NexPoint Residential Trust, Inc.
Form 10-Q
July 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36663

NexPoint Residential Trust, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	47-1881359
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

300 Crescent Court, Suite 700, Dallas, Texas	75201
(Address of Principal Executive Offices)	(Zip Code)

(972) 628-4100

(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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 July 30, 2018, the registrant had 20,747,367 shares of common stock, $0.01 par value, outstanding.

NEXPOINT RESIDENTIAL TRUST, INC.

Form 10-Q

Quarter Ended June 30, 2018

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Cautionary Statement Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. In particular, statements relating to our liquidity and capital resources, the performance of our properties and results of operations contain forward-looking statements. Furthermore, all of the statements regarding future financial performance (including market conditions and demographics) are forward-looking statements. We caution investors that any forward-looking statements presented in this quarterly report are based on management's current beliefs and assumptions made by, and information currently available to, management. When used, the words "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate "project," "should," "will," "would," "result" and similar expressions that do not relate solely to historical matters are intended identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements are subject to risks, uncertainties and assumptions and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you therefore against relying on any of these forward-looking statements.

Some of the risks and uncertainties that may cause our actual results, performance, liquidity or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- unfavorable changes in market and economic conditions in the United States and globally and in the specific markets where our properties are located;
- risks associated with ownership of real estate;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments;
- our multifamily properties are concentrated in certain geographic markets in the Southeastern and Southwestern United States, which makes us more susceptible to adverse developments in those markets;
- risks associated with our strategy of acquiring value-enhancement multifamily properties, which involves greater risks than more conservative investment strategies;
- potential reforms to the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae");
- competition could limit our ability to acquire attractive investment opportunities, which could adversely affect our profitability and impede our growth;
- competition and any increased affordability of residential homes could limit our ability to lease our apartments or increase or maintain rents;
- the relatively low residential mortgage rates may result in potential renters purchasing residences rather than leasing them, and as a result, cause a decline in occupancy rates;
- the risk that we may fail to consummate our pending property acquisitions;
- failure of acquisitions to yield anticipated results;
- risks associated with increases in interest rates and our ability to issue additional debt or equity securities in the future;
- we are subject to certain risks associated with selling apartment communities, which could limit our operational and financial flexibility;
    - contingent or unknown liabilities related to properties or businesses that we have acquired or may acquire;
    - lack of or insufficient amounts of insurance;
-

the risk that our environmental assessments may not identify all potential environmental liabilities and our remediation actions may be insufficient;

- high costs associated with the investigation or remediation of environmental contamination, including asbestos, lead-based paint, chemical vapor, subsurface contamination and mold growth;
- high costs associated with the compliance with various accessibility, environmental, building and health and safety laws and regulations, such as the ADA and FHA;

- risks associated with limited warranties we may obtain when purchasing properties;
- exposure to decreases in market rents due to our short-term leases;
- risks associated with operating through joint ventures and funds;
- our dependence on information systems;
- risks associated with breaches of our data security;
- risks associated with our reduced public company reporting requirements as an “emerging growth company”;
- costs associated with being a public company, including compliance with securities laws;
- the risk that our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting;
- risks associated with our substantial current indebtedness and indebtedness we may incur in the future;
- risks associated with derivatives or hedging activity;
- the lack of experience of NexPoint Real Estate Advisors, L.P. (our “Adviser”) and property manager in operating under the constraints imposed on us as a real estate investment trust (“REIT”) may hinder the achievement of our investment objectives;
- loss of key personnel of Highland Capital Management, L.P. (our “Sponsor” or “Highland”), our Adviser and our property manager;
- the risk that we may not replicate the historical results achieved by other entities managed or sponsored by affiliates of our Adviser, members of our Adviser’s management team or by our Sponsor or its affiliates;
- risks associated with our Adviser’s ability to terminate the Advisory Agreement (as defined below);
- our ability to change our major policies, operations and targeted investments without stockholder consent;
- the substantial fees and expenses we will pay to our Adviser and its affiliates;
- risks associated with the potential internalization of our management functions;
- conflicts of interest and competing demands for time faced by our Adviser, our Sponsor and their officers and employees;
- the risk that we may compete with other entities affiliated with our Sponsor or property manager for tenants;
- failure to maintain our status as a REIT;
- failure of our operating partnership to be taxable as a partnership for federal income tax purposes, possibly causing us to fail to qualify for or to maintain REIT status;
- compliance with REIT requirements, which may limit our ability to hedge our liabilities effectively and cause us to forgo otherwise attractive opportunities, liquidate certain of our investments or incur tax liabilities;
- risks associated with our ownership of interests in taxable REIT subsidiaries;
- the recognition of taxable gains from the sale of properties as a result of the inability to complete certain like-kind exchanges (“1031 Exchanges”) in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (the “Code”);
- the risk that the Internal Revenue Service (the “IRS”) may consider certain sales of properties to be prohibited transactions, resulting in a 100% penalty tax on any taxable gain;
- the ineligibility of dividends payable by REITs for the reduced tax rates available for some dividends;
- risks associated with the stock ownership restrictions of the Code for REITs and the stock ownership limit imposed by our charter;
- the ability of our board of directors (the “Board”) to revoke our REIT qualification without stockholder approval;
- recent and potential legislative or regulatory tax changes or other actions affecting REITs;
- risks associated with the market for our common stock and the general volatility of the capital and credit markets;

- failure to generate sufficient cash flows to service our outstanding indebtedness or pay distributions at expected levels;
- risks associated with limitations of liability for and our indemnification of our directors and officers; and
- any other risks included under Part I, Item 1A, “Risk Factors” of our annual report on Form 10-K, filed with the U.S. Securities and Exchange Commission (“SEC”) on February 15, 2018 (our “Annual Report”).

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. They are based on estimates and assumptions only as of the date of this quarterly report. We undertake no obligation to update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes, except as required by law.

