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years and is to be applied prospectively. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU No. 2015-16 to have a significant impact on its financial statements.

3. REAL ESTATE

As of September 30, 2015, the Company owned 11 apartment complexes, containing 3,039 units and encompassing 3.1 million rentable square feet, which were 94% occupied. The following table provides summary information regarding the properties owned by the Company as of September 30, 2015 (dollars in thousands):

Property Name	Date Acquired	Location	Total Real Estate, Cost	Accumulated Depreciation and Amortization	Total Real Estate, Net
Legacy at Valley Ranch	10/26/2010	Irving, TX	$ 36,646	$ (4,621)	$ 32,025
Poplar Creek	02/09/2012	Schaumburg, IL	27,091	(2,188)	24,903
The Residence at Waterstone	04/06/2012	Pikesville, MD	64,957	(5,645)	59,312
Legacy Crescent Park	05/03/2012	Greer, SC	20,611	(2,103)	18,508
Legacy at Martin's Point	05/31/2012	Lombard, IL	37,252	(3,851)	33,401
Wesley Village	11/06/2012	Charlotte, NC	44,312	(3,433)	40,879
Watertower Apartments	01/15/2013	Eden Prairie, MN	38,592	(2,880)	35,712
Crystal Park at Waterford	05/08/2013	Frederick, MD	45,893	(3,283)	42,610
Millennium Apartment Homes	06/07/2013	Greenville, SC	33,174	(2,338)	30,836
Legacy Grand at Concord	02/18/2014	Concord, NC	27,728	(1,321)	26,407
Lofts at the Highlands	02/25/2014	St. Louis, MO	35,709	(1,537)	34,172
			$ 411,965	$ (33,200)	$ 378,765

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

Additionally, as of September 30, 2015 and December 31, 2014, the Company had recorded unamortized tax abatement intangible assets, which are included in deferred financing costs, prepaid expenses and other assets in the accompanying balance sheets, of $3.2 million and $3.4 million, respectively. During the three and nine months ended September 30, 2015, the Company recorded amortization expense of $65,000 and $0.2 million, respectively, related to tax abatement intangible assets. During the three and nine months ended September 30, 2014, the Company recorded amortization expense of $65,000 and $0.2 million, respectively, related to tax abatement intangible assets.

Property Damage

During the nine months ended September 30, 2015, one of the Company's apartment complexes suffered physical damage due to storms. The Company's insurance policies provide coverage for property damage and business interruption subject to a deductible of up to $25,000 per incident. The Company recognized a loss due to damage of $78,000 during the nine months ended September 30, 2015, which was reduced by a $53,000 insurance recovery related to such damage. The net loss due to damage of $25,000 during the nine months ended September 30, 2015 was classified as operating, maintenance and management expenses on the accompanying consolidated statements of operations and relates to the Company's insurance deductible.

4. NOTES PAYABLE

As of September 30, 2015 and December 31, 2014, the Company's notes payable consisted of the following (dollars in thousands):

	Principal as of September 30, 2015	Principal as of December 31, 2014	Contractual Interest Rate as of September 30, 2015	Payment Type	Maturity Date
Legacy at Valley Ranch Mortgage Loan	$ 31,701	$ 32,131	3.9%	Principal & Interest	04/01/2019
Poplar Creek Mortgage Loan	19,876	20,143	4.0%	Principal & Interest	03/01/2019
The Residence at Waterstone Mortgage Loan	46,772	47,419	3.8%	Principal & Interest	05/01/2019
Legacy Crescent Park Mortgage Loan	13,931	14,146	3.5%	Principal & Interest	06/01/2019
Legacy at Martin's Point Mortgage Loan	22,445	22,781	3.3%	Principal & Interest	06/01/2019
Wesley Village Mortgage Loan	27,740	28,253	2.6%	Principal & Interest	12/01/2017
Watertower Mortgage Loan	24,669	25,000	2.5%	Principal & Interest	02/10/2018
Crystal Park Mortgage Loan	27,882	28,391	2.5%	Principal & Interest	06/01/2018
Millennium Mortgage Loan	20,812	21,175	2.7%	Principal & Interest	07/01/2018
Legacy Grand at Concord Mortgage Loan	22,766	22,981	4.1%	Principal & Interest	12/01/2050
Lofts at the Highlands Mortgage Loan	31,296	31,611	3.4%	Principal & Interest	08/01/2052
Total notes payable principal outstanding	$ 289,890	$ 294,031			
Discount on note payable, net	(2,752)	(2,817)			
Total notes payable, net	$ 287,138	$ 291,214			

As of September 30, 2015 and December 31, 2014, the Company's deferred financing costs were $1.3 million and $1.6 million, respectively, net of amortization, and are included in deferred financing costs, prepaid expenses and other assets on the accompanying consolidated balance sheets.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

During the three and nine months ended September 30, 2015, the Company incurred $2.6 million and $7.9 million of interest expense, respectively. During the three and nine months ended September 30, 2014, the Company incurred $2.6 million and $7.6 million of interest expense, respectively. Included in interest expense for the three and nine months ended September 30, 2015 were $0.1 million and $0.3 million of amortization of deferred financing costs, respectively. Included in interest expense for the three and nine months ended September 30, 2014 were $0.1 million and $0.3 million of amortization of deferred financing costs, respectively. Also included in interest expense for the three and nine months ended September 30, 2015 were $22,000 and $65,000 of amortization of discount on a note payable, respectively, and $22,000 and $57,000 of amortization of discount on a note payable for the three and nine months ended September 30, 2014, respectively. As of September 30, 2015 and December 31, 2014, the Company recorded interest payable of $0.8 million and $0.9 million, respectively.

The following is a schedule of maturities, including principal amortization payments, for the Company's notes payable outstanding as of September 30, 2015 (in thousands):

October 1, 2015 through December 31, 2015	$	1,441
2016		5,844
2017		32,196
2018		72,958
2019		126,682
Thereafter		50,769
	$	289,890

5. FAIR VALUE DISCLOSURES

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate loans receivable and long-lived assets). Fair value, as defined under GAAP, is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3: prices or valuation techniques where little or no market data is available that requires inputs that are both significant to the fair value measurement and unobservable.

The fair value for certain financial instruments is derived using valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available and for which markets contain orderly transactions will generally have a higher degree of price transparency than financial instruments for which markets are inactive or consist of non-orderly trades. The Company evaluates several factors when determining if a market is inactive or when market transactions are not orderly. The following is a summary of the methods and assumptions used by management in estimating the fair value of each class of financial instrument for which it is practicable to estimate the fair value:

Cash and cash equivalents, restricted cash, and accounts payable and accrued liabilities: These balances approximate their fair values due to the short maturities of these items.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

Notes payable: The fair value of the Company's notes payable is estimated using a discounted cash flow analysis based on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio, type of collateral and other credit enhancements. Additionally, when determining the fair value of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available, the Company measures fair value using (i) a valuation technique that uses the quoted price of the identical liability when traded as an asset or quoted prices for similar liabilities or similar liabilities when traded as assets or (ii) another valuation technique that is consistent with the principles of fair value measurement, such as the income approach or the market approach. The Company classifies these inputs as Level 3 inputs.

The following were the face value, carrying amount and fair value of the Company's notes payable as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			December 31, 2014		
	Face Value	Carrying Amount	Fair Value	Face Value	Carrying Amount	Fair Value
Financial liabilities:						
Notes payable	$ 289,890	$ 287,138	$ 290,329	$ 294,031	$ 291,214	$ 296,581

Disclosure of the fair values of financial instruments is based on pertinent information available to the Company as of the period end and requires a significant amount of judgment. Despite increased capital market and credit market activity, transaction volume for certain financial instruments remains relatively low. This has made the estimation of fair values difficult and, therefore, both the actual results and the Company's estimate of value at a future date could be materially different.

6. RELATED PARTY TRANSACTIONS

The Company has entered into the Advisory Agreement with the Advisor and the Dealer Manager Agreements with the Dealer Manager. These agreements entitled the Advisor and/or the Dealer Manager to specified fees upon the provision of certain services with regard to the Offerings and entitle the Advisor to specified fees upon the provision of certain services with regard to the management of the Company's real estate properties, among other services, as well as reimbursement of organization and offering costs incurred by the Advisor and the Dealer Manager on behalf of the Company, such as expenses related to the dividend reinvestment plan, and certain costs incurred by the Advisor in providing services to the Company. The Company has also entered into a fee reimbursement agreement with the Dealer Manager pursuant to which the Company agreed to reimburse the Dealer Manager for certain fees and expenses it incurs for administering the Company's participation in the DTCC Alternative Investment Product Platform with respect to certain accounts of the Company's investors serviced through the platform. The Advisor and Dealer Manager also serve as the advisor and dealer manager, respectively, for KBS Real Estate Investment Trust, Inc., KBS Real Estate Investment Trust II, Inc., KBS Real Estate Investment Trust III, Inc., KBS Strategic Opportunity REIT, Inc., KBS Strategic Opportunity REIT II, Inc. and KBS Growth & Income REIT, Inc.

On January 6, 2014, the Company, together with KBS Real Estate Investment Trust, Inc., KBS Real Estate Investment Trust II, Inc., KBS Real Estate Investment Trust III, Inc., KBS Strategic Opportunity REIT, Inc., KBS Strategic Opportunity REIT II, Inc., the Dealer Manager, the Advisor and other KBS-affiliated entities, entered into an errors and omissions and directors and officers liability insurance program where the lower tiers of such insurance coverage are shared. The cost of these lower tiers is allocated by the Advisor and its insurance broker among each of the various entities covered by the program, and is billed directly to each entity. The allocation of these shared coverage costs is proportionate to the pricing by the insurance marketplace for the first tiers of directors and officers liability coverage purchased individually by each REIT. The Advisor's and the Dealer Manager's portion of the shared lower tiers' cost is proportionate to the respective entities' prior cost for the errors and omissions insurance. In June 2015, KBS Growth & Income REIT, Inc. was added to the insurance program at terms similar to those described above.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

During the three and nine months ended September 30, 2015 and 2014, no other business transactions occurred between the Company and KBS Real Estate Investment Trust, Inc., KBS Real Estate Investment Trust II, Inc., KBS Real Estate Investment Trust III, Inc., KBS Strategic Opportunity REIT, Inc., KBS Strategic Opportunity REIT II, Inc. and KBS Growth & Income REIT, Inc.

