# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2017**
**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**<br>**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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☐ | Accelerated Filer | ☐ |
| Non-Accelerated Filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 May 5, 2017, there were 20,908,451 outstanding shares of common stock of the registrant.

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**FORM 10-Q**

**March 31, 2017**

**INDEX**

**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)

| | March 31, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| Assets | | |
| Real estate held for investment: | | |
| Land | $ 41,771 | $ 41,771 |
| Buildings and improvements | 327,693 | 327,619 |
| Total real estate held for investment, cost | 369,464 | 369,390 |
| Less accumulated depreciation and amortization | (45,083) | (42,622) |
| Total real estate held for investment, net | 324,381 | 326,768 |
| Real estate held for sale, net | — | 39,926 |
| Total real estate, net | 324,381 | 366,694 |
| Cash and cash equivalents | 42,363 | 15,998 |
| Restricted cash | 4,060 | 5,099 |
| Due from affiliate | 27 | — |
| Prepaid expenses and other assets | 3,942 | 4,146 |
| Total assets | $ 374,773 | $ 391,937 |
| Liabilities and stockholders' equity | | |
| Notes payable: | | |
| Notes payable, net | $ 251,102 | $ 252,326 |
| Notes payable related to real estate held for sale, net | — | 26,820 |
| Total notes payable, net | 251,102 | 279,146 |
| Accounts payable and accrued liabilities | 4,036 | 5,566 |
| Due to affiliates | 213 | 157 |
| Distributions payable | 1,152 | 1,154 |
| Other liabilities | 2,562 | 2,778 |
| Total liabilities | 259,065 | 288,801 |
| Commitments and contingencies (Note 7) | | |
| Redeemable common stock | 201 | 350 |
| 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, 20,856,887 and 20,896,268 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively | 209 | 209 |
| Additional paid-in capital | 180,187 | 180,196 |
| Cumulative distributions and net losses | (64,889) | (77,619) |
| Total stockholders' equity | 115,507 | 102,786 |
| Total liabilities and stockholders' equity | $ 374,773 | $ 391,937 |

*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 March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Revenues: | | |
| Rental income | $ 10,966 | $ 11,154 |
| Total revenues | 10,966 | 11,154 |
| Expenses: | | |
| Operating, maintenance, and management | 1,385 | 1,626 |
| Real estate taxes and insurance | 1,812 | 1,640 |
| Asset management fees to affiliate | 234 | 194 |
| Property management fees and expenses to affiliate | 1,611 | 1,355 |
| General and administrative expenses | 566 | 625 |
| Depreciation and amortization | 3,005 | 3,051 |
| Interest expense | 2,782 | 2,591 |
| Total expenses | 11,395 | 11,082 |
| Other income: | | |
| Interest and other income | 26 | 14 |
| Gain on sale of real estate, net | 16,479 | — |
| Total other income | 16,505 | 14 |
| Net income | $ 16,076 | $ 86 |
| Net income per common share, basic and diluted | $ 0.77 | $ — |
| Weighted-average number of common shares outstanding, basic and diluted | 20,874,457 | 20,501,067 |

*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, 2016 and the Three Months Ended March 31, 2017 (unaudited)

(dollars in thousands)

| | Common Stock | | Additional Paid-in Capital | Cumulative Distributions and Net Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|
| | Shares | Amounts | | | |
| Balance, December 31, 2015 | 20,508,397 | $ 205 | $ 176,476 | $ (69,310) | $ 107,371 |
| Issuance of common stock | 586,585 | 6 | 5,731 | — | 5,737 |
| Redemptions of common stock | (198,714) | (2) | (2,017) | — | (2,019) |
| Distributions declared | — | — | — | (13,430) | (13,430) |
| Other offering costs | — | — | 6 | — | 6 |
| Net income | — | — | — | 5,121 | 5,121 |
| Balance, December 31, 2016 | 20,896,268 | 209 | 180,196 | (77,619) | 102,786 |
| Issuance of common stock | 153,411 | 2 | 1,363 | — | 1,365 |
| Redemptions of common stock | (192,792) | (2) | (1,797) | — | (1,799) |
| Transfers from redeemable common stock | — | — | 435 | — | 435 |
| Distributions declared | — | — | — | (3,346) | (3,346) |
| Other offering costs | — | — | (10) | — | (10) |
| Net income | — | — | — | 16,076 | 16,076 |
| Balance, March 31, 2017 | 20,856,887 | $ 209 | $ 180,187 | $ (64,889) | $ 115,507 |

*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)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Cash Flows from Operating Activities: | | |
| Net income | $ 16,076 | $ 86 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,005 | 3,051 |
| Bad debt expense | 101 | 125 |
| Loss due to property damages | — | 150 |
| Loss due to extinguishment of debt | 267 | — |
| Amortization of discount on notes payable | 22 | 22 |
| Amortization of deferred financing costs | 134 | 103 |
| Gain on sale of real estate, net | (16,479) | — |
| Changes in operating assets and liabilities: | | |
| Prepaid expenses and other assets | 54 | (18) |
| Accounts payable and accrued liabilities | (1,526) | (1,221) |
| Due from affiliate | (27) | (105) |
| Due to affiliates | 56 | 263 |
| Other liabilities | 70 | 52 |
| Net cash provided by operating activities | 1,753 | 2,508 |
| Cash Flows from Investing Activities: | | |
| Proceeds from sale of real estate | 56,200 | — |
| Improvements to real estate | (368) | (751) |
| Net cash provided by (used in) investing activities | 55,832 | (751) |
| Cash Flows from Financing Activities: | | |
| Principal payments on mortgage notes payable | (28,200) | (1,452) |
| Prepayment fees related to the extinguishment of debt | (267) | — |
| Payments to redeem common stock | (1,799) | (1,613) |
| Payments of other offering costs | (10) | (12) |
| Distributions paid | (1,983) | (1,866) |
| Net cash used in financing activities | (32,259) | (4,943) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 25,326 | (3,186) |
| Cash, cash equivalents and restricted cash, beginning of period | 21,097 | 24,869 |
| Cash, cash equivalents and restricted cash, end of period | $ 46,423 | $ 21,683 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | $ 2,421 | $ 2,470 |
| Supplemental Disclosure of Noncash Transactions: | | |
| Distributions paid to common stockholders through common stock issuances pursuant to the dividend reinvestment plan | $ 1,365 | $ 1,421 |

*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**

March 31, 2017

(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, 2017 (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 March 31, 2017, the Sub-Advisor owned 20,000 shares of common stock of the Company.

The Company invested in and manages a portfolio of high quality apartment complexes located throughout the United States. The Company's portfolio consists of "core" apartment complexes that were already well-positioned and producing rental income at acquisition. As of March 31, 2017, the Company owned 10 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)**

March 31, 2017

(unaudited)

As of March 31, 2017, the Company had sold an aggregate of 21,837,371 shares of common stock in the Offerings for gross offering proceeds of $217.3 million, including an aggregate of 2,621,961 shares of common stock under the dividend reinvestment plan for gross offering proceeds of $25.8 million. Also, as of March 31, 2017, the Company had redeemed 1,000,484 shares sold in the Offerings for $9.7 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, 2016. 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, 2016 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 months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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 unaudited 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 unaudited consolidated financial statements and condensed notes. Actual results could materially differ from those estimates.