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Operating Real Estate Investments		
Land	$ 189,615	$ 189,615
Buildings and improvements	811,696	806,981
Intangible lease assets	—	1,340
Construction in progress	5,113	3,786
Furniture, fixtures, and equipment	51,644	44,725
Total Gross Operating Real Estate Investments	1,058,068	1,046,447
Accumulated depreciation and amortization	(109,189)	(88,252)
Total Net Operating Real Estate Investments	948,879	958,195
Real estate held for sale, net of accumulated depreciation of $897 and $3,397, respectively	17,295	32,961
Total Net Real Estate Investments	966,174	991,156
Cash and cash equivalents	18,312	16,036
Restricted cash	20,907	27,212
Accounts receivable	3,819	2,932
Prepaid and other assets	3,516	1,559
Fair market value of interest rate swaps	26,827	16,480
TOTAL ASSETS	$ 1,039,555	$ 1,055,375
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages payable, net	$ 729,897	$ 724,057
Mortgages payable held for sale, net	13,418	30,348
Credit facility, net	34,995	29,843
Bridge facility, net	—	8,576
Accounts payable and other accrued liabilities	4,905	6,226
Accrued real estate taxes payable	8,382	9,684
Accrued interest payable	2,273	2,074
Security deposit liability	1,607	1,518
Prepaid rents	2,051	1,470
Total Liabilities	797,528	813,796
Redeemable noncontrolling interests in the Operating Partnership	2,083	2,135
Stockholders' Equity:		
Preferred stock, $0.01 par value: 100,000,000 shares authorized; 0 shares issued	—	—
Common stock, $0.01 par value: 500,000,000 shares authorized; 20,747,367 and 21,049,565 shares issued and outstanding, respectively	207	210

Additional paid-in capital	198,567	206,227
Accumulated earnings less dividends	15,570	17,885
Accumulated other comprehensive income	25,600	15,122
Total Stockholders' Equity	239,944	239,444
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,039,555	$1,055,375

See Notes to Consolidated Financial Statements

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Rental income	$31,069	$30,508	$61,642	$62,416
Other income	4,586	4,726	9,070	9,809
Total revenues	35,655	35,234	70,712	72,225
Expenses				
Property operating expenses	8,231	9,665	17,108	19,536
Real estate taxes and insurance	4,588	5,093	9,444	10,058
Property management fees (1)	1,066	1,057	2,120	2,170
Advisory and administrative fees (2)	1,863	1,849	3,701	3,674
Corporate general and administrative expenses	1,986	1,886	3,799	3,219
Property general and administrative expenses	1,648	1,576	3,195	3,162
Depreciation and amortization	11,038	12,208	22,410	24,651
Total expenses	30,420	33,334	61,777	66,470
Operating income	5,235	1,900	8,935	5,755
Interest expense	(6,823)	(7,063)	(13,620)	(14,222)
Loss on extinguishment of debt and modification costs	(78)	(4,803)	(629)	(4,803)
Gain on sales of real estate	—	19,896	13,742	19,896
Net income (loss)	(1,666)	9,930	8,428	6,626
Net income attributable to noncontrolling interests	—	2,524	—	2,836
Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	(5)	—	25	—
Net income (loss) attributable to common stockholders	$(1,661)	$7,406	$8,403	$3,790
Other comprehensive income (loss)				
Unrealized gains (losses) on interest rate derivatives	2,749	(2,095)	10,510	(1,049)
Total comprehensive income	1,083	7,835	18,938	5,577
Comprehensive income attributable to noncontrolling interests	—	2,936	—	2,720
Comprehensive income attributable to redeemable noncontrolling interests in the Operating Partnership	4	—	57	—
Comprehensive income attributable to common stockholders	$1,079	$4,899	$18,881	$2,857
Weighted average common shares outstanding - basic	20,780	21,044	20,883	21,044
Weighted average common shares outstanding - diluted	21,295	21,473	21,362	21,383

Earnings (loss) per share - basic	$(0.08)	$0.35	$0.40	$0.18
Earnings (loss) per share - diluted	$(0.08)	$0.34	$0.39	$0.18
Dividends declared per common share	$0.25	$0.22	$0.50	$0.44

(1) Fees incurred to an unaffiliated third party that is an affiliate of the noncontrolling limited partner of the Company's operating partnership (see Notes 10 and 11).
(2) Fees incurred to the Adviser (see Note 11).

See Notes to Consolidated Financial Statements

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(dollars in thousands)

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated Earnings Less	Accumulated Other Comprehensive	Common Stock Held in Treasury	
	Number of Shares	Par Value	Number of Shares	Par Value	Capital	Dividends	Income	at Cost	Total
Balances, December 31, 2017	—	$ —	21,049,565	$ 210	$ 206,227	$ 17,885	$ 15,122	$ —	$ 239,444
Net income attributable to common stockholders					—	8,403	—	—	8,403
Repurchase of common stock					—	—	—	(9,672)	(9,672)
Retirement of common stock held in treasury			(382,941)	(4)	(9,668)	—	—	9,672	—
Vesting of stock-based compensation			80,743	1	2,008	—	—	—	2,009
Common stock dividends declared					—	(10,696)	—	—	(10,696)
Other comprehensive income					—	—	10,478	—	10,478
Adjustment to reflect redemption value of redeemable noncontrolling interests in the Operating Partnership					—	(22)	—	—	(22)
Balances, June 30, 2018	—	$ —	20,747,367	$ 207	$ 198,567	$ 15,570	$ 25,600	$ —	$ 239,944

See Notes to Consolidated Financial Statements

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	$8,428	$6,626
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of real estate	(13,742)	(19,896)
Depreciation and amortization	22,410	24,651
Amortization/write-off of deferred financing costs	1,225	1,357
Change in fair value on derivative instruments included in interest expense	(1,241)	812
Net cash received (paid) on derivative settlements	1,177	(542)
Amortization/write-off of fair market value adjustment of assumed debt	(121)	(103)
Vesting of stock-based compensation	2,009	1,592
Changes in operating assets and liabilities, net of effects of acquisitions:		
Operating assets	(1,399)	(467)
Operating liabilities	(1,413)	197
Net cash provided by operating activities	17,333	14,227
Cash flows from investing activities		
Net proceeds from sales of real estate	29,553	82,736
Additions to real estate investments	(15,104)	(12,087)
Acquisitions of real estate investments	—	(138,106)
Net cash provided by (used in) investing activities	14,449	(67,457)
Cash flows from financing activities		
Mortgage proceeds received	17,760	583,713
Mortgage payments	(29,471)	(211,441)
Credit facility proceeds received	5,000	25,000
Credit facilities payments	—	(310,000)
Bridge facility proceeds received	—	65,875
Bridge facility payments	(8,597)	(30,000)
Deferred financing costs paid	(310)	(3,742)
Interest rate cap fees paid	(9)	—
Repurchase of common stock	(9,672)	—
Dividends paid to common stockholders	(10,512)	(9,259)
Contributions from noncontrolling interests	—	38
Distributions to noncontrolling interests	—	(4,789)
Purchase of noncontrolling interests	—	(51,725)
Net cash provided by (used in) financing activities	(35,811)	53,670