Pursuant to the terms of these agreements and the property management agreements discussed below, summarized below are the related-party costs incurred by the Company for the three and nine months ended September 30, 2015 and 2014, respectively, and any related amounts payable as of September 30, 2015 and December 31, 2014 (in thousands):

	Incurred				Payable as of	
	Three Months Ended September 30,		Nine Months Ended September 30,		September 30,	December 31,
	2015	2014	2015	2014	2015	2014
Expensed						
Asset management fees [1]	$ 144	$ 670	$ 687	$ 1,917	$ 4,877	$ 4,752
Reimbursable operating expenses [2]	58	71	264	360	1	45
Acquisition fees on real properties	—	—	—	701	—	—
Property management fees and expenses [3]	1,368	73	2,136	207	180	—
Additional Paid-in Capital						
Selling commissions	—	—	—	363	—	—
Dealer manager fees	—	—	—	173	—	—
Reimbursable other offering costs [4]	—	—	—	59	—	—
	$ 1,570	$ 814	$ 3,087	$ 3,780	$ 5,058	$ 4,797

[1] See "Advisory Agreement – Asset Management Fees" below.

[2] Reimbursable operating expenses primarily consists of marketing research costs and property pursuit costs incurred by the Sub-Advisor. In addition, the Advisor may seek reimbursement for certain employee costs under the Advisory Agreement. Beginning July 1, 2010, the Company has reimbursed the Advisor for the Company's allocable portion of the salaries, benefits and overhead of internal audit department personnel providing services to the Company. These amounts totaled $44,000 and $29,000 for the three months ended September 30, 2015 and 2014, respectively, and $92,000 and $82,000 for the nine months ended September 30, 2015 and 2014, respectively, and were the only employee costs reimbursable under the Advisory Agreement through September 30, 2015. The Company does not reimburse for employee costs in connection with services for which the Advisor earns acquisition or disposition fees (other than reimbursement of travel and communication expenses) or for the salaries or benefits the Advisor or its affiliates may pay to the Company's executive officers.

[3] Property management fees and expenses consist of property management fees paid to Legacy Partners Residential Inc. ("LPR Inc."), an affiliate of the Sub-Advisor, as well as reimbursable on-site personnel salary and related benefits expenses at the properties. See "— Property Management — Account Services Agreements."

[4] See "— Other Offering Costs Related to Follow-on Offering."

In connection with the Offering, the Company's sponsors agreed to provide additional indemnification to one of the participating broker dealers. The Company agreed to add supplemental coverage to its directors' and officers' insurance coverage to insure the sponsors' obligations under this indemnification agreement in exchange for reimbursement by the sponsors to the Company for all costs, expenses and premiums related to this supplemental coverage. During the nine months ended September 30, 2015, the Advisor incurred $61,000 for the costs of the supplemental coverage obtained by the Company.

Other Offering Costs Related to Follow-on Offering

The offering costs related to the Follow-on Offering (other than selling commissions and dealer manager fees) were either paid directly by the Company or in some instances paid by the Advisor, the Dealer Manager or their affiliates on the Company's behalf. Offering costs include all expenses in connection with an offering and are charged as incurred as a reduction to stockholders' equity.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

Pursuant to the Advisory Agreement and the Follow-on Dealer Manager Agreement, the Company is obligated to reimburse the Advisor, the Dealer Manager or their affiliates, as applicable, for offering costs paid by them on the Company's behalf. However, at the termination of the primary Follow-on Offering and at the termination of the offering under the Company's dividend reinvestment plan, the Advisor agreed to reimburse the Company to the extent that selling commissions, dealer manager fees and other offering costs incurred by the Company exceed 15% of the gross offering proceeds. Further, the Company is only liable to reimburse offering costs incurred by the Advisor up to an amount that, when combined with selling commissions, dealer manager fees and all other amounts spent by the Company on offering expenses, does not exceed 15% of the gross proceeds of the primary Follow-on Offering and the offering under the Company's dividend reinvestment plan as of the date of reimbursement. Within 30 days after the end of the month in which the Company's primary Follow-on Offering terminates, the Dealer Manager must reimburse the Company to the extent that the Company's reimbursements to the Dealer Manager and payment of selling commissions and dealer manager fees cause total underwriting compensation for the Company's primary Follow-on Offering to exceed 10% of the gross offering proceeds from the primary Follow-on Offering.

The Company ceased offering shares in the primary Follow-on Offering on March 31, 2014 and completed subscription processing procedures on April 30, 2014. Through April 30, 2014, the Company sold an aggregate of 2,051,925 shares of common stock in the Follow-on Offering for gross offering proceeds of $21.5 million, including 555,727 shares under the dividend reinvestment plan for proceeds of $5.7 million. Total offering expenses in the Follow-on Offering were $4.2 million, including $1.8 million in underwriting compensation (which includes selling commissions, dealer manager fees and any other items viewed as underwriting compensation by the Financial Industry Regulatory Authority). After reimbursements from the Advisor and the Dealer Manager, the Company incurred offering expenses of $3.2 million in the Follow-on Offering (representing 15.0% of gross offering proceeds), which includes underwriting compensation of $1.6 million (representing 9.9% of primary Follow-on Offering proceeds). Including the reimbursements to the Company, the Dealer Manager incurred underwriting expenses of $0.2 million in the Follow-on Offering. In addition, because of the aggregate underwriting compensation incurred in the Follow-on Offering, on August 20, 2014, the Dealer Manager made a payment to the Company of $55,000.

Advisory Agreement - Asset Management Fee

Pursuant to the Advisory Agreement, the asset management fee payable by the Company to the Advisor with respect to investments in real estate is a monthly fee equal to the lesser of one-twelfth of (i) 1.0% of the amount paid or allocated to fund the acquisition, development, construction or improvement of the property (whether at or subsequent to acquisition), including acquisition expenses and budgeted capital improvement costs (regardless of the level of debt used to finance the investment), and (ii) 2.0% of the amount paid or allocated to fund the acquisition, development, construction or improvement of the property (whether at or subsequent to acquisition), including acquisition expenses and budgeted capital improvement costs, less any debt used to finance the investment.

The Advisory Agreement defers the Company's obligation to pay asset management fees, without interest, accruing from February 1, 2013 through July 31, 2013. The Company will only be obligated to pay the Advisor such deferred amounts if and to the extent that the Company's funds from operations, as such term is defined by the National Association of Real Estate Investment Trusts and interpreted by the Company, as adjusted for the effects of straight-line rents and acquisition costs and expenses ("AFFO") for the immediately preceding month exceeds the amount of distributions declared for record dates of such prior month (an "AFFO Surplus"). The amount of any AFFO Surplus in a given month shall be applied first to pay to the Advisor asset management fees currently due with respect to such month (including any that would otherwise have been deferred for that month in accordance with the Advisory Agreement) and then to pay asset management fees previously deferred by the Advisor in accordance with the Advisory Agreement that remain unpaid. As of September 30, 2015, the Company had accrued and deferred payment of $1.5 million of asset management fees for February 2013 through July 2013 under the Advisory Agreement, as the Company believed the payment of this amount to the Advisor was considered probable at the time it was recorded. These fees will be reimbursed in accordance with the terms noted above.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

In addition, the Advisory Agreement defers without interest under certain circumstances, the Company's obligation to pay asset management fees accruing from August 1, 2013. Specifically, the Advisory Agreement defers the Company's obligation to pay an asset management fee for any month in which the Company's modified funds from operations ("MFFO") for such month, as such term is defined in the practice guideline issued by the Investment Program Association ("IPA") in November 2010 and interpreted by the Company, excluding asset management fees, does not exceed the amount of distributions declared by the Company for record dates of that month. The Company remains obligated to pay the Advisor an asset management fee in any month in which the Company's MFFO, excluding asset management fees, for such month exceeds the amount of distributions declared for the record dates of that month (such excess amount, an "MFFO Surplus"); however, any amount of such asset management fee in excess of the MFFO Surplus is also deferred under the Advisory Agreement. If the MFFO Surplus for any month exceeds the amount of the asset management fee payable for such month, any remaining MFFO Surplus will not be applied to pay asset management fee amounts previously deferred by the Advisor in accordance with the Advisory Agreement. As of December 31, 2014, the Company had accrued and deferred payment of $3.3 million of asset management fees for August 2013 through December 2014 under the Advisory Agreement, as the Company believed the payment of this amount to the Advisor was considered probable at the time it was recorded. These fees will be reimbursed in accordance with the terms noted above. During the nine months ended September 30, 2015, the Company incurred $2.1 million of asset management fees. However, the Company only recorded $0.7 million pursuant to the limitations in the Advisory Agreement as noted above. The Company did not accrue the remaining $1.4 million of these deferred asset management fees as it is uncertain whether any of these amounts will be paid in the future.

However, notwithstanding any of the foregoing, any and all deferred asset management fees shall be immediately due and payable at such time as the Company's stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to the Company's share redemption plan, and (ii) an 8.0% per year cumulative, non-compounded return on such net invested capital (the "Stockholders' 8% Return"). The Stockholders' 8% Return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of the Company's stockholders to have received any minimum return in order for the Advisor to receive deferred asset management fees.