### Segments

The Company had invested in 10 apartment complexes as of March 31, 2017. 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.

### 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. During the three months ended March 31, 2017, the Company sold one apartment complex. As a result, certain assets and liabilities were reclassified to held for sale on the consolidated balance sheets for all periods presented. During the year ended December 31, 2016, the Company elected to early adopt ASU No. 2016-18 (as defined below). As a result, the Company no longer presents the changes within restricted cash in the consolidated statements of cash flows. Instead, restricted cash is included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statements of cash flows.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

**Square Footage, Occupancy and Other Measures**

Any references to square footage or occupancy are unaudited and outside the scope of the Company's independent registered public accounting firm's review of the Company's financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

**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 three months ended March 31, 2017 and 2016.

Distributions declared per common share were $0.160 for the three months ended March 31, 2017. Distributions declared per common share assumes each share was issued and outstanding each day that was a record date for distributions during this period. For the period from January 1, 2017 to February 28, 2017, distributions were based on daily record dates and calculated at a rate of $0.00178082 per share per day. Each day during the period from January 1, 2017 through February 28, 2017 was a record date for distributions. Distributions per common share for the month of March 2017 were based on a monthly record date in the amount of $0.05520548 per share of common stock to stockholders of record as of the close of business on March 20, 2017.

Distributions declared per common share were $0.160 for the three months ended March 31, 2016. Distributions declared per common share assumes each share was issued and outstanding each day that was a record date for distributions during this period. For the three months ended March 31, 2016, 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, 2016 through February 28, 2016 and March 1, 2016 through March 31, 2016 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. As the primary source of revenue for the Company is generated through leasing arrangements, which are scoped out of this standard, the Company does not expect the adoption of ASU No. 2014-09 to have a significant impact on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU No. 2016-01"). The amendments in ASU No. 2016-01 address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU No. 2016-01 primarily affects accounting for equity investments and financial liabilities where the fair value option has been elected. ASU No. 2016-01 also requires entities to present financial assets and financial liabilities separately, grouped by measurement category and form of financial asset in the balance sheet or in the accompanying notes to the financial statements. ASU No. 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU No. 2016-01 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)**

March 31, 2017

(unaudited)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02"). The amendments in ASU No. 2016-02 change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of ASU No. 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of adopting the new leases standard on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU No. 2016-15"). ASU No. 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in ASU No. 2016-15 provide guidance on eight specific cash flow issues, including the following that are or may be relevant to the Company: (a) Cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities; (b) Cash payments relating to contingent consideration made soon after an acquisition's consummation date (i.e., approximately three months or less) should be classified as cash outflows for investing activities. Payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows for operating activities; (c) Cash payments received from the settlement of insurance claims should be classified on the basis of the nature of the loss (or each component loss, if an entity receives a lump-sum settlement); (d) In the absence of specific guidance, an entity should classify each separately identifiable cash source and use on the basis of the nature of the underlying cash flows. For cash flows with aspects of more than one class that cannot be separated, the classification should be based on the activity that is likely to be the predominant source or use of cash flow. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is still evaluating the impact of adopting ASU No. 2016-15 on its financial statements, but does not expect the adoption of ASU No. 2016-15 to have a material impact to its financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU No. 2016-18"). ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company elected to early adopt ASU No. 2016-18 for the reporting period ended December 31, 2016 and it was applied retrospectively. As a result of the adoption of ASU No. 2016-18, the Company no longer presents the changes within restricted cash in the consolidated statements of cash flows.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

## 3. REAL ESTATE

As of March 31, 2017, the Company owned 10 apartment complexes, containing 2,738 units and encompassing 2.8 million rentable square feet, which were 95% occupied. The following table provides summary information regarding the properties owned by the Company as of March 31, 2017 (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 | $ 36,571 | $ (5,419) | $ 31,152 |
| Poplar Creek | 02/09/2012 | Schaumburg, IL | 27,117 | (2,888) | 24,229 |
| The Residence at Waterstone | 04/06/2012 | Pikesville, MD | 65,379 | (8,263) | 57,116 |
| Legacy Crescent Park | 05/03/2012 | Greer, SC | 20,758 | (3,099) | 17,659 |
| Legacy at Martin's Point | 05/31/2012 | Lombard, IL | 37,619 | (5,882) | 31,737 |
| Watertower Apartments | 01/15/2013 | Eden Prairie, MN | 38,805 | (4,599) | 34,206 |
| Crystal Park at Waterford | 05/08/2013 | Frederick, MD | 46,095 | (5,503) | 40,592 |
| Millennium Apartment Homes | 06/07/2013 | Greenville, SC | 33,317 | (3,900) | 29,417 |
| Legacy Grand at Concord | 02/18/2014 | Concord, NC | 27,916 | (2,563) | 25,353 |
| Lofts at the Highlands | 02/25/2014 | St. Louis, MO | 35,887 | (2,967) | 32,920 |
| | | | $ 369,464 | $ (45,083) | $ 324,381 |

Additionally, as of March 31, 2017 and December 31, 2016, the Company had recorded unamortized tax abatement intangible assets, which are included in prepaid expenses and other assets in the accompanying balance sheets, of $2.4 million and $2.5 million, respectively. During the three months ended March 31, 2017 and 2016, the Company recorded amortization expense of $65,000 and $65,000, respectively, related to tax abatement intangible assets.

### Recent Disposition

***Wesley Village***

On November 6, 2012, the Company, through an indirect wholly owned subsidiary, purchased a 301-unit apartment complex on approximately 11.0 acres of land and the adjacent 3.8-acre parcel of undeveloped land located in Charlotte, North Carolina (together, "Wesley Village") for an aggregate purchase price of $45.8 million. On March 9, 2017, the Company sold Wesley Village to Bluerock Real Estate, LLC (the "Purchaser") for $57.2 million, resulting in a gain of $16.5 million, which gain has been reduced by disposition fees related to the sale paid to the Advisor of $0.4 million and which includes a reduction to the net book value of the property due to historical depreciation and amortization expense.