Net increase (decrease) in cash and restricted cash	(4,029)	440
Cash and restricted cash, beginning of period	43,248	55,261
Cash and restricted cash, end of period	$39,219	$55,701

See Notes to Consolidated Financial Statements

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

Supplemental Disclosure of Cash Flow Information		
Interest paid	$14,042	$13,003
Prepayment penalties paid	172	2,199
Supplemental Disclosure of Noncash Activities		
Obligation to issue operating partnership units for purchase of noncontrolling interests	—	2,000
Capitalized construction costs included in accounts payable and other accrued liabilities	1,607	832
Change in fair value on derivative instruments designated as hedges	10,510	1,049
Other assets acquired from acquisitions	—	84
Liabilities assumed from acquisitions	—	690
Increase in dividends payable on restricted stock units	184	189

See Notes to Consolidated Financial Statements

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

NexPoint Residential Trust, Inc. (the "Company", "we", "our") was incorporated in Maryland on September 19, 2014, and has elected to be taxed as a real estate investment trust ("REIT"). The Company is focused on "value-add" multifamily investments primarily located in the Southeastern and Southwestern United States. Substantially all of the Company's business is conducted through NexPoint Residential Trust Operating Partnership, L.P. (the "OP"), the Company's operating partnership. The Company owns its properties (the "Portfolio") through the OP and its wholly owned taxable REIT subsidiary ("TRS"). The OP owns approximately 99.9% of the Portfolio; the TRS owns approximately 0.1% of the Portfolio. The Company's wholly owned subsidiary, NexPoint Residential Trust Operating Partnership GP, LLC (the "OP GP"), is the sole general partner of the OP. As of June 30, 2018, there were 21,116,902 common units in the OP ("OP Units") outstanding, of which 21,043,669, or 99.7%, were owned by the Company and 73,233, or 0.3%, were owned by a noncontrolling limited partner (see Note 10).

The Company began operations on March 31, 2015 as a result of the transfer and contribution by NexPoint Strategic Opportunities Fund (fka NexPoint Credit Strategies Fund) ("NHF") of all but one of the multifamily properties owned by NHF through its wholly owned subsidiary NexPoint Real Estate Opportunities, LLC (fka Freedom REIT, LLC) ("NREO"). We use the term "predecessor" to mean the carve-out business of NREO. On March 31, 2015, NHF distributed all of the outstanding shares of the Company's common stock held by NHF to holders of NHF common shares. We refer to the distribution of our common stock by NHF as the "Spin-Off."

The Company is externally managed by NexPoint Real Estate Advisors, L.P. (the "Adviser"), through an agreement dated March 16, 2015, as amended, and renewed on February 12, 2018 for a one-year term set to expire on March 16, 2019 (the "Advisory Agreement"), by and among the Company, the OP and the Adviser. The Adviser conducts substantially all of the Company's operations and provides asset management services for its real estate investments. The Company expects it will only have accounting employees while the Advisory Agreement is in effect. All of the Company's investment decisions are made by the Adviser, subject to general oversight by the Adviser's investment committee and the Company's board of directors (the "Board"). The Adviser is wholly owned by NexPoint Advisors, L.P., which is an affiliate of Highland Capital Management, L.P. (the "Sponsor" or "Highland").

The Company's investment objectives are to maximize the cash flow and value of properties owned, acquire properties with cash flow growth potential, provide quarterly cash distributions and achieve long-term capital appreciation for its stockholders through targeted management and a value-add program. Consistent with the Company's policy to acquire assets for both income and capital gain, the Company intends to hold at least majority interests in its properties for long-term appreciation and to engage in the business of directly or indirectly acquiring, owning, and operating well-located multifamily properties with a value-add component in large cities and suburban submarkets of large cities primarily in the Southeastern and Southwestern United States consistent with its investment objectives. Economic and market conditions may influence the Company to hold properties for different periods of time. From time to time, the Company may sell a property if, among other deciding factors, the sale would be in the best interest of its stockholders.

The Company may also participate with third parties in property ownership through limited liability companies ("LLCs"), funds or other types of co-ownership or acquire real estate or interests in real estate in exchange for the issuance of common stock, OP Units, preferred stock or options to purchase stock. These types of investments may

permit the Company to own interests in larger assets without unduly restricting diversification, which provides flexibility in structuring the Company's portfolio.

The Company may allocate up to thirty percent of the portfolio to investments in real estate-related debt and securities with the potential for high current income or total returns. These allocations may include first and second mortgages and subordinated, bridge, mezzanine, construction and other loans, as well as debt securities related to or secured by multifamily real estate and common and preferred equity securities, which may include securities of other REITs or real estate companies.

2. Summary of Significant Accounting Policies

Predecessor

With the exception of a nominal amount of initial cash funded at inception, the Company did not own any assets prior to March 31, 2015. The business and operations of the Company prior to March 31, 2015 occurred under the predecessor. The predecessor included all of the properties in the Portfolio that were held directly or indirectly by NREO prior to the Spin-Off that occurred on March 31, 2015. However, the Company's consolidated financial statements reflect operations of the predecessor through March 31, 2015 as if they were incurred by the Company. The predecessor was determined in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). References throughout these consolidated financial statements to the "Company", "we", or "our", include the activity of the predecessor defined above.

Basis of Accounting

The accompanying unaudited consolidated financial statements have been prepared according to the rules and regulations of the SEC. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, all adjustments and eliminations necessary for the fair presentation of the Company's financial position as of June 30, 2018, and results of operations for the six months ended June 30, 2018 and 2017 have been included. Such adjustments are normal and recurring in nature. The unaudited information included in this quarterly report on Form 10-Q should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017 and notes thereto included in its annual report on Form 10-K filed with the SEC on February 15, 2018.