Property Management — Account Services Agreements

In connection with certain of its property acquisitions, the Company, through separate indirect wholly owned subsidiaries, entered into separate Property Management — Account Services Agreements (each, a "Services Agreement") with Legacy Partners Residential L.P. ("LPR"), an affiliate of the Sub-Advisor, pursuant to which LPR provided certain account maintenance and bookkeeping services related to these properties. Under each Services Agreement, the Company paid LPR a monthly fee in an amount equal to 1% of each property's gross monthly collections. Unless otherwise provided for in an approved operating budget for a property, LPR was responsible for all expenses that it incurred in rendering services pursuant to each Services Agreement. Each Services Agreement had an initial term of one year and continued thereafter on a month-to-month basis unless either party gave 30 days' prior written notice of its desire to terminate the Services Agreement. Notwithstanding the foregoing, the Company had the right to terminate each Services Agreement at any time without cause upon 30 days' prior written notice to LPR. As described below, as of June 9, 2015, each of the Services Agreements had been terminated.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

During the nine months ended September 30, 2015, the Company, through indirect wholly owned subsidiaries (each, a "Property Owner"), entered into property management agreements with LPR Inc. (each, a "Property Management Agreement"), pursuant to which LPR Inc. will provide, among other services, general property management services, including bookkeeping and accounting services, construction management services and budgeting and business plans for the Company's properties as follows:

Property Name	Effective Date	Management Fee Percentage
Watertower Apartments	04/07/2015	2.75%
Crystal Park at Waterford	04/14/2015	3.00%
The Residence at Waterstone	04/28/2015	3.00%
Lofts at the Highlands	05/05/2015	3.00%
Legacy at Martin's Point	05/12/2015	3.00%
Poplar Creek	05/14/2015	3.00%
Wesley Village	05/19/2015	3.00%
Legacy Grand at Concord	05/21/2015	3.00%
Millennium Apartment Homes [(1)]	05/27/2015	3.00%
Legacy Crescent Park [(1)]	05/29/2015	3.00%
Legacy at Valley Ranch	06/09/2015	3.00%

[(1)] Under the Property Management Agreement, the Property Owner will pay LPR Inc. the Management Fee Percentage in an amount equal to the greater of (a) 3% of the Gross Monthly Collections (as defined in the Property Management Agreement) or (b) $4,000.

Under the Property Management Agreements, each Property Owner will pay LPR Inc.: (i) a monthly fee based on a percentage (as described in the table above, the "Management Fee Percentage") of the Gross Monthly Collections (as defined in each Property Management Agreement), (ii) a construction supervision fee equal to a percentage of construction costs to the extent overseen by LPR Inc. and as further detailed in each Property Management Agreement, (iii) a leasing commission at a rate to be agreed upon between the Property Owner and LPR Inc. for retail leases executed that were procured or obtained by LPR Inc., (iv) certain reimbursements if included in an approved capital budget and (v) certain reimbursements if included in the approved operating budget, including the reimbursement of the salaries and benefits for on-site personnel. Unless otherwise provided for in an approved operating budget, LPR Inc. will be responsible for all expenses that it incurs in rendering services pursuant to each Property Management Agreement. Each Property Management Agreement has an initial term of one year and will continue thereafter on a month-to-month basis unless either party gives 30 days' prior written notice of its desire to terminate the Property Management Agreement. Notwithstanding the foregoing, the Property Owner may terminate each Property Management Agreement at any time without cause upon 30 days' prior written notice to LPR Inc. The Property Owner may also terminate the Property Management Agreement with cause immediately upon notice to LPR Inc. and the expiration of any applicable cure period. LPR Inc. may terminate each Property Management Agreement at any time without cause upon prior written notice to the Property Owner which, depending upon the terms of the particular Property Management Agreement, requires either 30, 60 or 90 days prior written notice. LPR Inc. may terminate the Property Management Agreement for cause if a Property Owner commits any material default under the Property Management Agreement and the default continues for a period of 30 days after notice from LPR Inc. to a Property Owner for a default or, in the case of Watertower Apartments, Lofts at the Highlands, Wesley Village, Legacy Grand at Concord, Millennium Apartment Homes and Legacy Crescent Park, if a monetary default continues for a period of 10 days after notice of such monetary default.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

The properties were previously managed by third-party property management companies pursuant to the terms of individual property management agreements (together, the "Prior Management Agreements"). The termination of services under the Prior Management Agreements and the Services Agreements (with respect to The Residence at Waterstone, Lofts at the Highlands, Legacy at Martin's Point, Poplar Creek, Wesley Village, Legacy Grand at Concord, Millennium Apartment Homes and Legacy Crescent Park) were negotiated to coincide with the Effective Date of the respective Property Management Agreements. The Management Fee Percentage and any other fees and reimbursements payable to LPR Inc. by the Property Owner under each Property Management Agreement are approximately equal to the applicable percentage and other fees and reimbursements payable to the prior third party management companies and LPR by the Property Owner under the now-terminated Services Agreements and Prior Management Agreements.

7. COMMITMENTS AND CONTINGENCIES

Economic Dependency

The Company is dependent on the Advisor and the Sub-Advisor for certain services that are essential to the Company, including the management of the daily operations of the Company's investment portfolio; the disposition of investments; and other general and administrative responsibilities. The Company is also dependent on LPR Inc. to provide the property management services under the Property Management Agreements. In the event that these companies are unable to provide the respective services, the Company will be required to obtain such services from other sources.

Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state and local governments. Although there can be no assurance, the Company is not aware of any environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company's property, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to the property could result in future environmental liabilities.

Legal Matters

From time to time, the Company may become party to legal proceedings that arise in the ordinary course of its business. Management is not aware of any legal proceedings of which the outcome is probable or reasonably possible to have a material adverse effect on the Company's results of operations or financial condition, which would require accrual or disclosure of the contingency and possible range of loss. Additionally, the Company has not recorded any loss contingencies related to legal proceedings in which the potential loss is deemed to be remote.

8. SUBSEQUENT EVENTS

The Company evaluates subsequent events up until the date the consolidated financial statements are issued.

Distributions Paid

On October 1, 2015, the Company paid distributions of $1.1 million, which related to distributions declared for daily record dates for each day in the period from September 1, 2015 through September 30, 2015. On November 2, 2015, the Company paid distributions of $1.1 million, which related to distributions declared for daily record dates for each day in the period from October 1, 2015 through October 31, 2015.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 1. Financial Statements (continued)

KBS LEGACY PARTNERS APARTMENT REIT, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

September 30, 2015

(unaudited)

Distributions Declared

On October 13, 2015, the Company's board of directors declared distributions based on daily record dates for the period from November 1, 2015 through November 30, 2015, which the Company expects to pay in December 2015. On November 11, 2015, the Company's board of directors declared distributions based on daily record dates for the period from December 1, 2015 through December 31, 2015, which the Company expects to pay in January 2016, and distributions based on daily record dates for the period from January 1, 2016 through January 31, 2016, which the Company expects to pay in February 2016. Investors may choose to receive cash distributions or purchase additional shares through the Company's dividend reinvestment plan.

Distributions for these periods will be calculated based on stockholders of record each day during these periods at a rate of $0.00178082 per share per day and equal a daily amount that, if paid each day for a 365-day period, would equal a 6.5% annualized rate based on the initial primary offering price for the Initial Offering of $10.00 per share or a 6.4% annualized rate based on the Company's December 9, 2014 estimated value per share of $10.14.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying financial statements of KBS Legacy Partners Apartment REIT, Inc. and the notes thereto. As used herein, the terms "we," "our" and "us" refer to KBS Legacy Partners Apartment REIT, Inc., a Maryland corporation, and, as required by context, KBS Legacy Partners Limited Partnership, a Delaware limited partnership, which we refer to as the "Operating Partnership," and to their subsidiaries.

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of KBS Legacy Partners Apartment REIT, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as "may," "will," "seeks," "anticipates," "believes," "estimates," "expects," "plans," "intends," "should" or similar expressions. Actual results may differ materially from those contemplated by such forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law.

The following are some of the risks and uncertainties, although not all of the risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements:

- We are dependent on our advisor and sub-advisor to manage our investments and to provide certain other services. We are dependent on Legacy Partners Residential, Inc. ("LPR Inc."), an affiliate of our sub-advisor, to provide property management services for our investments.
- All of our executive officers, some of our directors and other key real estate professionals are also officers, managers, directors, key professionals and/or holders of a controlling interest in our advisor, the sub-advisor, our dealer manager and other sponsor-affiliated entities. As a result, they face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and other programs and investors advised by our sponsors. Fees paid to our advisor in connection with the management of our properties are based on the cost of the property, not on the quality of the services rendered to us. This arrangement could result in unanticipated actions.
- We did not raise the maximum offering amount in our public offerings. Because we raised substantially less than the maximum offering amount, we were not able to invest in as diverse a portfolio of real estate properties as we otherwise would and the value of an investment in us will vary more widely with the performance of specific assets. There is a greater risk that stockholders will lose money in their investment in us, as we have less diversity in our portfolio.
- We pay substantial fees to and expenses of our advisor and its affiliates and, in connection with our public offerings, we paid substantial fees to participating broker-dealers. These payments increase the risk that our stockholders will not earn a profit on their investment in us and increase the risk of loss to our stockholders.
- From time to time during our operational stage, we have used proceeds from financings to fund distributions. Our organizational documents permit us to pay distributions from any source, including offering proceeds, which may constitute a return of capital. We have not established a limit on the amount of distributions that we may fund from sources other than from cash flows from operations.
- We may incur debt until our total liabilities would exceed 75% of the cost of our tangible assets (before deducting depreciation or other non-cash reserves), and we may exceed this limit with the approval of the conflicts committee of our board of directors. To the extent financing in excess of this limit is available on attractive terms, our conflicts committee may approve debt such that our total liabilities would exceed this limit. High debt levels could limit the amount of cash we have available to distribute and could result in a decline in the value of an investment in us.
- Disruptions in the financial markets and uncertain economic conditions could adversely affect our ability to implement our business strategy and generate returns to stockholders.
- We depend on tenants for our revenue. Revenues from our real property investments could decrease due to a reduction in tenants (caused by factors including, but not limited to, tenant defaults, tenant insolvency or early termination or non-renewal of existing tenant leases) and/or lower rental rates, limiting our ability to pay distributions to our stockholders.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

- During any calendar year, once we have redeemed $1.5 million of shares under our share redemption program, including shares redeemed in connection with a stockholder's death, "qualifying disability," or "determination of incompetence" (both as defined in the share redemption program and together with redemptions in connection with a stockholder's death, "special redemptions"), the remaining $0.5 million of the $2.0 million annual limit shall be reserved exclusively for special redemptions. In March 2015, we exhausted the $1.5 million of funds available for ordinary redemptions. Because of limitations on the dollar value of shares that may be redeemed under our share redemption program, we will only be able to process special redemptions for the remainder of 2015.