For the three months ended March 31, 2017 and 2016, Wesley Village had revenues of $0.8 million and $1.1 million, respectively and expenses of $1.1 million and $0.9 million, respectively. The results of operations from Wesley Village and related gain on sale are included in continuing operations on the Company's consolidated statements of operations.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

## 4. NOTES PAYABLE

As of March 31, 2017 and December 31, 2016, the Company's notes payable consisted of the following (dollars in thousands):

| | Book Value as of March 31, 2017 | Book Value as of December 31, 2016 | Contractual Interest Rate as of March 31, 2017 | Payment Type | Maturity Date | |
|---|---|---|---|---|---|---|
| Legacy at Valley Ranch Mortgage Loan | $ 30,800 | $ 30,958 | 3.9% | Principal & Interest | 04/01/2019 | |
| Poplar Creek Mortgage Loan | 19,316 | 19,414 | 4.0% | Principal & Interest | 03/01/2019 | (1) |
| The Residence at Waterstone Mortgage Loan | 45,416 | 45,653 | 3.8% | Principal & Interest | 05/01/2019 | (1) |
| Legacy Crescent Park Mortgage Loan | 13,482 | 13,560 | 3.5% | Principal & Interest | 06/01/2019 | (1) |
| Legacy at Martin's Point Mortgage Loan | 21,744 | 21,866 | 3.3% | Principal & Interest | 06/01/2019 | (1) |
| Wesley Village Mortgage Loan (2) | — | 26,862 | (2) | (2) | (2) | |
| Watertower Mortgage Loan | 23,795 | 23,943 | 2.5% | Principal & Interest | 02/10/2018 | (1) |
| Crystal Park Mortgage Loan | 26,833 | 27,013 | 2.5% | Principal & Interest | 06/01/2018 | (1) |
| Millennium Mortgage Loan | 20,061 | 20,190 | 2.7% | Principal & Interest | 07/01/2018 | (1) |
| Legacy Grand at Concord Mortgage Loan | 22,315 | 22,392 | 4.1% | Principal & Interest | 12/01/2050 | (1) |
| Lofts at the Highlands Mortgage Loan | 30,643 | 30,754 | 3.4% | Principal & Interest | 08/01/2052 | (1) |
| Total notes payable principal outstanding | $ 254,405 | $ 282,605 | | | | |
| Discount on note payable, net | (2,622) | (2,644) | | | | |
| Deferred financing costs, net | (681) | (815) | | | | |
| Total notes payable, net | $ 251,102 | $ 279,146 | | | | |

(1) The Company has the right to repay the loan subject to certain conditions and prepayment penalties.

(2) On March 9, 2017, in connection with the disposition of Wesley Village, the Company paid off the Wesley Village Mortgage Loan.

During the three months ended March 31, 2017 and 2016, the Company incurred $2.8 million and $2.6 million of interest expense, respectively. Included in interest expense for the three months ended March 31, 2017 and 2016 were $0.1 million and $0.1 million of amortization of deferred financing costs, respectively, and $0.3 million of prepayment fees during the three months ended March 31, 2017. Also included in interest expense for the three months ended March 31, 2017 and 2016 were $22,000 and $22,000 of amortization of discount on a note payable, respectively. As of March 31, 2017 and December 31, 2016, the Company recorded interest payable of $0.7 million and $0.8 million, respectively.

The following is a schedule of maturities, including principal payments, for the Company's notes payable outstanding as of March 31, 2017 (in thousands):

| | |
|---|---|
| April 1, 2017 through December 31, 2017 | $ 3,996 |
| 2018 | 72,958 |
| 2019 | 126,682 |
| 2020 | 852 |
| 2021 | 884 |
| Thereafter | 49,033 |
| | $ 254,405 |

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

## 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 non-financial and financial assets at fair value on a non-recurring basis (e.g., carrying value of impaired 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.

*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 March 31, 2017 and December 31, 2016 (dollars in thousands):

| | March 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Face Value | Carrying Amount | Fair Value | Face Value | Carrying Amount | Fair Value |
| Financial liabilities: | | | | | | |
| Notes payable | $ 254,405 | $ 251,102 | $ 255,140 | $ 282,605 | $ 279,146 | $ 279,258 |

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. Low levels of transaction volume for certain financial instruments have 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

## 6. RELATED PARTY TRANSACTIONS

The Company has entered into the Advisory Agreement with the Advisor and the Follow-on Dealer Manager Agreement 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 Follow-on Offering and entitle the Advisor to specified fees upon the provision of certain services with regard to the management and disposition 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, such as certain operating costs. 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. The Company has renewed its participation in the program, and the program is effective through June 30, 2017.

During the three months ended March 31, 2017 and 2016, 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

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 months ended March 31, 2017 and 2016, respectively, and any related amounts payable as of March 31, 2017 and December 31, 2016 (in thousands):

| | Incurred | | Payable as of | |
|---|---|---|---|---|
| | Three Months Ended March 31, | | March 31, | December 31, |
| | 2017 | 2016 | 2017 | 2016 |
| ***Expensed*** | | | | |
| Asset management fees [1] | $ 234 | $ 194 | $ — | $ — |
| Reimbursable operating expenses [2] | 69 | 66 | 17 | 15 |
| Property management fees and expenses [3] | 1,611 | 1,355 | 196 | 142 |
| Disposition fees [4] | 371 | — | — | — |
| | $ 2,285 | $ 1,615 | $ 213 | $ 157 |

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

[2] Reimbursable operating expenses primarily consist of marketing research costs and property site visit expenses incurred by the Sub-Advisor and internal audit personnel costs, accounting software and cybersecurity related expenses incurred by the Advisor 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 $36,000 and $42,000 for the three months ended March 31, 2017 and 2016, respectively, and were the only type of employee costs reimbursed under the Advisory Agreement through March 31, 2017. 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. In addition to the amounts above, the Company reimburses the Advisor and Sub-Advisor for certain of the Company's direct property operating costs incurred from third parties that were initially paid by the Advisor and Sub-Advisor on behalf of the Company.

[3] Property management fees and expenses are all paid to Legacy Partners, Inc. ("LPI"), an affiliate of the Sub-Advisor, and consist of (i) reimbursable on-site salary and related benefits expenses for personnel at the managed properties, and (ii) fees for account maintenance and bookkeeping services. See "— Property Management Agreements."

[4] Disposition fees with respect to real estate sold are included in the gain on sale of real estate, net, in the accompanying consolidated statements of operations.

During the three months ended March 31, 2017, the Company had a $27,000 property insurance rebate due from the Advisor.

In connection with the Follow-on 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 three months ended March 31, 2017, the Advisor did not incur any costs of the supplemental coverage obtained by the Company.

On March 9, 2017, the Company sold Wesley Village to the Purchaser. Gary T. Kachadurian, one of the Company's independent directors, is also a director of a real estate investment trust sponsored by the Purchaser (the "Purchaser REIT") and is Vice Chairman of the manager of the Purchaser REIT and as such, Mr. Kachadurian (i) recused himself from all of the Company's deliberations relating to the disposition of Wesley Village, and (ii) informed the Company and its board of directors that he recused himself from all of the Purchaser REIT's and its manager's deliberations relating to the acquisition of Wesley Village.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

**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 March 31, 2017, the Company had deferred payment of $1.5 million of asset management fees for the period from February 2013 through July 2013, but did not record an accrual on its books as the Company believed that the chance of payment of this amount to the Advisor is remote.

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 March 31, 2017, the Company had deferred payment of $8.0 million of asset management fees for the period from August 2013 through December 2016, but did not record an accrual on its books as the Company believed that the chance of payment of this amount to the Advisor is remote.