The accompanying unaudited consolidated financial statements are presented in accordance with GAAP. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation. There have been no significant changes to the Company's significant accounting policies during the six months ended June 30, 2018.

Principles of Consolidation

The Company accounts for subsidiary partnerships, joint ventures and other similar entities in which it holds an ownership interest in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation. The Company first evaluates whether each entity is a variable interest entity ("VIE"). Under the VIE model, the Company consolidates an entity when it has control to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the voting model, the Company consolidates an entity when it controls the entity through ownership of a majority voting interest. The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries, including the OP and its subsidiaries.

Revenue Recognition

The Company's primary operations consist of rental income earned from its residents under lease agreements typically with terms of one year or less. Rental income is recognized when earned. This policy effectively results in income recognition on the straight-line method over the related terms of the leases. Resident reimbursements and other income consist of charges billed to residents for utilities, carport and garage rental, and pets, administrative, application and other fees and are recognized when earned.

Real Estate Investments

Upon acquisition of a property, the purchase price and related acquisition costs ("total consideration") are allocated to land, buildings, improvements, furniture, fixtures, and equipment, and intangible lease assets in accordance with FASB ASC 805, Business Combinations, and Accounting Standards Update ("ASU") 2017-01, Clarifying the Definition of a Business (Topic 805) ("ASU 2017-01"), which the Company early adopted on October 1, 2016. The Company believes most future acquisition costs will be capitalized in accordance with ASU 2017-01. Prior to the Company's

adoption of ASU 2017-01, acquisition costs were expensed as incurred.

The allocation of total consideration, which is determined using inputs that are classified within Level 3 of the fair value hierarchy established by FASB ASC 820, Fair Value Measurement and Disclosures (see Note 7), is based on management’s estimate of the property’s “as-if” vacant fair value and is calculated by using all available information such as the replacement cost of such asset, appraisals, property condition reports, market data and other related information. The allocation of the total consideration to intangible lease assets represents the value associated with the in-place leases, which may include lost rent, leasing commissions, legal and other related costs, which the Company, as buyer of the property, did not have to incur to obtain the residents. If any debt is assumed in an acquisition, the difference between the fair value, which is estimated using inputs that are classified within Level 2 of the fair value hierarchy, and the face value of debt is recorded as a premium or discount and amortized as interest expense over the life of the debt assumed.

Real estate assets, including land, buildings, improvements, furniture, fixtures and equipment, and intangible lease assets are stated at historical cost less accumulated depreciation and amortization. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred. Expenditures for improvements, renovations, and replacements are capitalized at cost. Real estate-related depreciation and amortization are computed on a straight-line basis over the estimated useful lives as described in the following table:

Land	Not depreciated
Buildings	30 years
Improvements	15 years
Furniture, fixtures, and equipment	3 years
Intangible lease assets	6 months

Construction in progress includes the cost of renovation projects being performed at the various properties. Once a project is complete, the historical cost of the renovation is placed into service in one of the categories above depending on the type of renovation project and is depreciated over the estimated useful lives as described in the table above.

Real estate assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, the Company will evaluate the recoverability of such real estate assets based on estimated future cash flows and the estimated liquidation value of such real estate assets, and provide for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the real estate asset. If impaired, the real estate asset will be written down to its estimated fair value.

The Company periodically classifies real estate assets as held for sale when certain criteria are met, in accordance with GAAP. At that time, the Company presents the net real estate assets and the net debt associated with the real estate held for sale separately in its consolidated balance sheet, and the Company ceases recording depreciation and amortization expense related to that property. Real estate held for sale is reported at the lower of its carrying amount or its estimated fair value less estimated costs to sell.

Reportable Segment

Substantially all of the Company’s net income (loss) is from investments in real estate properties within the multifamily sector that the Company owns through LLCs. The Company evaluates operating performance on an individual property level and views its real estate assets as one industry segment and, accordingly, its properties are aggregated into one reportable segment.

Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), and expects to continue to qualify as a REIT. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement to distribute annually at least 90% of its “REIT taxable income,” as defined by the Code, to its stockholders. As a REIT, the Company will be subject to federal income tax on its undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions it pays with respect to any calendar year are less than the sum of (1) 85% of its ordinary income, (2) 95% of its capital gain net income and (3) 100% of its undistributed income from prior years. The Company intends to operate in such a manner so as to qualify as a REIT, but no assurance can be given that the

Company will operate in a manner so as to qualify as a REIT. Taxable income from certain non-REIT activities is managed through a TRS and is subject to applicable federal, state, and local income and margin taxes. The Company had no significant taxes associated with its TRS for the six months ended June 30, 2018 and 2017.

If the Company fails to meet these requirements, it could be subject to federal income tax on all of the Company's taxable income at regular corporate rates for that year. The Company would not be able to deduct distributions paid to stockholders in any year in which it fails to qualify as a REIT. Additionally, the Company will also be disqualified from electing to be taxed as a REIT for the four taxable years following the year during which qualification was lost unless the Company is entitled to relief under specific statutory provisions. As of June 30, 2018, the Company believes it is in compliance with all applicable REIT requirements.

The Company evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" (greater than 50 percent probability) of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The Company's management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. The Company has no examinations in progress and none are expected at this time.

The Company recognizes its tax positions and evaluates them using a two-step process. First, the Company determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Second, the Company will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.

The Company had no material unrecognized tax benefit or expense, accrued interest or penalties as of June 30, 2018. The Company and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The 2017, 2016 and 2015 tax years remain open to examination by tax jurisdictions to which the Company and its subsidiaries are subject. When applicable, the Company recognizes interest and/or penalties related to uncertain tax positions on its consolidated statements of operations and comprehensive income.