All forward-looking statements should be read in light of the risks identified herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, all filed with the Securities and Exchange Commission (the "SEC").

Overview

We were formed on July 31, 2009 as a Maryland corporation that elected to be taxed as a real estate investment trust ("REIT") beginning with the taxable year ended December 31, 2010 and intend to continue to operate in such a manner. We conduct our business primarily through our Operating Partnership, of which we are the sole general partner.

We have invested in and manage a portfolio of high quality apartment communities located throughout the United States. Our portfolio consists of "core" apartment buildings that were already well-positioned and producing rental income at acquisition. As of September 30, 2015, we owned 11 apartment complexes.

KBS Capital Advisors LLC ("KBS Capital Advisors") is our advisor. As our advisor, KBS Capital Advisors is responsible for managing our day-to-day operations and our portfolio of real estate assets. Subject to the terms of the advisory agreement between KBS Capital Advisors and us, KBS Capital Advisors delegates certain advisory duties to a sub-advisor, KBS-Legacy Apartment Community REIT Venture, LLC (the "Sub-Advisor"), which is a joint venture among KBS Capital Advisors and Legacy Partners Residential Realty LLC. Notwithstanding such delegation to the Sub-Advisor, KBS Capital Advisors retains ultimate responsibility for the performance of all the matters entrusted to it under the advisory agreement. KBS Capital Advisors made recommendations on all investments to our board of directors. A majority of our board of directors, including a majority of our independent directors acting through the conflicts committee, approved our investments. KBS Capital Advisors, either directly or through the Sub-Advisor, also provides asset-management, marketing, investor-relations and other administrative services on our behalf. Our Sub-Advisor owns 20,000 shares of our common stock. We have no paid employees.

On March 12, 2010, we commenced our initial public offering of 280,000,000 shares of common stock for sale to the public, of which 80,000,000 shares were offered pursuant to our dividend reinvestment plan (the "Initial Offering"). We retained KBS Capital Markets Group LLC ("KBS Capital Markets Group"), an affiliate of our advisor, to serve as the dealer manager for the Initial Offering pursuant to a dealer manager agreement dated March 12, 2010 (the "Initial Dealer Manager Agreement").

On May 31, 2012, we filed a registration statement on Form S-11 with the SEC to register a follow-on public offering (the "Follow-on Offering" and together with the Initial Offering, the "Offerings"). Pursuant to the registration statement, as amended, we registered up to an additional $2,000,000,000 of shares of common stock for sale to the public and up to an additional $760,000,000 of shares pursuant to our dividend reinvestment plan. The SEC declared our registration statement for the Follow-on Offering effective on March 8, 2013.

We retained KBS Capital Markets Group to serve as the dealer manager for the Follow-on Offering pursuant to a dealer manager agreement dated March 8, 2013 (the "Follow-on Dealer Manager Agreement" and together with the Initial Dealer Manager Agreement, the "Dealer Manager Agreements"). On March 12, 2013, we ceased offering shares pursuant to the Initial Offering and on March 13, 2013, we commenced offering shares to the public pursuant to the Follow-on Offering. We ceased offering shares of common stock in the primary Follow-on Offering on March 31, 2014 and completed subscription processing procedures on April 30, 2014. We continue to offer shares under our dividend reinvestment plan.

Through its completion on March 12, 2013, we sold 18,088,084 shares of common stock in the Initial Offering for gross offering proceeds of $179.2 million, including 368,872 shares of common stock under our dividend reinvestment plan for gross offering proceeds of $3.5 million. We sold 1,496,198 shares of common stock in our primary Follow-on Offering for gross offering proceeds of $15.9 million.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

As of September 30, 2015, we had sold an aggregate of 20,948,181 shares of common stock in the Offerings for gross offering proceeds of $208.7 million, including an aggregate of 1,732,771 shares of common stock under our dividend reinvestment plan for gross offering proceeds of $17.2 million. Also, as of September 30, 2015, we had redeemed 594,638 shares sold in the Offerings for $5.7 million. We have used substantially all of the net proceeds from the Offerings to invest in and manage a portfolio of high quality apartment communities located throughout the United States as described above.

Market Outlook - Multi-Family Real Estate and Finance Markets

The last recession, occurring from approximately 2008 - 2009, resulted in significant job losses, which had an adverse effect on multifamily real estate. Vacancies increased to record highs and rents decreased as owners sought to retain existing residents and attract new residents. Rising capitalization rates, in addition to declining rents, caused values to decline. In contrast, 2010 exhibited positive signs that multifamily real estate had begun a solid recovery. Vacancy declined, rents increased, and capitalization rates decreased. These positive trends continued throughout 2011 and into 2012. From the second quarter of 2012 through the third quarter of 2014, vacancy stabilized at approximately its equilibrium rate and, while rent growth moderated during 2013, it remained at an above average annual rate through 2014. Since the fourth quarter of 2014, vacancy has declined gradually and there has been renewed rent growth.

According to the U.S. Bureau of Labor Statistics ("BLS"), approximately 8.7 million jobs were lost in the U.S. from December 2007 through December 2009 as a result of the 2008 - 2009 recession. Since 2009, employment has increased by over 12.7 million jobs (through September 2015). The BLS also reported that the unemployment rate peaked in 2009 at 10.0% and was down to 6.7% by the end of 2013. During 2014, the unemployment rate continued to decline and was 5.6% at the end of the year. At the end of the third quarter of 2015, the unemployment rate had declined further to 5.1%.

Witten Advisors reported that apartment vacancies in the U.S. were 7.8% at the end of 2009 ("U.S. Apartment Markets Forecast," First Quarter 2015). Apartment vacancies declined steadily throughout 2010 and 2011, stabilizing at 5%, the approximate equilibrium vacancy rate, in the second half of 2012. The vacancy rate remained relatively stable from that time through the third quarter of 2014. However, apartment vacancies have been declining gradually since then and, as of the end of the second quarter of 2015, Witten Advisors reported that U.S. apartment vacancies were down to 4.2%. Witten Advisors also reported that effective rents for U.S. apartments were up by 2.0% and 4.2% in 2010 and 2011, respectively, in contrast to the decline in effective rents of 4.4% in 2009. Effective rents continued to grow in 2012 and 2013 at 3.9% and 3.5%, respectively, as compared to the long-term average growth rate of 2.7%. Since the third quarter of 2014, effective rent growth has been on the rise, surpassing 4.0% (annualized) for three consecutive quarters. As of June 2015, rent growth was 4.8%.

Class A multifamily capitalization rates in the U.S. averaged 4.68% in the fourth quarter of 2007 (Witten Advisors: "U.S. Apartment Markets Forecast," Third Quarter 2014). Capitalization rates increased to 5.79% by the fourth quarter of 2009, reflecting the decline in Class A multifamily property values as a result of the 2008 recession. By the first quarter of 2011, the average Class A capitalization rate had declined to approximately 5.0%, where it remained through the third quarter of 2013. Class A multifamily capitalization rates declined modestly to 4.8% in the fourth quarter of 2013, and declined further to 4.5% as of the end of the second quarter of 2015.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In the medium- and long-term, we believe the prospects for multifamily real estate investment are promising. We expect several positive demographic trends, as noted below, will drive the demand for multifamily housing throughout this decade.

- U.S. population growth - The U.S. Census Bureau projects that the U.S. population will increase by approximately 37 million (12%) between 2008 and 2020, predominantly in the West and South.
- Immigration - Foreign-born renters represented 18.9% of all renters in 2010 (U.S. Census Bureau, "2010 American Community Survey"). According to the U.S. Census Bureau, immigration is expected to add about 1.4 million individuals per year to the U.S. population. This immigration-driven increase in population, when combined with the natural U.S. population increase, will increase the demand for all types of housing, including apartments, over the next decade.
- Echo Boom - The children of the Baby Boom generation, dubbed the Echo Boomers, will increase the prime rental age group, 20 to 34 year olds, by 4 million, to 68 million and it will remain at that elevated level through 2020 according to the U.S. Census Bureau.
- Renter population forecast - According to the U.S. Census Bureau's population projections (December 2014 release), the population of people aged 20 to 34 is expected to increase by 2 million between 2015 and 2020. This "prime renter age cohort" is growing to a large part due to the "Echo Boom," or children of the Baby Boom generation. In addition, the population of people aged 55 to 69 is expected to increase by over 4 million between 2015 and 2020, growth driven by the Baby Boomers. These Baby Boomers generally have enough income to purchase a home, but are increasingly choosing to downsize and rent, preferring the conveniences of apartments, particularly those in urban infill locations.
- Housing Shift - An increasing number of people are choosing to rent, as opposed to own, their home. According to the U.S. Census Bureau, the percentage of people that rent their housing in the United States has increased from 31.0% in fourth quarter 2005, to 36.6% at the end of the second quarter 2015. This equates to approximately 6.2 million additional renter households in the United States, according to Witten Advisors, over that time period.
- Diminished supply - According to Witten Advisors ("U.S. Apartment Markets Forecast," Fourth Quarter 2014), multifamily rental construction starts in the U.S. averaged approximately 300,000 units per year for the decade ended December 2005. In comparison, starts were 104,200 units in 2010, a small increase over the 50-year low mark of 97,600 units started in 2009. From 2011 through 2014, rental construction starts in the United States grew from 147,000 to 313,000 units annually. Despite this growth, demand has outpaced supply and pent-up demand remains. Multifamily rental construction starts are expected to peak at approximately 350,000 units in 2015 before easing to 250,000 units in 2018.