During the three months ended March 31, 2017, the Company incurred $0.7 million of asset management fees. However, the Company only recorded $0.2 million pursuant to the limitations in the Advisory Agreement as noted above. The Company did not accrue the remaining $0.5 million of these asset management fees as it is uncertain whether any of this amount will be paid in the future. During the three months ended March 31, 2016, the Company incurred $0.7 million of asset management fees. However, the Company only recorded $0.2 million pursuant to the limitations in the Advisory Agreement as noted above. The Company did not accrue the remaining $0.5 million of these asset management fees as it is uncertain whether any of this amount will be paid in the future.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

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 Agreements**

The Company, through indirect wholly owned subsidiaries (each, a "Property Owner"), has entered into property management agreements with LPI (each, a "Property Management Agreement"), pursuant to which LPI provides, 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 [(1)] | 05/19/2015 | 3.00% |
| Legacy Grand at Concord | 05/21/2015 | 3.00% |
| Millennium Apartment Homes [(2)] | 05/27/2015 | 3.00% |
| Legacy Crescent Park [(2)] | 05/29/2015 | 3.00% |
| Legacy at Valley Ranch | 06/09/2015 | 3.00% |

[(1)] On March 9, 2017, the Company sold Wesley Village. The Property Management Agreement for Wesley Village was terminated effective as of March 9, 2017. For more information, see Note 3, "Real Estate – Recent Disposition – Wesley Village."

[(2)] Under the Property Management Agreement, the Property Owner will pay LPI 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 per month.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

Under the Property Management Agreements, each Property Owner pays LPI: (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 LPI 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 LPI for retail leases executed that were procured or obtained by LPI, (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 and fees for account maintenance and bookkeeping services. Unless otherwise provided for in an approved operating budget, LPI is responsible for all expenses that it incurs in rendering services pursuant to each Property Management Agreement. Each Property Management Agreement had an initial term of one year and each has continued on a month-to-month basis pursuant to its terms. Either party may terminate a Property Management Agreement provided it gives 30 days' prior written notice of its desire to terminate such 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 LPI. The Property Owner may also terminate the Property Management Agreement with cause immediately upon notice to LPI and the expiration of any applicable cure period. LPI 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. LPI 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 LPI to a Property Owner for a default or, in the case of Watertower Apartments, Lofts at the Highlands, 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.

## 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 LPI to provide the property management services under the Property Management Agreements. In the event that these companies are unable to provide any of 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

**Item 1. Financial Statements (continued)**

**KBS LEGACY PARTNERS APARTMENT REIT, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2017

(unaudited)

## 8. SUBSEQUENT EVENTS

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

**Distributions Paid**

On April 3, 2017, the Company paid distributions of $1.2 million, which related to distributions declared for March 2017 in the amount of $0.05520548 per share of common stock to stockholders of record as of the close of business on March 20, 2017.

**Special Distribution Declared and Paid**

On April 5, 2017, the Company's board of directors declared a special distribution in the amount of $1.00 per share of common stock to stockholders of record as of the close of business on April 20, 2017, for an aggregate distribution of $20.9 million (the "Special Distribution"). The board of directors designated the Special Distribution as ineligible for reinvestment through the Company's dividend reinvestment plan. The Special Distribution was paid on May 1, 2017 and was funded from the Company's net proceeds from the sale of Wesley Village on March 9, 2017.

**Distributions Declared**

On May 9, 2017, the Company's board of directors declared a May 2017 distribution in the amount of $0.04609658 per share of common stock to stockholders of record as of the close of business on May 19, 2017, which the Company expects to pay in June 2017, and a June 2017 distribution in the amount of $0.04460959 per share of common stock to stockholders of record as of the close of business on June 20, 2017, which the Company expects to pay in July 2017. Investors may choose to receive cash distributions or purchase additional shares through the Company's dividend reinvestment plan.

**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 KBS Capital Advisors LLC ("KBS Capital Advisors"), our advisor, and our sub-advisor to manage our investments and to provide certain other services. We are dependent on Legacy Partners, Inc., formerly known as Legacy Partners Residential, Inc. ("LPI"), 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. In addition, if we sell any additional properties in connection with our implementation of our strategic alternatives, we will likely further adjust the ongoing distribution rate and our distribution policy subsequent to such sales in order to maintain the current distribution coverage.
- We may incur debt until our total liabilities would exceed 75% of the cost of our tangible assets (before deducting depreciation and 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 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 January 2017, we exhausted the $1.5 million of funds available for all redemptions for 2017. Because of the 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 2017. As of March 31, 2017, we may redeem up to $0.2 million of shares for the remainder of 2017 in connection with Special Redemptions and had $1.4 million of outstanding and unfulfilled ordinary redemption requests.
- Our Special Committee (defined below) has completed its analysis of potential strategic alternatives and as a result, we anticipate that we will pursue certain strategic asset sales and hold the majority of our real estate properties in an effort to create additional stockholder value, while still paying ongoing distributions. We intend to use a portion of the net proceeds from strategic asset sales, after paying off the notes payable related to such assets and after paying sale-related expenses to: (i) make renovations at certain remaining real estate properties, which we believe could increase property-level net operating income ("NOI") and create additional stockholder value; (ii) pay special distributions to our stockholders; and (iii) potentially provide additional availability under our share redemption program. However, there is no assurance that this process will result in stockholder liquidity or provide a return to stockholders that equals or exceeds our estimated value per share, or that any additional liquidity provided under our share redemption program would be sufficient to redeem the shares of any stockholders that previously have requested that their shares be redeemed pursuant to the terms of the share redemption program and have not withdrawn such request.

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, 2016, 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 invested in and manage a portfolio of high quality apartment complexes located throughout the United States. Our portfolio consists of "core" apartment complexes that were already well-positioned and producing rental income at acquisition. As of March 31, 2017, we owned 10 apartment complexes.

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 between KBS Capital Advisors and Legacy Partners Residential Realty LLC ("LPRR 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. LPI is the property manager for our real estate property investments. 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 Follow-on Offering 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

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.

As of March 31, 2017, we had sold an aggregate of 21,837,371 shares of common stock in the Offerings for gross offering proceeds of $217.3 million, including an aggregate of 2,621,961 shares of common stock under our dividend reinvestment plan for gross offering proceeds of $25.8 million. Also, as of March 31, 2017, we had redeemed 1,000,484 shares sold in the Offerings for $9.7 million. We have used substantially all of the net proceeds from the primary Offerings to invest in and manage a portfolio of high quality apartment communities located throughout the United States as described above.

**Market Outlook - Multifamily Real Estate and Finance Markets**

Strong demand and trailing supply have been dominant themes for professionally managed, multifamily rental real estate ("Multifamily") in the United States since the recession of 2008-2009. Although the U.S. Multifamily outlook remains positive, supply and affordability are becoming concerns in a growing number of urban core markets, most notably, New York City, San Francisco, Los Angeles, Miami and other prominent coastal cities. The beneficiaries of these "urban-core concerns" have increasingly been suburban markets. With more renters opting for the suburbs, vacancy has been declining and rents increasing in suburban markets. This trend is likely to continue, assuming the economy continues to grow and suburban markets remain affordable compared to their urban counterparts. These factors bode well for our portfolio, which is predominantly located in suburban markets.