Recent Accounting Pronouncements

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of this extended transition period. As a result of this election, the Company’s financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. The Company may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act. The following recent accounting pronouncements reflect effective dates that delay the adoption until those standards would otherwise apply to private companies.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) (“ASU 2017-12”), which clarifies hedge accounting requirements, improves disclosure of hedging arrangements, and better aligns risk management activities and financial reporting for hedging relationships. The Company early adopted ASU 2017-12 on January 1, 2018, on a modified retrospective basis. For cash flow hedges existing as of the date of adoption, the Company eliminated the separate measurement of ineffectiveness by means of a cumulative-effect adjustment to accumulated other comprehensive income (“OCI”) with a corresponding adjustment to the opening balance of accumulated earnings less dividends on January 1, 2018. The cumulative-effect adjustment, which eliminated the cumulative ineffectiveness that was previously reported in interest expense, resulted in an increase to OCI of approximately $1.4 million, with a corresponding decrease to accumulated earnings less dividends.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which requires an entity to recognize 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 or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which amends ASU 2014-09 to defer the effective date by one year. The new standard is effective for annual and interim periods in fiscal years beginning after December 15, 2018. Entities are allowed to use either the full or modified retrospective approach when transitioning to the ASU. The Company expects to implement the provisions of ASU 2014-09 as of January 1, 2019 and has not yet selected a transition method. The Company is continuing to evaluate ASU 2014-09 (and related clarifying guidance issued by the FASB); however, the Company does not expect its adoption to have a material impact on its consolidated financial statements, as a substantial portion of its revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which changes certain recognition, measurement, presentation, and disclosure requirements for financial instruments. The ASU requires all equity investments, except those accounted for under the equity method of accounting or resulting in consolidation, to be measured at fair value with changes in fair value recognized in net income. The ASU also simplifies the impairment assessment for equity investments without readily determinable fair values, amends the presentation requirements for changes in the fair value of financial liabilities, requires presentation of financial instruments by measurement category and form of financial asset, and eliminates the requirement to disclose the methods and significant assumptions used in estimating the fair value of financial instruments. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. The Company expects to implement the provisions of ASU 2016-01 as of January 1, 2019, and does not expect the new standard to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"), which supersedes the current accounting for leases and while retaining two distinct types of leases, finance and operating, (1) requires lessees to record a right of use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner

similar to current accounting, (2) eliminates most real estate specific lease provisions, and, (3) aligns many of the underlying lessor model principles with those in the new revenue standard. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Entities are required to use a modified retrospective approach when transitioning to the ASU for leases that exist as of or are entered into after the beginning of the earliest comparative period presented in the financial statements. The Company expects to implement the provisions of ASU 2016-02 as of January 1, 2020 in conjunction with the adoption of ASU 2014-09 discussed above. As lessors, substantially all of the Company's agreements have a term of 12 months or less. Based on a preliminary assessment, the Company expects most of its operating leases will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in an immaterial increase in the assets and liabilities on its consolidated balance sheets. The Company is continuing its evaluation, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures.

3. Investments in Subsidiaries

The Company has in the past and may in the future invest in joint ventures. The Company consolidates the entities that it controls as well as any VIEs where it is the primary beneficiary. In connection with its indirect equity investments in the properties acquired, the Company, through the OP and the TRS, directly or indirectly holds 100% of the membership interests in single-asset LLCs that directly own the properties. All of the properties the Company has acquired are consolidated in the Company's financial statements. The assets of each entity can only be used to settle obligations of that particular entity, and the creditors of each entity have no recourse to the assets of other entities or the Company.

Additionally, the Company has in the past and may in the future enter into purchase and sale transactions structured as reverse like-kind exchanges ("1031 Exchanges") under Section 1031 of the Code. For a reverse 1031 Exchange in which the Company purchases a new property prior to selling the property to be matched in the like-kind exchange (the Company refers to a new property being acquired in the 1031 Exchange prior to the sale of the related property as a "Parked Asset"), legal title to the Parked Asset is held by an Exchange Accommodation Titleholder ("EAT") engaged to execute the 1031 Exchange until the sale transaction and the 1031 Exchange are completed. The Company, through a wholly owned subsidiary, enters into a master lease agreement with the EAT whereby the EAT leases the acquired property and all other rights acquired in connection with the acquisition to the Company. The term of the master lease agreement is the earlier of the completion of the reverse 1031 Exchange or 180 days from the date that the property was acquired. The EAT is classified as a VIE as it does not have sufficient equity investment at risk to finance its activities without additional subordinated financial support. The Company consolidates the EAT as its primary beneficiary because it has the ability to control the activities that most significantly impact the EAT's economic performance and the Company retains all of the legal and economic benefits and obligations related to the Parked Assets prior to completion of the 1031 Exchange. As such, the Parked Assets are included in the Company's consolidated financial statements as VIEs until legal title is transferred to the Company upon either completion of the 1031 Exchange or termination of the master lease agreement, at which time they will be consolidated as wholly owned subsidiaries.

As of June 30, 2018, the Company, through the OP and the wholly owned TRS, owned 32 properties. The following table represents the Company’s ownership in each property as of June 30, 2018 and December 31, 2017:

Property Name		Location	Year Acquired	Effective Ownership Percentage at June 30, 2018		December 31, 2017	
Arbors on Forest Ridge		Bedford, Texas	2014	100	%	100	%
Cutter's Point		Richardson, Texas	2014	100	%	100	%
Eagle Crest		Irving, Texas	2014	100	%	100	%
Silverbrook		Grand Prairie, Texas	2014	100	%	100	%
Timberglen		Dallas, Texas	2014	—	(1)	100	%
Edgewater at Sandy Springs		Atlanta, Georgia	2014	100	%	100	%
Beechwood Terrace		Antioch, Tennessee	2014	100	%	100	%
Willow Grove		Nashville, Tennessee	2014	100	%	100	%
Woodbridge		Nashville, Tennessee	2014	100	%	100	%
Abbington Heights		Antioch, Tennessee	2014	100	%	100	%
The Summit at Sabal Park		Tampa, Florida	2014	100	%	100	%
Courtney Cove		Tampa, Florida	2014	100	%	100	%
Radbourne Lake		Charlotte, North Carolina	2014	100	%	100	%
Timber Creek		Charlotte, North Carolina	2014	100	%	100	%
Belmont at Duck Creek		Garland, Texas	2014	100	%	100	%
Sabal Palm at Lake Buena Vista		Orlando, Florida	2014	100	%	100	%
Southpoint Reserve at Stoney Creek	(2)	Fredericksburg, Virginia	2014	100	%	100	%
Cornerstone		Orlando, Florida	2015	100	%	100	%
The Preserve at Terrell Mill		Marietta, Georgia	2015	100	%	100	%
The Ashlar		Dallas, Texas	2015	100	%	100	%
Heatherstone		Dallas, Texas	2015	100	%	100	%
Versailles		Dallas, Texas	2015	100	%	100	%
Seasons 704 Apartments		West Palm Beach, Florida	2015	100	%	100	%
Madera Point		Mesa, Arizona	2015	100	%	100	%
The Pointe at the Foothills		Mesa, Arizona	2015	100	%	100	%
Venue at 8651		Fort Worth, Texas	2015	100	%	100	%
Parc500		West Palm Beach, Florida	2016	100	%	100	%
The Colonnade		Phoenix, Arizona	2016	100	%	100	%
Old Farm		Houston, Texas	2016	100	%	100	%
Stone Creek at Old Farm		Houston, Texas	2016	100	%	100	%
Hollister Place		Houston, Texas	2017	100	%	100	%
Rockledge Apartments		Marietta, Georgia	2017	100	%	100	%
Atera Apartments	(3)	Dallas, Texas	2017	100	%	100	%

(1) Property was sold during the six months ended June 30, 2018.