Liquidity and Capital Resources

Our principal demands for funds during the short and long-term are and will be for the payment of operating expenses, capital expenditures and general and administrative expenses; payments under debt obligations; redemptions of common stock; and payments of distributions to stockholders. To date, we have had four primary sources of capital for meeting our cash requirements:

- Proceeds from our now terminated primary Offerings;
- Proceeds from our dividend reinvestment plan;
- Debt financings; and
- Cash flow generated by our real estate investments.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

We ceased offering shares of common stock in the primary Follow-on Offering on March 31, 2014. We plan to continue to offer shares under our dividend reinvestment plan until we have sold all $760,000,000 of shares of common stock under our dividend reinvestment plan. In some states, we will need to renew the registration statement annually or file a new registration statement to continue the dividend reinvestment plan offering. We may terminate our dividend reinvestment plan offering at any time. As of September 30, 2015, we had sold an aggregate of 20,948,181 shares of common stock in the Offerings for gross offering proceeds of $208.7 million including an aggregate of 1,732,771 shares of common stock under our dividend reinvestment plan for gross offering proceeds of $17.2 million. Also as of September 30, 2015, we had redeemed 594,638 shares sold in the Offerings for $5.7 million. As of September 30, 2015, we had invested substantially all of the proceeds from our now-terminated primary Offerings in real estate properties and do not anticipate making significant additional real estate acquisitions due to the termination of the primary Follow-on Offering on March 31, 2014. We intend to use our cash on hand, cash flow generated by our real estate operations and proceeds from our dividend reinvestment plan as our primary sources of immediate and long-term liquidity.

As of September 30, 2015, we owned 11 apartment complexes. Our real estate investments generate cash flow in the form of rental revenues, which are reduced by operating expenditures, debt service payments, the payment of asset management fees and corporate general and administrative expenses. Cash flows from operations from our real estate investments is primarily dependent upon the occupancy level of our properties, the net effective rental rates on our leases, the collectibility of rent and how well we manage our expenditures. As of September 30, 2015, our real estate property investments were 94% occupied.

As of September 30, 2015, our total debt outstanding was $289.9 million. We limit our total liabilities to 75% of the cost (before deducting depreciation or other non-cash reserves) of our tangible assets; however, we may exceed that limit if a majority of the conflicts committee approves each borrowing in excess of this limitation and we disclose such borrowing to our stockholders in our next quarterly report with an explanation from the conflicts committee of the justification for the excess borrowing. As of September 30, 2015, our borrowings and other liabilities were approximately 67% of the cost (before deducting depreciation or other noncash reserves) of our tangible assets.

We paid distributions to our stockholders during the nine months ended September 30, 2015 using cash flows from operations. We believe that our cash flows from operations, cash on hand and proceeds from our dividend reinvestment plan are sufficient to meet our liquidity needs for the foreseeable future.

Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expense reimbursements for the four fiscal quarters ended September 30, 2015 did not exceed the charter-imposed limitation.

Cash Flows from Operating Activities

We commenced operations with the acquisition of our first apartment complex on October 26, 2010. As of September 30, 2015, we owned 11 apartment complexes. During the nine months ended September 30, 2015, net cash provided by operating activities was $9.4 million. We expect our cash flows from operating activities to vary over time and do not anticipate making significant additional real estate acquisitions due to the termination of the Follow-on Offering on March 31, 2014.

Cash Flows from Investing Activities

Net cash used in investing activities was $1.3 million for the nine months ended September 30, 2015 and consisted primarily of the following:

- $1.7 million used for improvements to real estate; and
- $0.4 million of insurance proceeds received for property damages.

Cash Flows from Financing Activities

Net cash used in financing activities was $11.2 million for the nine months ended September 30, 2015 and consisted primarily of the following:

- $5.5 million of net cash distributions, after giving effect to dividends reinvested by stockholders of $4.3 million;
- $4.1 million of principal payments on our mortgage notes payable; and
- $1.6 million of cash used for redemptions of common stock.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In addition to using our capital resources to make investments in accordance with our investment objectives, to meet our debt service obligations, for capital expenditures and for operating costs, we use our capital resources to make certain payments to our advisor. We paid our advisor fees in connection with the acquisition of our assets and pay our advisor fees in connection with the management of our assets and for certain costs incurred by our advisor in providing services to us. Among the fees payable to our advisor is an asset management fee.

Advisory Agreement - Asset Management Fee

Pursuant to the advisory agreement, the asset management fee payable by us to our advisor with respect to investments in real estate is a monthly fee equal to the lesser of one-twelfth of (i) 1.0% of the amount paid or allocated to fund the acquisition, development, construction or improvement of the property (whether at or subsequent to acquisition), including acquisition expenses and budgeted capital improvement costs (regardless of the level of debt used to finance the investment), and (ii) 2.0% of the amount paid or allocated to fund the acquisition, development, construction or improvement of the property (whether at or subsequent to acquisition), including acquisition expenses and budgeted capital improvement costs, less any debt used to finance the investment.

The advisory agreement defers our obligation to pay asset management fees, without interest, accruing from February 1, 2013 through July 31, 2013. We will only be obligated to pay our advisor such deferred amounts if and to the extent that our funds from operations, as such term is defined by the National Association of Real Estate Investment Trusts and interpreted by us, as adjusted for the effects of straight-line rents and acquisition costs and expenses ("AFFO") for the immediately preceding month exceeds the amount of distributions declared for record dates of such prior month (an "AFFO Surplus"). The amount of any AFFO Surplus in a given month shall be applied first to pay our advisor's asset management fees currently due with respect to such month (including any that would otherwise have been deferred for that month in accordance with the advisory agreement) and then to pay asset management fees previously deferred by our advisor in accordance with the advisory agreement that remain unpaid. As of September 30, 2015, we had accrued and deferred payment of $1.5 million of asset management fees for February 2013 through July 2013 under the advisory agreement, as we believed the payment of this amount to our advisor was considered probable at the time it was recorded. These fees will be reimbursed in accordance with the terms noted above.

In addition, the advisory agreement defers without interest under certain circumstances, our obligation to pay asset management fees accruing from August 1, 2013. Specifically, the advisory agreement defers our obligation to pay an asset management fee for any month in which our modified funds from operations ("MFFO") for such month, as such term is defined in the practice guideline issued by the Investment Program Association ("IPA") in November 2010 and interpreted by us, excluding asset management fees, does not exceed the amount of distributions declared by us for record dates of that month. We remain obligated to pay our advisor an asset management fee in any month in which our MFFO, excluding asset management fees, for such month exceeds the amount of distributions declared for the record dates of that month (such excess amount, an "MFFO Surplus"); however, any amount of such asset management fee in excess of the MFFO Surplus is also deferred under the advisory agreement. If the MFFO Surplus for any month exceeds the amount of the asset management fee payable for such month, any remaining MFFO Surplus will not be applied to pay asset management fee amounts previously deferred by our advisor in accordance with the advisory agreement. As of December 31, 2014, we had accrued and deferred payment of $3.3 million of asset management fees for August 2013 through December 2014 under the advisory agreement, as we believed the payment of this amount to our advisor was considered probable at the time it was recorded. These fees will be reimbursed in accordance with the terms noted above. During the nine months ended September 30, 2015, we incurred $2.1 million of asset management fees. However, we only recorded $0.7 million pursuant to the limitations in the advisory agreement as noted above. We did not accrue the remaining $1.4 million of these deferred asset management fees as it is uncertain whether any of these amounts will be paid in the future.

However, notwithstanding any of the foregoing, any and all deferred asset management fees shall be immediately due and payable at such time as our stockholders have received, together as a collective group, aggregate distributions (including distributions that may constitute a return of capital for federal income tax purposes) sufficient to provide (i) a return of their net invested capital, or the amount calculated by multiplying the total number of shares purchased by stockholders by the issue price, reduced by any amounts to repurchase shares pursuant to our share redemption plan, and (ii) an 8.0% per year cumulative, non-compounded return on such net invested capital (the "Stockholders' 8% Return"). The Stockholders' 8% Return is not based on the return provided to any individual stockholder. Accordingly, it is not necessary for each of our stockholders to have received any minimum return in order for our advisor to receive deferred asset management fees.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of September 30, 2015 (in thousands):

		Payments Due During the Years Ending December 31,			
Contractual Obligations	Total	Remainder of 2015	2016-2017	2018-2019	Thereafter
Outstanding debt obligations [1]	$ 289,890	$ 1,441	$ 38,040	$ 199,640	$ 50,769
Interest payments on outstanding debt obligations [2]	68,138	2,420	18,988	11,217	35,513

[1] Amounts include principal payments only.

[2] Projected interest payments are based on the outstanding principal amounts, maturity dates and interest rates in effect as of September 30, 2015. We incurred interest expense of $7.5 million, excluding amortization of deferred financing costs and discount on notes payable of $0.4 million, for the nine months ended September 30, 2015.

Results of Operations

As of September 30, 2015, we owned 11 apartment complexes and do not anticipate making significant additional real estate investments due to the termination of the primary Follow-on Offering on March 31, 2014. The results of operations presented for the nine months ended September 30, 2015 and 2014 are not directly comparable due to the acquisition of two apartment complexes in February 2014. As a result, the results of operations during the nine months ended September 30, 2014 do not reflect an entire period of operations related to these two acquisitions.