It is approaching eight years since the recession of 2008-2009. Since that time, the U.S. economy has experienced modest, but sustained, real GDP and job growth. The pace of growth eased in 2016 however, as compared to 2014 and 2015. Real GDP growth in 2014 and 2015 was 2.4% and 2.6%, respectively, versus 1.6% for 2016. It is noteworthy that the easing of economic growth in 2016 occurred predominantly in the first half of the year. Following annualized real GDP growth of 0.8% and 1.4% in the first and second quarters of 2016, real GDP growth spiked in the third quarter to 3.5% and again eased to 2.1% in the fourth quarter. In terms of job growth, the United States added 3.0 and 2.7 million jobs in 2014 and 2015, respectively, versus 2.2 million jobs gained in 2016. In the first quarter of 2017, the United States added an estimated 533,000 jobs. This equates to 2.1 million jobs on an annualized basis, which is on par with the jobs gained in 2016.

U.S. Multifamily construction of new multifamily units was at historical lows following the recession, as demand was anemic stemming from the loss of approximately 8.6 million jobs. A historical high of prime-age renters (20-34 year olds) were living with their parents waiting for the job market to recover at the time. In anticipation of the economic recovery and a release of this pent-up demand, multifamily developers began increasing the number of new construction units, rebounding from 98,000 in 2009 to over 350,000 units in 2015. By the end of 2016, not only had nearly twice as many jobs been filled than had been lost during the recession, but Multifamily supply outpaced demand for the first time since the recession.

As with many Multifamily experts, we see the 2016 supply imbalance as a temporary phenomenon and unrelated to our portfolio. Supply concerns are predominantly focused in a limited number of urban core markets, and our portfolio is suburban weighted. Also, the majority of the new construction pipeline in 2017 is focused in urban core markets. Moreover, Multifamily supply is projected to slow towards historic norms over the next 1-2 years, as banks have been gradually tightening their construction lending standards and equity investors have been becoming more selective about the developments they pursue.

Multifamily demand remains strong and is projected to sustain its fundamentals for the next few years. Vacancy was 4.8% and 4.6% in 2014 and 2015, respectfully, and is projected to decrease slightly through 2019 as demand continues to absorb new unit deliveries and the rate of new construction eases. Such vacancy levels compare favorably to the historical equilibrium vacancy rate of 5.6%. With more supply generally in recent years, Multifamily rent growth eased somewhat. In 2016, rent growth was 3.4%, as compared to 4.2% and 5.0% in 2014 and 2015, respectively. Rent growth is expected to remain in the 3.2% to 3.5% range in 2017, as pipeline supply is completed and absorbed. However, with persistent demand and easing supply as noted, rent growth is projected to return to the 4%-5% range in 2018 and 2019.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

With Multifamily supply and affordability concerns centered primarily in urban core markets, particularly with regard to large coastal cities, more and more renters are opting for the suburbs. According to CBRE Research, the least affordable Multifamily markets in the U.S. in 2011 have become even more unaffordable in the years since then. Furthermore, according to the latest data available from the U.S. Census Bureau, 1.8 million more people moved to the suburbs than to urban cores. This shift of demand towards the suburbs is projected to continue and well located, relatively affordable (as compared to their urban core counterparts) suburban apartments are likely to continue to perform well in the short-term (2-3 years).

In the medium- and long-term, we believe the prospects for Multifamily real estate investment continue to be promising. We expect several positive demographic trends, as noted below, will drive the demand for Multifamily housing for the remainder of this decade and well into the next.

- U.S. population growth - The U.S. Census Bureau projects that the U.S. population will increase by approximately 38 million (12%) between 2015 and 2030. Note that, currently, about 36% of people choose to rent as opposed to own a home.
- Baby Boomers downsizing - The population age 65 and over is increasing, driven by Baby Boomers, from approximately 48 million in 2015 to about 74 million in 2030. Despite generally having enough income to purchase a home, many Baby Boomers are downsizing, opting for the convenience and amenities of Multifamily properties.
- Echo Boom - The children of the Baby Boom generation, dubbed the Echo Boomers, will have increased the prime rental age group, 20 to 34 year olds, by 2 million (69 million total) from 2015 to 2020. This age cohort is expected to remain at this elevated level, up 4 million from 2010, through 2030 according to the U.S. Census Bureau.

Finally, with regard to the Multifamily investment market, although interest rates increased in 2016 and are likely to increase modestly in 2017, Multifamily capitalization rates have changed very little and values have remained stable. Increasing interest rates have historically had a negative effect on Multifamily values. However, three key factors are buoying values. First, Multifamily market fundamentals, as described above, are strong and their forecast promising. Secondly, the spread between 10-year U.S. Treasuries and capitalization rates has been atypically wide in recent years and can therefore absorb modest interest rate hikes without increasing capitalization rates. Lastly, U.S. commercial real estate, including Multifamily, is a favored investment for foreign capital due to the lack of attractive risk-adjusted returns in the foreseeable future elsewhere.

**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;
- Proceeds from asset sales;
- Debt financings; and
- Cash flow generated by our real estate investments.

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 March 31, 2017, we had sold an aggregate of 21,837,371 shares of common stock in the Offerings for gross offering proceeds of $217.3 million, including an aggregate of 2,621,961 shares of common stock under our dividend reinvestment plan for gross offering proceeds of $25.8 million. Also as of March 31, 2017, we had redeemed 1,000,484 shares sold in the Offerings for $9.7 million. As of March 31, 2017, we had invested substantially all of the proceeds from our now-terminated primary Offerings in real estate properties and do not anticipate making additional real estate acquisitions. We intend to use our cash on hand, cash flow generated by our real estate operations, proceeds from our dividend reinvestment plan and proceeds from the sale of real estate properties as our primary sources of immediate and long-term liquidity.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

As of March 31, 2017, we owned 10 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 property management and 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. Cash flows from operations from our real estate investments will be reduced to the extent that we sell additional properties. As of March 31, 2017, our real estate property investments were 95% occupied.

As of March 31, 2017, our total debt outstanding was $254.4 million. We limit our total liabilities to 75% of the cost (before deducting depreciation and 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 March 31, 2017, our borrowings and other liabilities were approximately 61% of the cost (before deducting depreciation and other non-cash reserves) of our tangible assets. As of March 31, 2017, we had a total of $201.4 million of debt obligations scheduled to mature within the next three years.

We paid distributions to our stockholders during the three months ended March 31, 2017 using a combination of cash flows from operations and proceeds from the disposition of one real estate asset, Wesley Village. We believe that our cash flows from operations, cash on hand, proceeds from our dividend reinvestment plan and proceeds from asset sales 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 March 31, 2017 did not exceed the charter-imposed limitation.

On January 21, 2016, our board of directors formed the Special Committee composed of all of our independent directors to explore the availability of strategic alternatives involving our company with the goal of providing liquidity options for our stockholders while preserving and maximizing overall returns on our investment portfolio.

We have completed the initial marketing of our real estate properties and received offers for both our entire portfolio and individual properties. Based on feedback received during the marketing process, we anticipate that we will pursue certain strategic asset sales and hold the majority of our real estate properties in an effort to create additional stockholder value, while still paying ongoing distributions. We believe that holding the majority of our real estate properties will allow certain debt prepayment obligations to decrease as the loans secured by those properties move closer to maturity, which should create additional stockholder value. If we sell any additional properties, we will likely further adjust the ongoing distribution rate and our distribution policy subsequent to such sales in order to maintain the current distribution coverage.