(2) Property was classified as held for sale as of June 30, 2018.

(3) Entity that directly owned the property was consolidated as a VIE at December 31, 2017. The Company completed the reverse portion of the 1031 Exchange of the property with the sale of Timberglen on January 31, 2018, at which time legal title to the property transferred to the Company. Upon the transfer of title, the property owner is no longer considered a VIE (see Note 5).

4. Real Estate Investments Statistics

As of June 30, 2018, the Company was invested in a total of 32 multifamily properties, as listed below:

Property Name	Rentable Square Footage (in thousands)	Number of Units	Date Acquired	Average Effective Monthly Rent Per Unit (1) as of June 30, 2018	Average Effective Monthly Rent Per Unit (1) as of December 31, 2017	% Occupied (2) as of June 30, 2018	% Occupied (2) as of December 31, 2017
Arbors on Forest Ridge	155	210	1/31/2014	$ 864	$ 862	94.3 %	96.2 %
Cutter's Point	198	196	1/31/2014	1,075	1,063	95.9 %	95.4 %
Eagle Crest	396	447	1/31/2014	915	887	89.0 %	93.3 %
Silverbrook	526	642	1/31/2014	813	791	93.5 %	95.2 %
Edgewater at Sandy Springs	727	760	7/18/2014	961	940	94.6 %	93.8 %
Beechwood Terrace	272	300	7/21/2014	936	927	92.0 %	94.3 %
Willow Grove	229	244	7/21/2014	929	919	93.9 %	95.5 %
Woodbridge	247	220	7/21/2014	1,011	952	95.9 %	93.6 %
Abbington Heights	239	274	8/1/2014	892	890	92.0 %	94.2 %
The Summit at Sabal Park	205	252	8/20/2014	932	913	94.8 %	92.9 %
Courtney Cove	225	324	8/20/2014	865	836	95.7 %	94.4 %
Radbourne Lake	247	225	9/30/2014	1,069	1,061	96.4 %	93.3 %
Timber Creek	248	352	9/30/2014	832	817	96.6 %	94.0 %
Belmont at Duck Creek	198	240	9/30/2014	1,016	999	95.4 %	95.4 %
Sabal Palm at Lake Buena Vista	371	400	11/5/2014	1,217	1,167	98.0 %	96.8 %
Southpoint Reserve at Stoney Creek (3)	116	156	12/18/2014	1,069	1,067	96.2 %	93.6 %
Cornerstone	318	430	1/15/2015	958	927	95.3 %	94.4 %
The Preserve at Terrell Mill	692	752	2/6/2015	881	855	92.8 %	93.1 %
The Ashlar	206	264	2/26/2015	831	835	91.7 %	91.7 %
Heatherstone	116	152	2/26/2015	843	839	92.1 %	89.5 %
Versailles	301	388	2/26/2015	873	865	95.4 %	94.8 %
Seasons 704 Apartments	217	222	4/15/2015	1,107	1,076	95.9 %	96.4 %
Madera Point	193	256	8/5/2015	827	807	96.5 %	93.0 %
The Pointe at the Foothills	473	528	8/5/2015	824	814	92.8 %	90.9 %
Venue at 8651	289	333	10/30/2015	828	809	92.8 %	94.3 %
Parc500	266	217	7/27/2016	1,194	1,179	96.3 %	94.9 %
The Colonnade	256	415	10/11/2016	688	685	91.8 %	94.0 %
Old Farm	697	734	12/29/2016	1,185	1,183	94.7 %	92.6 %
Stone Creek at Old Farm	186	190	12/29/2016	1,165	1,165	95.8 %	94.7 %
Hollister Place	246	260	2/1/2017	962	959	93.5 %	95.0 %
Rockledge Apartments	802	708	6/30/2017	1,160	1,149	94.6 %	92.9 %
Atera Apartments	334	380	10/25/2017	1,240	1,265	95.3 %	92.1 %
	10,191	11,471					

(1) Average effective monthly rent per unit is equal to the average of the contractual rent for commenced leases as of June 30, 2018 and December 31, 2017, respectively, minus any tenant concessions over the term of the lease, divided by the number of units under commenced leases as of June 30, 2018 and December 31, 2017, respectively.
(2) Percent occupied is calculated as the number of units occupied as of June 30, 2018 and December 31, 2017, divided by the total number of units, expressed as a percentage.
(3) Property was classified as held for sale as of June 30, 2018.

5. Real Estate Investments

As of June 30, 2018, the major components of the Company’s investments in multifamily properties were as follows (in thousands):