Comparison of the three months ended September 30, 2015 versus the three months ended September 30, 2014

The following table provides summary information about our results of operations for the three months ended September 30, 2015 and 2014 (dollar amounts in thousands):

	Three Months Ended September 30,		Increase (Decrease)	Percentage Change
	2015	2014		
Rental income	$ 11,330	$ 10,909	$ 421	4 %
Operating, maintenance, and management costs	1,915	2,950	(1,035)	(35)%
Real estate taxes and insurance	1,487	1,470	17	1 %
Asset management fees to affiliate	144	670	(526)	(79)%
Property management fees and expenses to affiliate	1,368	73	1,295	1,774 %
General and administrative expenses	485	556	(71)	(13)%
Depreciation and amortization expense	3,036	3,107	(71)	(2)%
Interest expense	2,636	2,644	(8)	— %

Rental income increased from $10.9 million for the three months ended September 30, 2014 to $11.3 million for the three months ended September 30, 2015, primarily as a result of an increase in overall rental rates. We expect rental income to vary in future periods depending on occupancy rates and rental rates of our real estate investments.

Operating, maintenance and management costs and real estate taxes and insurance decreased from $4.4 million for the three months ended September 30, 2014 to $3.4 million for the three months ended September 30, 2015 primarily due to a decrease in employee expenses and management fees to third-party property management companies as a result of the transition of all property management services to LPR Inc. during the second quarter of 2015. Management fees to LPR Inc., as well as reimbursable on-site personnel salary and related benefits expenses at the properties, are classified as property management fees and expenses to affiliate on the accompanying consolidated statements of operations. Operating, maintenance and management costs and real estate taxes and insurance may increase in future periods, as compared to historical periods as a result of inflation.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Asset management fees with respect to our real estate investments decreased from $0.7 million for the three months ended September 30, 2014 to $0.1 million for the three months ended September 30, 2015. During the three months ended September 30, 2014, we incurred $0.7 million of asset management fees, all of which was accrued and deferred. During the three months ended September 30, 2015, we incurred $0.7 million of asset management fees, of which $0.1 million was recorded based on certain payment limitations in the advisory agreement. The remaining $0.6 million of deferred asset management fees were not accrued as it is uncertain whether any of these amounts will be paid in the future. For a discussion of the asset management fee payable by us to our advisor and the deferrals of the asset management fee, see "Liquidity and Capital Resources — Advisory Agreement — Asset Management Fee" herein.

Property management fees and expenses to affiliate increased from $0.1 million for the three months ended September 30, 2014 to $1.4 million for the three months ended September 30, 2015. The increase was primarily due to the transition of all property management services to LPR Inc. during the second quarter of 2015. Prior to the transition, management fees, as well as reimbursable on-site personnel salary and related benefits expenses at the properties, were classified as operating maintenance, and management costs. We expect our property management fees and expenses to affiliate to increase in future periods as compared to historical periods as a result of inflation.

Depreciation and amortization expense decreased from $3.1 million for the three months ended September 30, 2014 to $3.0 million for the three months ended September 30, 2015 primarily due to a decrease in amortization of tenant origination costs related to in-place leases that were fully amortized. We expect that our depreciation and amortization expense will vary in future periods depending on the amount of new capital expenditures compared to the amount of capital expenditures that become fully depreciated.

Comparison of the nine months ended September 30, 2015 versus the nine months ended September 30, 2014

The following table provides summary information about our results of operations for the nine months ended September 30, 2015 and 2014 (dollar amounts in thousands):

	Nine Months Ended September 30,					
	2015	2014	Increase (Decrease)	Percentage Change	$ Change Due to Acquisitions [1]	$ Change Due to Properties Held Throughout Both Periods [2]
Rental income	$ 33,570	$ 31,349	$ 2,221	7 %	$ 1,326	$ 895
Operating, maintenance, and management costs	6,914	8,282	(1,368)	(17)%	(33)	(1,335)
Real estate taxes and insurance	4,509	4,324	185	4 %	50	135
Asset management fees to affiliate	687	1,917	(1,230)	(64)%	n/a	n/a
Property management fees and expenses to affiliate	2,136	207	1,929	932 %	275	1,654
Real estate acquisition fees and expenses to affiliate	—	701	(701)	(100)%	(701)	—
Real estate acquisition fees and expenses	—	264	(264)	(100)%	(264)	—
General and administrative expenses	1,697	1,803	(106)	(6)%	n/a	n/a
Depreciation and amortization expense	9,056	9,603	(547)	(6)%	(861)	314
Interest expense	7,879	7,581	298	4 %	402	(104)

[1] Represents the dollar amount increase (decrease) for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 related to real estate investments acquired on or after January 1, 2014.

[2] Represents the dollar amount increase (decrease) for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 with respect to real estate investments owned by us throughout both periods presented.

Rental income increased from $31.3 million for the nine months ended September 30, 2014 to $33.6 million for the nine months ended September 30, 2015, primarily as a result of the growth in our real estate portfolio and an increase in overall rental rates with respect to properties owned throughout both periods. We expect rental income to vary in future periods depending on occupancy rates and rental rates of our real estate investments.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Operating, maintenance and management costs and real estate taxes and insurance decreased from $12.6 million for the nine months ended September 30, 2014 to $11.4 million for the nine months ended September 30, 2015 primarily due to a decrease in employee expenses and management fees to third-party property management companies as a result of the transition of all property management services to LPR Inc. during the second quarter of 2015, partially offset by an increase in utility expenses, general repair and maintenance costs and property tax expenses for properties held throughout both periods. Management fees to LPR Inc., as well as reimbursable on-site personnel salary and related benefits expenses at the properties, are classified as property management fees and expenses to affiliate on the accompanying consolidated statements of operations. Operating, maintenance and management costs and real estate taxes and insurance may increase in future periods, as compared to historical periods as a result of inflation.

Asset management fees with respect to our real estate investments decreased from $1.9 million for the nine months ended September 30, 2014 to $0.7 million for the nine months ended September 30, 2015. During the nine months ended September 30, 2014, we incurred $1.9 million of asset management fees, all of which was accrued and deferred. During the nine months ended September 30, 2015, we incurred $2.1 million of asset management fees, of which $0.7 million was recorded based on certain payment limitations in the advisory agreement. The remaining $1.4 million of deferred asset management fees were not accrued as it is uncertain whether any of these amounts will be paid in the future. For a discussion of the asset management fee payable by us to our advisor and the deferrals of the asset management fee, see "Liquidity and Capital Resources — Advisory Agreement — Asset Management Fee" herein.

Property management fees and expenses to affiliate increased from $0.2 million for the nine months ended September 30, 2014 to $2.1 million for the nine months ended September 30, 2015. The increase was primarily due to the transition of all property management services to LPR Inc. during the second quarter of 2015. Prior to the transition, management fees, as well as reimbursable on-site personnel salary and related benefits expenses at the properties, were classified as operating maintenance, and management costs. We expect our property management fees and expenses to affiliate to increase in future periods as a result of inflation and due to LPR Inc. providing all of the property management services for an entire period.

Real estate acquisition fees and expenses to affiliate and non-affiliate were $1.0 million for the nine months ended September 30, 2014 and related to the acquisitions of two apartment complexes during the first quarter of 2014. During the nine months ended September 30, 2015, we did not make any acquisitions. We do not anticipate making significant additional real estate investments in the future.

Depreciation and amortization expense decreased from $9.6 million for the nine months ended September 30, 2014 to $9.1 million for the nine months ended September 30, 2015. Depreciation and amortization expense decreased by $0.5 million due to a $0.8 million decrease in amortization of tenant origination costs related to in-place leases that were fully amortized relating to the properties acquired in the first quarter of 2014 and a $0.3 million increase in depreciation and amortization expense from properties held throughout both periods. We expect that our depreciation and amortization expense will vary in future periods depending on the amount of new capital expenditures compared to the amount of capital expenditures that become fully depreciated.

Interest expense increased from $7.6 million for the nine months ended September 30, 2014 to $7.9 million for the nine months ended September 30, 2015. The increase in interest expense was primarily due to the growth in our real estate portfolio resulting in an increase in our average debt outstanding during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. This was offset by a decrease in interest expense for properties held throughout both periods due to lower debt outstanding as a result of monthly amortizing principal payments. Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the availability and cost of debt financing.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Funds from Operations and Modified Funds from Operations

We believe that funds from operations ("FFO") is a beneficial indicator of the performance of an equity REIT. We compute FFO in accordance with the current NAREIT definition. FFO represents net income, excluding gains and losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), impairment losses on real estate assets, depreciation and amortization of real estate assets, and adjustments for unconsolidated partnerships and joint ventures. We believe FFO facilitates comparisons of operating performance between periods and among other REITs. However, our computation of FFO may not be comparable to other REITs that do not define FFO in accordance with the NAREIT definition or that interpret the current NAREIT definition differently than we do. Our management believes that historical cost accounting for real estate assets in accordance with U.S. generally accepted accounting principles ("GAAP") implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provides a more complete understanding of our performance relative to our competitors and provides a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities, and when compared year over year, FFO reflects the impact on our operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses and interest costs, which may not be immediately apparent from net income or loss.

Changes in accounting rules have resulted in a substantial increase in the number of non-operating and non-cash items included in the calculation of FFO. Items such as acquisition fees and expenses which had previously been capitalized prior to 2009, are currently expensed and accounted for as operating expenses. As a result, our management also uses MFFO as an indicator of our ongoing performance as well as our dividend sustainability. MFFO excludes from FFO: acquisition fees and expenses; adjustments related to contingent purchase price obligations; amounts relating to straight-line rents and amortization of above and below market intangible lease assets and liabilities; accretion of discounts and amortization of premiums on debt investments; amortization of closing costs relating to debt investments; impairments of real estate-related investments; mark-to-market adjustments included in net income; and gains or losses included in net income for the extinguishment or sale of debt or hedges. We compute MFFO in accordance with the definition of MFFO included in the practice guideline issued by the IPA in November 2010 as interpreted by management. Our computation of MFFO may not be comparable to other REITs that do not compute MFFO in accordance with the current IPA definition or that interpret the current IPA definition differently than we do.