On March 9, 2017, we completed the sale of Wesley Village. As a result, our cash flows from operations has decreased and will continue to decrease to the extent we have additional dispositions. We have adjusted our distribution policy with respect to the amount of monthly distribution payments to take into account our disposition activity and current real estate investments. We may continue to make strategic asset sales as opportunities become available in the market.

On April 5, 2017, our board of directors approved an estimated value per share of our common stock of $8.35, effective April 20, 2017. The estimated value per share is equal to the estimated value per share of our common stock of $9.35 approved by our board of directors on December 9, 2016, reduced for the impact of the special distribution of $1.00 per share paid to our stockholders of record as of the close of business on April 20, 2017, which was paid on May 1, 2017 and funded from the net proceeds from the sale of Wesley Village (the "Special Distribution"). Any future special distributions we pay from the proceeds of future dispositions will further reduce our estimated value per share and this reduction will be reflected in our updated estimated value per share, which we expect to update no later than December 2017.

***Cash Flows from Operating Activities***

As of March 31, 2017, we owned 10 apartment complexes. During the three months ended March 31, 2017, net cash provided by operating activities was $1.8 million. We expect our cash flows from operating activities to vary over time, but to decrease to the extent we make additional asset sales.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

***Cash Flows from Investing Activities***

Net cash provided by investing activities was $55.8 million for the three months ended March 31, 2017 and primarily consisted of proceeds from the sale of one apartment complex.

***Cash Flows from Financing Activities***

Net cash used in financing activities was $32.3 million for the three months ended March 31, 2017 and consisted primarily of the following:

- $28.2 million of principal payments on our mortgage notes payable;
- $2.0 million of net cash distributions, after giving effect to dividends reinvested by stockholders of $1.4 million; and
- $1.8 million of cash used for redemptions of common stock.

In addition to using our capital resources 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 management and disposition 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 ("NAREIT") 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 March 31, 2017, we had deferred payment of $1.5 million of asset management fees for the period from February 2013 through July 2013, but did not record an accrual on our books as we believed that the chance of payment of this amount to our advisor is remote.

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 March 31, 2017, we had deferred payment of $8.0 million of asset management fees for the period from August 2013 through December 2016, but did not record an accrual on our books as we believed that the chance of payment of this amount to our advisor is remote. During the three months ended March 31, 2017, we incurred $0.7 million of asset management fees. However, we only recorded $0.2 million pursuant to the limitations in the advisory agreement as noted above. We did not accrue the remaining $0.5 million of these deferred asset management fees as it is uncertain whether any of this amount will be paid in the future.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

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. During the year ended December 31, 2016, we reversed, as described above, an aggregate of $4.8 million of deferred asset management fees that were previously accrued. We believed the the chance of payment of the deferred asset management fees is remote based on the estimated value per share and management's current projection of cash flow and distributions to our stockholders.

### Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of March 31, 2017 (in thousands):

| | | Payments Due During the Years Ending December 31, | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Remainder of 2017 | 2018-2019 | 2020-2021 | Thereafter |
| Outstanding debt obligations [1] | $ 254,405 | $ 3,996 | $ 199,640 | $ 1,736 | $ 49,033 |
| Interest payments on outstanding debt obligations [2] | 53,256 | 6,526 | 11,217 | 3,670 | 31,843 |

[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 March 31, 2017. We incurred interest expense of $2.6 million, excluding amortization of deferred financing costs and discount on notes payable of $0.2 million, for the three months ended March 31, 2017.

### Results of Operations

As of March 31, 2016, we owned 11 apartment complexes. Subsequent to March 31, 2016, we sold one apartment complex. As a result, as of March 31, 2017, we owned 10 apartment complexes. The results of operations presented for the three months ended March 31, 2017 and 2016 are not directly comparable due to the disposition of one apartment complex subsequent to January 1, 2017.

*Comparison of the three months ended March 31, 2017 versus the three months ended March 31, 2016*

The following table provides summary information about our results of operations for the three months ended March 31, 2017 and 2016 (dollar amounts in thousands):

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (Decrease) | Percentage Change | $ Change Due to Disposition [1] | $ Change Due to Properties Held Throughout Both Periods [2] |
| Rental income | $ 10,966 | $ 11,154 | $ (188) | (2)% | $ (278) | $ 90 |
| Operating, maintenance, and management costs | 1,385 | 1,626 | (241) | (15)% | (51) | (190) |
| Real estate taxes and insurance | 1,812 | 1,640 | 172 | 10 % | (18) | 190 |
| Asset management fees to affiliate | 234 | 194 | 40 | 21 % | n/a | n/a |
| Property management fees and expenses to affiliate | 1,611 | 1,355 | 256 | 19 % | 93 | 163 |
| General and administrative expenses | 566 | 625 | (59) | (9)% | n/a | n/a |
| Depreciation and amortization expense | 3,005 | 3,051 | (46) | (2)% | (98) | 52 |
| Interest expense | 2,782 | 2,591 | 191 | 7 % | 251 | (60) |
| Gain on sale of real estate, net | 16,479 | — | 16,479 | 100 % | 16,479 | — |

[1] Represents the dollar amount increase (decrease) for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 related to real estate disposed of on or after January 1, 2016.

[2] Represents the dollar amount increase (decrease) for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 related to real estate owned by us throughout both periods presented.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

Rental income decreased from $11.2 million for the three months ended March 31, 2016 to $11.0 million for the three months ended March 31, 2017, primarily due to the disposition of one apartment complex during the three months ended March 31, 2017. Overall, we expect rental income to vary in future periods depending on occupancy rates and rental rates of our real estate investments, but to decrease to the extent we dispose of additional real estate investments.

Operating, maintenance and management costs and real estate taxes and insurance decreased from $3.3 million for the three months ended March 31, 2016 to $3.2 million for the three months ended March 31, 2017 primarily due to the disposition of one apartment complex during the three months ended March 31, 2017, a decrease in reimbursable on-site office expenses and general repair and maintenance costs, and partially offset by an increase due to property tax reassessments. Overall, we expect operating, maintenance and management costs and real estate taxes and insurance to increase in future periods, as compared to historical periods as a result of inflation, but to decrease to the extent we dispose of additional real estate investments.

Asset management fees to affiliate with respect to our real estate investments remained consistent at approximately $0.2 million for the three months ended March 31, 2016 and 2017, respectively. During the three months ended March 31, 2016, we incurred $0.7 million of asset management fees, of which $0.2 million was recorded based on certain payment limitations in the advisory agreement. The remaining $0.5 million of asset management fees were deferred but not accrued as it is uncertain whether any of this amount will be paid in the future. During the three months ended March 31, 2017, we incurred $0.7 million of asset management fees, of which $0.2 million was recorded based on certain payment limitations in the advisory agreement. The remaining $0.5 million of asset management fees were deferred but not accrued as it is uncertain whether any of this amount 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 $1.4 million for the three months ended March 31, 2016 to $1.6 million for the three months ended March 31, 2017 due to bonuses paid by LPI to its employees at our properties during the three months ended March 31, 2017 related to LPI's property-level employee retention strategy necessary as we are pursuing strategic asset sales, which bonus payments we reimbursed to LPI pursuant to the property management agreements between LPI and us. We expect our property management fees and expenses to affiliate on properties we continue to hold to increase in future periods as a result of inflation, but to decrease overall to the extent we dispose of additional real estate investments.