Operating Properties	Land	Buildings and Improvements	Intangible Lease Assets	Construction in Progress	Furniture, Fixtures and Equipment	Totals
Arbors on Forest Ridge	$2,330	$ 11,195	$ —	$ —	$ 954	$14,479
Cutter's Point	3,330	13,169	—	42	1,189	17,730
Eagle Crest	5,450	22,012	—	—	1,398	28,860
Silverbrook	4,860	25,971	—	—	2,772	33,603
Edgewater at Sandy Springs	14,290	44,077	—	—	4,680	63,047
Beechwood Terrace	1,390	20,883	—	70	1,540	23,883
Willow Grove	3,940	10,812	—	—	1,133	15,885
Woodbridge	3,650	13,088	—	—	1,353	18,091
Abbington Heights	1,770	17,091	—	—	1,364	20,225
The Summit at Sabal Park	5,770	13,424	—	—	1,207	20,401
Courtney Cove	5,880	12,979	—	—	1,140	19,999
Radbourne Lake	2,440	22,036	—	—	1,434	25,910
Timber Creek	11,260	13,540	—	—	1,279	26,079
Belmont at Duck Creek	1,910	17,309	—	7	1,298	20,524
Sabal Palm at Lake Buena Vista	7,580	41,268	—	—	1,157	50,005
Cornerstone	1,500	30,500	—	—	1,670	33,670
The Preserve at Terrell Mill	10,170	48,740	—	—	4,437	63,347
The Ashlar	4,090	12,789	—	—	1,763	18,642
Heatherstone	2,320	8,090	—	—	1,105	11,515
Versailles	6,720	20,004	—	1,322	2,768	30,814
Seasons 704 Apartments	7,480	14,215	—	—	1,162	22,857
Madera Point	4,920	17,564	—	—	1,293	23,777
The Pointe at the Foothills	4,840	46,931	—	—	1,874	53,645
Venue at 8651	2,350	17,958	—	42	2,206	22,556
Parc500	3,860	19,955	—	578	2,208	26,601
The Colonnade	8,340	36,960	—	212	1,208	46,720
Old Farm	11,078	70,271	—	15	1,590	82,954
Stone Creek at Old Farm	3,493	19,371	—	—	417	23,281
Hollister Place	2,782	20,859	—	357	1,050	25,048
Rockledge Apartments	17,451	93,308	—	1,648	2,126	114,533
Atera Apartments	22,371	35,327	—	820	869	59,387
	189,615	811,696	—	5,113	51,644	1,058,068
Accumulated depreciation and amortization	—	(79,470)	—	—	(29,719)	(109,189)
Total Operating Properties	$189,615	$ 732,226	$ —	$ 5,113	$ 21,925	$948,879
Held For Sale Property						
Southpoint Reserve at Stoney Creek	6,120	11,317	—	—	755	18,192

Accumulated depreciation and amortization	—	(736)	—	—	(161)	(897)
Total Held For Sale Property	$6,120	$ 10,581	$ —	$ —	$ 594	$17,295
Total	$195,735	$ 742,807	$ —	$ 5,113	$ 22,519	$966,174

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As of December 31, 2017, the major components of the Company's investments in multifamily properties were as follows (in thousands):

Operating Properties	Land	Buildings and Improvements	Intangible Lease Assets	Construction in Progress	Furniture, Fixtures and Equipment	Totals
Arbors on Forest Ridge	$2,330	$ 11,089	$ —	$ —	$ 829	$14,248
Cutter's Point	3,330	13,030	—	—	1,080	17,440
Eagle Crest	5,450	22,346	—	—	1,299	29,095
Silverbrook	4,860	25,665	—	—	2,509	33,034
Edgewater at Sandy Springs	14,290	44,004	—	—	4,291	62,585
Beechwood Terrace	1,390	20,729	—	—	1,271	23,390
Willow Grove	3,940	10,766	—	—	942	15,648
Woodbridge	3,650	13,031	—	—	1,093	17,774
Abbington Heights	1,770	16,796	—	—	1,171	19,737
The Summit at Sabal Park	5,770	13,377	—	—	1,136	20,283
Courtney Cove	5,880	12,961	—	2	1,096	19,939
Radbourne Lake	2,440	21,924	—	—	1,300	25,664
Timber Creek	11,260	13,479	—	—	1,158	25,897
Belmont at Duck Creek	1,910	17,190	—	—	1,216	20,316
Sabal Palm at Lake Buena Vista	7,580	41,229	—	1	1,064	49,874
Cornerstone	1,500	30,452	—	17	1,487	33,456
The Preserve at Terrell Mill	10,170	48,630	—	32	4,074	62,906
The Ashlar	4,090	12,640	—	—	1,575	18,305
Heatherstone	2,320	7,868	—	36	1,000	11,224
Versailles	6,720	19,798	—	914	2,365	29,797
Seasons 704 Apartments	7,480	14,079	—	—	1,009	22,568
Madera Point	4,920	17,481	—	9	1,188	23,598
The Pointe at the Foothills	4,840	46,723	—	142	1,739	53,444
Venue at 8651	2,350	17,625	—	300	1,835	22,110
Parc500	3,860	19,885	—	676	1,470	25,891
The Colonnade	8,340	36,828	—	62	934	46,164
Old Farm	11,078	69,881	—	323	1,392	82,674
Stone Creek at Old Farm	3,493	19,227	—	15	374	23,109
Hollister Place	2,782	20,754	—	89	698	24,323
Rockledge Apartments	17,451	92,397	—	1,168	1,457	112,473
Atera Apartments	22,371	35,097	1,340	—	673	59,481
	189,615	806,981	1,340	3,786	44,725	1,046,447
Accumulated depreciation and amortization	—	(65,016)	(497)	—	(22,739)	(88,252)
Total Operating Properties	$189,615	$ 741,965	$ 843	$ 3,786	$ 21,986	$958,195
Held For Sale Properties						
Timberglen	2,510	14,717	—	—	1,077	18,304
Southpoint Reserve at Stoney Creek	6,120	11,255	—	—	679	18,054
	8,630	25,972	—	—	1,756	36,358
Accumulated depreciation and amortization	—	(2,630)	—	—	(767)	(3,397)

Total Held For Sale Properties	$8,630	$ 23,342	$ —	$ —	$ 989	$32,961
Total	$198,245	$ 765,307	$ 843	$ 3,786	$ 22,975	$991,156

Depreciation expense was $10.8 million and $9.7 million for the three months ended June 30, 2018 and 2017, respectively. Depreciation expense was $21.6 million and $19.4 million for the six months ended June 30, 2018 and 2017, respectively.

Amortization expense related to the Company's intangible lease assets was $0.2 million and $2.5 million for the three months ended June 30, 2018 and 2017, respectively. Amortization expense related to the Company's intangible lease assets was $0.8 million and $5.3 million for the six months ended June 30, 2018 and 2017, respectively. Due to the six-month useful life attributable to intangible lease assets, the value of intangible lease assets on any acquisition prior to December 31, 2017 has been fully amortized and the assets and related accumulated amortization have been written off as of June 30, 2018.