We believe that MFFO is helpful as a measure of ongoing operating performance because it excludes costs that management considers more reflective of investing activities and other non-operating items included in FFO. Management believes that excluding acquisition costs from MFFO provides investors with supplemental performance information that is consistent with management's analysis of the operating performance of the portfolio over time, including periods after our acquisition stage. MFFO also excludes non-cash items such as straight-line rental revenue. Additionally, we believe that MFFO provides investors with supplemental performance information that is consistent with the performance indicators and analysis used by management, in addition to net income and cash flows from operating activities as defined by GAAP, to evaluate the sustainability of our operating performance. MFFO provides comparability in evaluating the operating performance of our portfolio with other non-traded REITs which typically have limited lives with short and defined acquisition periods and targeted exit strategies. MFFO, or an equivalent measure, is routinely reported by non-traded REITs, and we believe often used by analysts and investors for comparison purposes.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

FFO and MFFO are non-GAAP financial measures and do not represent net income as defined by GAAP. Net income as defined by GAAP is the most relevant measure in determining our operating performance because FFO and MFFO include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization and the other items described above. Accordingly, FFO and MFFO should not be considered as alternatives to net income as an indicator of our current and historical operating performance. In addition, FFO and MFFO do not represent cash flows from operating activities determined in accordance with GAAP and should not be considered an indication of our liquidity. We believe FFO and MFFO, in addition to net income and cash flows from operations as defined by GAAP, are meaningful supplemental performance measures.

Although MFFO includes other adjustments, the exclusion of acquisition fees and expenses is the most significant adjustment for the prior periods presented. We have excluded this item based on the following economic considerations:

- *Acquisition fees and expenses.* Acquisition fees and expenses related to the acquisition of real estate are expensed. Although these amounts reduce net income, we exclude them from MFFO to more appropriately present the ongoing operating performance of our real estate investments on a comparative basis. Additionally, acquisition fees and expenses to date have been funded from the proceeds from our Offerings and debt financings and not from our operations. We believe this exclusion is useful to investors as it allows investors to more accurately evaluate the sustainability of our operating performance.

Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by NAREIT, is presented in the following table, along with our calculation of MFFO, for the three and nine months ended September 30, 2015 and 2014 (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$ 263	$ (500)	$ 705	$ (3,261)
Depreciation of real estate assets	3,035	2,932	9,053	8,523
Amortization of lease-related costs	1	175	3	1,080
FFO	3,299	2,607	9,761	6,342
Straight-line rent	—	—	(20)	—
Real estate acquisition fees and expenses to affiliate	—	—	—	701
Real estate acquisition fees and expenses	—	—	—	264
Amortization of discount on note payable	22	22	65	57
MFFO	$ 3,321	$ 2,629	$ 9,806	$ 7,364

FFO and MFFO may also be used to fund all or a portion of certain capitalizable items that are excluded from FFO and MFFO, such as tenant improvements, building improvements and deferred leasing costs.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Distributions

From time to time during our operational stage, we may not be able to pay distributions solely from our cash flows from operations or FFO, in which case distributions may be paid in whole or in part from debt financing and/or from proceeds from our Offerings. Distributions declared, distributions paid and cash flows from operations were as follows for the first, second and third quarters of 2015 (in thousands, except per share amounts):

Period	Distributions Declared [1]	Distribution Declared Per Share [1] [2]	Distributions Paid [3]			Cash Flows from Operations
			Cash	Reinvested	Total	
First Quarter 2015	$ 3,224	$ 0.160	$ 1,813	$ 1,409	$ 3,222	$ 3,227
Second Quarter 2015	3,269	0.162	1,858	1,441	3,299	3,195
Third Quarter 2015	3,330	0.164	1,875	1,448	3,323	2,998
	$ 9,823	$ 0.486	$ 5,546	$ 4,298	$ 9,844	$ 9,420

[1] Distributions for the period from January 1, 2015 through September 30, 2015 were based on daily record dates and were calculated at a rate of $0.00178082 per share per day.

[2] Assumes share was issued and outstanding each day during the period presented.

[3] Distributions are paid on a monthly basis. In general, distributions for all record dates of a given month are paid on or about the first business day of the following month.

For the nine months ended September 30, 2015, we paid aggregate distributions of $9.8 million, including $5.5 million of distributions paid in cash and $4.3 million of distributions reinvested through our dividend reinvestment plan. FFO for the nine months ended September 30, 2015 was $9.8 million and cash flows from operations was $9.4 million. We funded our total distributions paid, which includes net cash distributions and distributions reinvested by stockholders, with $9.4 million of cash flows from operations and $0.4 million of cash on hand. For the purposes of determining the source of our distributions paid, we assume first that we use cash flows from operations from the relevant periods to fund distribution payments. All non-operating expenses (including general and administrative expenses to the extent not covered by cash flows from operations), debt service and other obligations are assumed to be paid from gross offering proceeds as permitted by our offering documents and loan agreements. See the reconciliation of FFO to net income (loss) above.

From inception through September 30, 2015, we paid aggregate distributions of $40.0 million, and our cumulative net loss for the same period was $25.0 million. To the extent that we pay distributions from sources other than our cash flows from operations, the overall return to our stockholders may be reduced.

Over the long-term, we expect that a greater percentage of our distributions will be paid from cash flows from operations and FFO (except with respect to distributions related to sales of our assets). However, our operating performance cannot be accurately predicted and may deteriorate in the future due to numerous factors, including those discussed under "Forward - Looking Statements," "Market Outlook — Multi-Family Real Estate and Finance Markets" and "Results of Operations" herein, and the risks discussed in Part II, Item 1A "Risk Factors" herein and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC. Those factors include: the future operating performance of our investments in the existing real estate and financial environment and the level of participation in our dividend reinvestment plan. In the event our FFO and/or cash flows from operations decrease in the future, the level of our distributions may also decrease. In addition, future distributions declared and paid may exceed FFO and/or cash flows from operations.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Critical Accounting Policies

Our consolidated interim financial statements and condensed notes thereto have been prepared in accordance with GAAP and in conjunction with the rules and regulations of the SEC. The preparation of our financial statements requires significant management judgments, assumptions and estimates about matters that are inherently uncertain. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. A discussion of the accounting policies that management considers critical in that they involve significant management judgments, assumptions and estimates is included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC. There have been no significant changes to our policies during 2015.

Subsequent Events

We evaluate subsequent events up until the date the consolidated financial statements are issued.

Distributions Paid

On October 1, 2015, we paid distributions of $1.1 million, which related to distributions declared for daily record dates for each day in the period from September 1, 2015 through September 30, 2015. On November 2, 2015, we paid distributions of $1.1 million, which related to distributions declared for daily record dates for each day in the period from October 1, 2015 through October 31, 2015.

Distributions Declared

On October 13, 2015, our board of directors declared distributions based on daily record dates for the period from November 1, 2015 through November 30, 2015, which we expect to pay in December 2015. On November 11, 2015, our board of directors declared distributions based on daily record dates for the period from December 1, 2015 through December 31, 2015, which we expect to pay in January 2016, and distributions based on daily record dates for the period from January 1, 2016 through January 31, 2016, which we expect to pay in February 2016. Investors may choose to receive cash distributions or purchase additional shares through our dividend reinvestment plan.

Distributions for these periods will be calculated based on stockholders of record each day during these periods at a rate of $0.00178082 per share per day and equal a daily amount that, if paid each day for a 365-day period, would equal a 6.5% annualized rate based on the initial primary offering price for our Initial Offering of $10.00 per share or a 6.4% annualized rate based on our December 9, 2014 estimated value per share of $10.14.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the effects of interest rate changes as a result of borrowings used to maintain liquidity and to fund the renovation and refinancing of our real estate investment portfolio and to fund our operations. Our profitability and the value of our investment portfolio may be adversely affected during any period as a result of interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs. We may manage interest rate risk by maintaining a ratio of fixed rate, long-term debt such that floating rate exposure is kept at an acceptable level. In addition, we may utilize a variety of financial instruments, including interest rate caps, floors, and swap agreements, in order to limit the effects of changes in interest rates on our operations. When we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for the payment of distributions to our stockholders and that the losses may exceed the amount we invested in the instruments.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. As of September 30, 2015, the fair value estimate of our fixed rate debt was $290.3 million and the carrying value of our fixed rate debt was $287.1 million. The fair value estimate of our fixed rate debt was estimated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated as of September 30, 2015. With respect to our fixed rate instruments, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our ongoing operations.

Conversely, to the extent we have any variable rate debt, movements in interest rates on variable rate debt would change our future earnings and cash flows, but, generally, not significantly affect the fair value of those instruments. However, changes in required risk premiums would result in changes in the fair value of floating rate instruments. At September 30, 2015, we did not have any variable rate debt outstanding.

The weighted-average interest rate of our fixed rate debt as of September 30, 2015 was 3.3%. The weighted-average interest rate represents the actual interest rate in effect as of September 30, 2015.

For a discussion of the interest rate risks related to the current capital and credit markets, see the risks discussed in Part I, Item IA of our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon, and as of the date of, the evaluation, our principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Please see the risks discussed below and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014.

We have paid distributions from financings and expect that in the future we may not pay distributions solely from our cash flows from operations. To the extent that we pay distributions from sources other than our cash flow from operations, the overall return to our stockholders may be reduced.