Interest expense increased from $2.6 million for the three months ended March 31, 2016 to $2.8 million for the three months ended March 31, 2017 primarily due to prepayment fees of $0.3 million as a result of early repayment of debt in connection with the disposition of one apartment complex during the three months ended March 31, 2017. In general, we expect our interest expense to decrease in future periods due to the repayment of debt related to the apartment complex sold and to the extent we dispose of additional real estate investments, which may be offset by certain fees and costs that may be incurred due to the prepayment of certain loans.

We recognized a gain on sale of real estate of $16.5 million, net of disposition fees of $0.4 million paid to our advisor, related to the disposition of one apartment complex during the three months ended March 31, 2017. We did not sell any real estate properties during the three months ended March 31, 2016.

**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. 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 non-operating items included in FFO. 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.

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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

For the periods presented, MFFO adjustments consist of the exclusion of the amortization of a discount on a note payable and the exclusion of prepayment fees related to the extinguishment of debt. We have excluded these items based on the following economic considerations:

- *Amortization of a discount on a note payable.* Discounts on debt are amortized over the term of the loan as an adjustment to interest expense. This application results in interest expense recognition that is different than the underlying contractual terms of the debt. We have excluded the amortization of a discount in our calculation of MFFO to more appropriately reflect the economic impact of our debt as the amortization of a discount has no ongoing economic impact on our operations. We believe excluding this item provides investors with a useful supplemental metric that directly addresses core operating performance; and
- *Prepayment fees related to the extinguishment of debt.* Prepayment fees related to the extinguishment of debt are generally included in interest expense. 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.

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 months ended March 31, 2017 and 2016, respectively (in thousands). No conclusions or comparisons should be made from the presentation of these periods.

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net income | $ 16,076 | $ 86 |
| Depreciation of real estate assets | 3,004 | 3,050 |
| Amortization of lease-related costs | 1 | 1 |
| Gain on sale of real estate, net | (16,479) | — |
| FFO | 2,602 | 3,137 |
| Amortization of discount on note payable | 22 | 22 |
| Prepayment fees related to the extinguishment of debt | 267 | — |
| MFFO | $ 2,891 | $ 3,159 |

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.

**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 cash on hand, proceeds from asset sales and/or from proceeds from our dividend reinvestment plan. Distributions declared, distributions paid and cash flows from operations were as follows for the first quarter of 2017 (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 2017 | $ 3,346 | $ 0.160 | $ 1,983 | $ 1,365 | $ 3,348 | $ 1,753 |

[1] Distributions declared for the periods from January 1, 2017 through February 28, 2017 were based on daily record dates and were calculated at a rate of $0.00178082 per share per day. Distributions declared for the month of March 2017 were based on a monthly record date and equaled $0.05520548 per share of common stock. These distributions were paid to stockholders of record as of the close of business on March 20, 2017.

[2] Assumes each share was issued and outstanding each day that was a record date for distributions during the period presented.

[3] Other than special distributions, 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.

**PART I. FINANCIAL INFORMATION (CONTINUED)**

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

For the three months ended March 31, 2017, we paid aggregate distributions of $3.3 million, including $2.0 million of distributions paid in cash and $1.3 million of distributions reinvested through our dividend reinvestment plan. FFO for the three months ended March 31, 2017 was $2.6 million and cash flows from operations was $1.8 million. We funded our total distributions paid, which includes net cash distributions and distributions reinvested by stockholders, with cash flows from operations and 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 our dividend reinvestment plan as permitted by our offering documents and loan agreements. See the reconciliation of FFO to net income above.

From inception through March 31, 2017, we paid aggregate distributions of $60.1 million, and our cumulative net loss for the same period was $3.7 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). If we sell any additional properties in connection with our implementation of our strategic alternatives, we will likely further adjust the ongoing distribution rate and our distribution policy subsequent to such sales in order to maintain the current distribution coverage. On April 5, 2017, our board of directors approved an estimated value per share of our common stock of $8.35, effective April 20, 2017. The estimated value per share is equal to the estimated value per share of our common stock of $9.35 approved by our board of directors on December 9, 2016, reduced for the impact of the Special Distribution. In addition, any future special distributions we pay from the proceeds of future dispositions will reduce our estimated value per share and this reduction will be reflected in our updated estimated value per share, which we expect to update no later than December 2017.

In addition, 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 — MultiFamily Real Estate and Finance Markets," "Liquidity and Capital Resources" 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, 2016, as filed with the SEC. Those factors include: the future operating performance of our investments in the existing real estate and financial environment, our ability to refinance existing indebtedness at comparable terms, our ability to successfully dispose of some of our assets pursuant to our execution of our strategic alternatives and the level of participation in our dividend reinvestment plan. In the event our FFO and/or cash flows from operations decrease further in the future as a result of the disposition of additional real estate investments, the level of our distributions may also decrease. In addition, future distributions declared and paid may exceed FFO and/or cash flows from operations.

**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, 2016 filed with the SEC. There have been no significant changes to our policies during 2017.

## Subsequent Events

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

### *Distributions Paid*

On April 3, 2017, we paid distributions of $1.2 million, which related to distributions declared for March 2017 in the amount of $0.05520548 per share of common stock to stockholders of record as of the close of business on March 20, 2017.

### *Special Distribution Declared and Paid*

On April 5, 2017, our board of directors declared the Special Distribution. The board of directors designated the Special Distribution as ineligible for reinvestment through our dividend reinvestment plan. We paid the Special Distribution, which in the aggregate totaled $20.9 million, on May 1, 2017.

### *Distributions Declared*

On May 9, 2017, our board of directors declared a May 2017 distribution in the amount of $0.04609658 per share of common stock to stockholders of record as of the close of business on May 19, 2017, which we expect to pay in June 2017, and a June 2017 distribution in the amount of $0.04460959 per share of common stock to stockholders of record as of the close of business on June 20, 2017, which we expect to pay in July 2017. Investors may choose to receive cash distributions or purchase additional shares through our dividend reinvestment plan.

**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. If 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 related to 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 March 31, 2017, the fair value estimate of our fixed rate debt was $255.1 million and the outstanding principal balance of our fixed rate debt was $254.4 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 March 31, 2017. 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 variable rate instruments. As of March 31, 2017, we did not have any variable rate debt outstanding.

The weighted-average interest rate of our fixed rate debt as of March 31, 2017 was 3.4%. The weighted-average interest rate represents the actual interest rate in effect as of March 31, 2017.

For a discussion of the interest rate risks related to the current capital and credit markets, see the risks discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, 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 March 31, 2017 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, 2016.

***We 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 flows 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 expect that in the future we may not pay distributions solely from our cash flows from operations. We may fund distributions from the sale of assets. If we sell any additional properties, we will likely further adjust the ongoing distribution rate and our distribution policy subsequent to such sales in order to maintain the current distribution coverage. 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. In addition, to the extent distributions exceed cash flows 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 flows from operations.