Our organizational documents permit us to pay distributions from any source, including offering proceeds or borrowings (both of which may constitute a return of capital). We have paid distributions from financings and expect that in the future we may not pay distributions solely from our cash flow from operations, in which case distributions may be paid in whole or in part from debt financing and/or from proceeds from our Offerings. To the extent that we pay distributions from sources other than our cash flow from operations, the overall return to our stockholders may be reduced. In addition, to the extent distributions exceed cash flow from operations, a stockholder's basis in our stock will be reduced and, to the extent distributions exceed a stockholder's basis, the stockholder may recognize capital gain. There is no limit on the amount of distributions we may fund from sources other than from cash flow from operations.

For the year ended December 31, 2014, we paid aggregate distributions of $12.9 million, including $7.3 million of distributions paid in cash and $5.6 million of distributions reinvested through our dividend reinvestment plan. FFO for the year ended December 31, 2014 was $9.0 million and cash flows from operations was $12.1 million. We funded our total distributions paid, which includes cash distributions and dividends reinvested by stockholders, with $10.2 million of cash flows from operations (79%) and $2.7 million of debt financing (21%). For the year ended December 31, 2014, FFO represented 70% of total distributions paid.

For the nine months ended September 30, 2015, we paid aggregate distributions of $9.8 million, including $5.5 million of distributions paid in cash and $4.3 million of distributions reinvested through our dividend reinvestment plan. FFO for the nine months ended September 30, 2015 was $9.8 million and cash flows from operations was $9.4 million. We funded our total distributions paid for the nine months ended September 30, 2015 with $9.4 million of cash flows from operations (96%) and $0.4 million of cash on hand (4%). For the nine months ended September 30, 2015, FFO represented 99% of total distributions paid.

See Part I, Item II, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds from Operations and Modified Funds from Operations" and "Distributions" herein and in Part II, Item VII, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds from Operations and Modified Funds from Operations" of our Annual Report on Form 10-K for the year ended December 31, 2014.

We exhausted funds available for ordinary redemptions for the remainder of 2015 in March 2015.

Because of limitations on the dollar value of shares that may be redeemed under our share redemption program as described below, we exhausted funds available for ordinary redemptions for the remainder of 2015 in March 2015. As of September 30, 2015, we had $0.8 million of outstanding and unfulfilled ordinary redemption requests. "Ordinary redemptions" are redemptions not sought in connection with a stockholder's death, "qualifying disability," or "determination of incompetence" (each as defined in our share redemption program document).

PART II. OTHER INFORMATION (CONTINUED)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) During the period covered by this Form 10-Q, we did not sell any equity securities that were not registered under the Securities Act of 1933.

b) Not applicable.

c) We have a share redemption program that may enable stockholders to sell their shares to us in limited circumstances.

Pursuant to our share redemption program, there are several limitations on our ability to redeem shares:

- Unless the shares are being redeemed in connection with a special redemption, we may not redeem shares until the stockholder has held his or her shares for one year.
- We may redeem only the number of shares that we could purchase with the amount of the net proceeds from the sale of shares under our dividend reinvestment plan during the prior calendar year; provided that we may not redeem more than $2.0 million of shares in the aggregate during any calendar year. Furthermore, during any calendar year, once we have redeemed $1.5 million of shares under our share redemption program, including in connection with special redemptions, the remaining $0.5 million of the $2.0 million annual limit shall be reserved exclusively for shares being redeemed in connection with a special redemption. In March 2015, we exhausted the funds available for ordinary redemptions for the remainder of 2015. Because of limitations on the dollar value of shares that may be redeemed under our share redemption program, we will only be able to process special redemptions for the remainder of 2015. Notwithstanding anything contained in this paragraph to the contrary, we may increase or decrease the funding available for the redemption of shares pursuant to our share redemption program upon ten business days' notice to our stockholders. We may provide notice by including such information (a) in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC or (b) in a separate mailing to our stockholders.
- During any calendar year, we may redeem no more than 5% of the weighted-average number of shares outstanding during the prior calendar year.
- We have no obligation to redeem shares if the redemption would violate the restrictions on distributions under Maryland law, which prohibits distributions that would cause a corporation to fail to meet statutory tests of solvency.

Pursuant to our share redemption program, redemptions made in connection with a special redemption are made at a price per share equal to the most recent estimated value per share of our common stock as of the applicable redemption date. The price at which we redeem all other shares eligible for redemption is as follows:

- For those shares held by the redeeming stockholder for at least one year, 92.5% of our most recent estimated value per share as of the applicable redemption date;
- For those shares held by the redeeming stockholder for at least two years, 95.0% of our most recent estimated value per share as of the applicable redemption date;
- For those shares held by the redeeming stockholder for at least three years, 97.5% of our most recent estimated value per share as of the applicable redemption date; and
- For those shares held by the redeeming stockholder for at least four years, 100% of our most recent estimated value per share as of the applicable redemption date.

If we cannot redeem all shares presented for redemption in any month because of the limitations on redemptions set forth in our share redemption program, then we will honor redemption requests on a pro rata basis, except that if a pro rata redemption would result in a stockholder owning less than the minimum purchase requirement described in our currently effective, or the most recently effective, registration statement as such registration statement has been amended or supplemented, then we would redeem all of such stockholder's shares.

PART II. OTHER INFORMATION (CONTINUED)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds (continued)

On December 9, 2014, our board of directors approved an estimated value per share of our common stock of $10.14 based on the estimated value of our assets less the estimated value of our liabilities divided by the number of shares outstanding, all as of September 30, 2014. We currently expect to utilize an independent valuation firm to update the estimated value per share in December of each year. For a full description of the assumptions and methodologies used to value our assets and liabilities in connection with the calculation of the estimated value per share, see our Annual Report on Form 10-K for the year ended December 31, 2014 at Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information."

Our board of directors may amend, suspend or terminate the program without stockholder approval upon 30 days' notice, provided that we may increase or decrease the funding available for the redemption of shares pursuant to our share redemption program upon ten business days' notice to our stockholders. We may provide notice by including such information (a) in a Current Report on Form 8-K or in our annual or quarterly reports, all publicly filed with the SEC or (b) in a separate mailing to our stockholders.

During the nine months ended September 30, 2015, we funded redemptions under our share redemption program with the net proceeds from our dividend reinvestment plan, and we redeemed shares pursuant to our share redemption program as follows:

Month	Total Number of Shares Redeemed [1]	Average Price Paid Per Share [2]	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2015	80,573	$ 9.83	[3]
February 2015	24,652	9.97	[3]
March 2015	47,714	9.84	[3]
April 2015	—	—	[3]
May 2015	—	—	[3]
June 2015	—	—	[3]
July 2015	4,250	10.14	[3]
August 2015	—	—	[3]
September 2015	—	—	[3]
Total	157,189		

[1] We announced the adoption and commencement of the program on March 12, 2010. We announced an amendment to the program on January 18, 2013 (which amendment became effective on February 17, 2013), on February 26, 2013 (which amendment became effective on March 28, 2013), on January 28, 2014 (which amendment became effective on February 27, 2014) and on October 17, 2014 (which amendment became effective on November 16, 2014).

[2] The prices at which we redeem shares under the program are set forth above.

[3] We limit the dollar value of shares that may be redeemed under the program as described above. In March 2015, we exhausted the $1.5 million of funds available for all redemptions and thus, because limitations on the dollar value of shares that may be redeemed under our share redemption program, as described above, we will not be able to process ordinary redemptions for the remainder of 2015. For the remainder of 2015, we may redeem up to $0.5 million of shares in connection with special redemptions. As of September 30, 2015 we had $0.8 million of outstanding and unfulfilled ordinary redemption requests, representing 83,212 shares, recorded in other liabilities on the accompanying consolidated balance sheets.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

PART II. OTHER INFORMATION (CONTINUED)

Item 5. Other Information

None.

Item 6. Exhibits

Ex.	Description
3.1	Articles of Amendment and Restatement as adopted on January 8, 2010, incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-11, Commission File No. 333-161449, filed January 12, 2010
3.2	Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-11, Commission File No. 333-161449, filed January 12, 2010
4.1	Form of Subscription Agreement, included as Appendix A to the prospectus included in Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-11, Commission File No. 333-181777, filed March 5, 2013
4.2	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates), incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 1 to the Company's Registration Statement on Form S-11, Commission File No. 333-161449, filed October 2, 2009
4.3	Third Amended and Restated Dividend Reinvestment Plan, incorporated by reference to Exhibit 4.4 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2013, filed May 10, 2013
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Fifth Amended and Restated Share Redemption Program, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed October 17, 2014
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KBS LEGACY PARTNERS APARTMENT REIT, INC.

Date: November 12, 2015

By: /s/ W. DEAN HENRY

W. Dean Henry
Chief Executive Officer
(principal executive officer)

Date: November 12, 2015

By: /s/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel
Chief Financial Officer, Treasurer and Secretary
(principal financial officer)

Exhibit 31.1

Certification of Chief Executive Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, W. Dean Henry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBS Legacy Partners Apartment REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2015

By: /S/ W. DEAN HENRY

W. Dean Henry
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification of Chief Financial Officer pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey K. Waldvogel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of KBS Legacy Partners Apartment REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2015

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer, Treasurer and Secretary

(principal financial officer)

Exhibit 32.1

Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of KBS Legacy Partners Apartment REIT, Inc. (the "Registrant") for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, W. Dean Henry, Chief Executive Officer of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 12, 2015

By: /S/ W. DEAN HENRY

W. Dean Henry
Chief Executive Officer
(principal executive officer)

Exhibit 32.2

Certification pursuant to 18 U.S.C. Section 1350,
as Adopted pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of KBS Legacy Partners Apartment REIT, Inc. (the "Registrant") for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jeffrey K. Waldvogel, the Chief Financial Officer of the Registrant, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 12, 2015

By: /S/ JEFFREY K. WALDVOGEL

Jeffrey K. Waldvogel

Chief Financial Officer, Treasurer and Secretary

(principal financial officer)