For the year ended December 31, 2016, we paid aggregate distributions of $13.4 million, including $7.7 million of distributions paid in cash and $5.7 million of distributions reinvested through our dividend reinvestment plan. FFO for the year ended December 31, 2016 was $17.4 million and cash flows from operations was $13.9 million. We funded our total distributions paid for the year ended December 31, 2016, which includes cash distributions and distributions reinvested by stockholders, with cash flows from operations. For the year ended December 31, 2016, FFO represented 130% of total distributions paid.

For the three months ended March 31, 2017, we paid aggregate distributions of $3.3 million, including $2.0 million of distributions paid in cash and $1.3 million of distributions reinvested through our dividend reinvestment plan. FFO for the three months ended March 31, 2017 was $2.6 million and cash flows from operations was $1.8 million. We funded our total distributions paid for the three months ended March 31, 2017 with cash flows from operations and cash on hand. For the three months ended March 31, 2017, FFO represented 79% 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, 2016, as filed with the SEC.

***In January 2017, we exhausted funds available for all redemptions for the remainder of 2017 and may only redeem up to $0.2 million of shares in connection with Special Redemptions for the remainder of 2017.***

Because of limitations on the dollar value of shares that may be redeemed under our share redemption program as described below, in January 2017, we exhausted funds available for all redemptions for the remainder of 2017 and we will only be able to redeem up to $0.2 million of shares in connection with Special Redemptions for the remainder of 2017. As of March 31, 2017, we had $1.4 million of outstanding and unfulfilled ordinary redemption requests.

**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.
- 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.
- 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. 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 this 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.

Because of limitations on the dollar value of shares that may be redeemed under our share redemption program, we exhausted the funds available for all redemptions for the remainder of 2017 in January 2017. We will only be able to redeem shares in connection with Special Redemptions for the remainder of 2017. As of March 31, 2017, we may redeem up to $0.2 million of shares in connection with Special Redemptions and we had $1.4 million of outstanding and unfulfilled ordinary redemption requests.

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.

Upon a transfer of shares, any pending redemption requests with respect to such transferred shares will be canceled as of the date we accept the transfer. Stockholders wishing us to continue to consider a redemption request related to any transferred shares must resubmit their redemption request.

**PART II. OTHER INFORMATION (CONTINUED)**

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

On December 9, 2016, our board of directors approved an estimated value per share of our common stock of $9.35 (unaudited) 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, 2016. For a full description of the assumptions and methodologies used to value our assets and liabilities in connection with the calculation of the December 2016 estimated value per share, see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Market Information" of our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 10, 2017.

On April 5, 2017, our board of directors approved an estimated value per share of our common stock of $8.35, effective April 20, 2017. The estimated value per share is equal to the December 2016 estimated value per share of the our common stock of $9.35, reduced for the impact of the Special Distribution. For a full description of the methodologies and assumptions used in the determination of the April 2017 estimated value per share, see our Current Report on Form 8-K, filed with the SEC on April 11, 2017. We currently expect to utilize an independent valuation firm to update the estimated value per share in December 2017.

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 this 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 three months ended March 31, 2017, 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] | Total Number of Shares Purchased as Part of the Share Redemption Program | Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Share Redemption Program |
|---|---|---|---|---|
| January 2017 | 182,847 | $ 9.33 | 182,847 | [3] |
| February 2017 | 6,738 | 9.35 | 6,738 | [3] |
| March 2017 | 3,207 | 9.35 | 3,207 | [3] |
| Total | 192,792 | | 192,792 | |

[1] We announced the adoption and commencement of the program on March 12, 2010. We announced amendments 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 our share redemption program are set forth above.

[3] We limit the dollar value of shares that may be redeemed under our share redemption program as described above. In January 2017, we exhausted the $1.5 million of funds available for all redemptions in 2017. We will only be able to redeem shares in connection with Special Redemptions for the remainder of 2017. As of March 31, 2017, we may redeem up to $0.2 million of shares in connection with Special Redemptions. As of March 31, 2017, we had a total of $1.4 million outstanding and unfulfilled ordinary redemption requests, representing 145,863 shares and recorded $1.4 million of redemptions payable in other liabilities on the accompanying consolidated balance sheets.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

## PART II. OTHER INFORMATION

### 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 | 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 |
| 4.2 | 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 |
| 4.3 | Fourth Amended and Restated Dividend Reinvestment Plan, incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.1 | Advisory Agreement, by and between the Company and KBS Capital Advisors LLC, dated as of January 25, 2017, incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.2 | Termination Notice of Agreement for Purchase and Sale, Wesley Village Apartments, by and among KBS Legacy Partners Wesley LP (formerly known as KBS Legacy Partners Wesley LLC), KBS Legacy Partners Wesley Land LLC and Bluerock Real Estate LLC, dated as of January 27, 2017, incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.3 | Reinstatement of and First Amendment to Agreement for Purchase and Sale, Wesley Village Apartments, by and among KBS Legacy Partners Wesley LP (formerly known as KBS Legacy Partners Wesley LLC), KBS Legacy Partners Wesley Land LLC and Bluerock Real Estate LLC, dated as of January 30, 2017, incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.4 | Second Amendment to Agreement for Purchase and Sale, Wesley Village Apartments, by and among KBS Legacy Partners Wesley LP (formerly known as KBS Legacy Partners Wesley LLC), KBS Legacy Partners Wesley Land LLC and Bluerock Real Estate LLC, dated as of February 8, 2017, incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.5 | Third Amendment to Agreement for Purchase and Sale, Wesley Village Apartments, by and among KBS Legacy Partners Wesley LP (formerly known as KBS Legacy Partners Wesley LLC), KBS Legacy Partners Wesley Land LLC and Bluerock Real Estate LLC, dated as of February 10, 2017, incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.6 | Fourth Amendment to Agreement for Purchase and Sale, Wesley Village Apartments, by and among KBS Legacy Partners Wesley LP (formerly known as KBS Legacy Partners Wesley LLC), KBS Legacy Partners Wesley Land LLC and Bluerock Real Estate LLC, dated as of February 15, 2017, incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |
| 10.7 | Fifth Amendment to Agreement for Purchase and Sale, Wesley Village Apartments, by and among KBS Legacy Partners Wesley LP (formerly known as KBS Legacy Partners Wesley LLC), KBS Legacy Partners Wesley Land LLC and Bluerock Real Estate LLC, dated as of February 17, 2017, incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed March 10, 2017 |

**PART II. OTHER INFORMATION (CONTINUED)**

**Item 6. Exhibits (continued)**

| Ex. | Description |
|---|---|
| 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: May 10, 2017

By: /s/ W. DEAN HENRY

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

Date: May 10, 2017

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: May 10, 2017

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: May 10, 2017

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 March 31, 2017, 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: May 10, 2017

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 March 31, 2017, 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: May 10, 2017

By: /S/ JEFFREY K. WALDVOGEL

**Jeffrey K. Waldvogel**

*Chief Financial Officer, Treasurer and Secretary*

(principal financial officer)