Disposition

The following table presents the Company's sale of real estate during the six months ended June 30, 2018 (in thousands). The Company sold four properties for approximately $83.9 million during the six months ended June 30, 2017.

Property Name	Location	Date of Sale	Sales Price	Net Cash Proceeds (1)	Gain on Sale of Real Estate
Timberglen (2)	Dallas, Texas	January 31, 2018	$30,000	$ 29,553	$13,742

(1) Represents sales price, net of closing costs.

(2) The Company completed the reverse portion of the 1031 Exchange of Atera Apartments with the sale of Timberglen, at which time legal title to Atera Apartments transferred to the Company.

6. Debt

Mortgage Debt

The following table contains summary information concerning the mortgage debt of the Company as of June 30, 2018 (dollars in thousands):

Operating Properties		Type	Term (months)	Outstanding Principal (1)	Interest Rate (2)	Maturity Date
Arbors on Forest Ridge	(3)	Floating	84	$ 13,130	3.77%	7/1/2024
Cutter's Point	(3)	Floating	84	16,640	3.77%	7/1/2024
Eagle Crest	(3)	Floating	84	29,510	3.77%	7/1/2024
Silverbrook	(3)	Floating	84	30,590	3.77%	7/1/2024
Edgewater at Sandy Springs	(3)	Floating	84	52,000	3.77%	7/1/2024
Beechwood Terrace	(3)	Floating	84	20,150	3.77%	7/1/2024
Willow Grove	(3)	Floating	84	14,818	3.87%	7/1/2024
Woodbridge	(3)	Floating	84	13,677	3.87%	7/1/2024
The Summit at Sabal Park	(3)	Floating	84	13,560	3.71%	7/1/2024
Courtney Cove	(3)	Floating	84	13,680	3.71%	7/1/2024
The Preserve at Terrell Mill	(3)	Floating	84	42,480	3.71%	7/1/2024
The Ashlar	(3)	Floating	84	14,520	3.71%	7/1/2024
Heatherstone	(3)	Floating	84	8,880	3.71%	7/1/2024
Versailles	(3)	Floating	84	23,880	3.71%	7/1/2024
Seasons 704 Apartments	(3)	Floating	84	17,460	3.71%	7/1/2024
Madera Point	(3)	Floating	84	15,150	3.71%	7/1/2024
The Pointe at the Foothills	(3)	Floating	84	34,800	3.71%	7/1/2024
Venue at 8651	(3)	Floating	84	13,734	3.87%	7/1/2024
The Colonnade	(3)	Floating	84	28,093	3.77%	7/1/2024
Old Farm	(3)	Floating	84	52,886	3.77%	7/1/2024
Stone Creek at Old Farm	(3)	Floating	84	15,274	3.77%	7/1/2024
Timber Creek	(4)	Floating	120	19,231	3.91%	10/1/2024
Radbourne Lake	(4)	Floating	120	18,972	3.90%	10/1/2024

Sabal Palm at Lake Buena Vista	(4)	Floating	120	37,294	3.90%	12/1/2024
Abbington Heights	(5)	Fixed	120	9,894	3.79%	9/1/2022
Belmont at Duck Creek	(6)	Floating	84	17,760	3.48%	6/1/2025
Cornerstone	(7)	Fixed	120	22,447	4.24%	3/1/2023
Parc500	(8)	Fixed	120	15,608	4.49%	8/1/2025
Hollister Place	(3)	Floating	84	13,475	4.33%	2/1/2024
Rockledge Apartments	(3)	Floating	84	68,100	3.66%	7/1/2024
Atera Apartments	(9)	Floating	84	29,500	3.57%	11/1/2024
				$ 737,193		
Fair market value adjustment				680 (10)		
Deferred financing costs, net of accumulated amortization of $1,540				(7,976)		
				$ 729,897		
Held For Sale Property						
Southpoint Reserve at Stoney Creek	(3)	Floating	84	13,500	4.20%	1/1/2022
Deferred financing costs, net of accumulated amortization of $83				(82)		
				$ 13,418		

(1) Mortgage debt that is non-recourse to the Company and encumbers the multifamily properties.

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(2) Interest rate is based on one-month LIBOR plus an applicable margin, except for fixed rate mortgage debt. One-month LIBOR as of June 30, 2018 was 2.0903%.

(3) Loan can be pre-paid in the first 12 months of the term at par plus 5.00%. Starting in the 13th month of the term through the 81st month of the term, the loan can be pre-paid at par plus 1.00% of the unpaid principal balance and at par during the last three months of the term.

(4) Loan can be pre-paid in the first 12 months of the term at par plus 5.00%. Starting in the 13th month of the term through the 116th month of the term, the loan can be pre-paid at par plus 1.00% of the unpaid principal balance and at par during the last four months of the term.

(5) Debt was assumed upon acquisition of this property and recorded at approximated fair value. The loan is open to pre-payment in the last three months of the term.

(6) On June 1, 2018, the Company refinanced the existing fixed rate mortgage, which was assumed upon acquisition of this property and recorded at approximated fair value, of approximately $10.9 million into a floating rate mortgage. The Company accounted for the refinancing as an extinguishment of a debt instrument. As such, the Company wrote-off the unamortized fair market value adjustment as of June 1, 2018, a premium of less than $0.1 million, related to the prior fixed rate mortgage, which is recorded in loss on extinguishment of debt and modification costs on the accompanying consolidated statements of operations and comprehensive income. Loan cannot be pre-paid in the first 12 months of the term. Starting in the 13th month of the term through the 81st month of the term, the loan can be pre-paid at par plus 1.00% of the unpaid principal balance and at par during the last three months of the term.

(7) Debt in the amount of $18.0 million was assumed upon acquisition of this property and recorded at approximated fair value. The assumed debt carries a 4.09% fixed rate, was originally issued in March 2013, and had a term of 120 months with an initial 24 months of interest only. At the time of acquisition, the principal balance of the first mortgage remained unchanged and had a remaining term of 98 months with 2 months of interest only. The first mortgage is pre-payable and subject to yield maintenance from the 13th month through August 31, 2022 and is pre-payable at par September 1, 2022 until maturity. Concurrently with the acquisition of the property, the Company placed a supplemental second mortgage on the property with a principal amount of approximately $5.8 million, a fixed rate of 4.70%, and with a maturity date that is the same time as the first mortgage. The supplemental second mortgage is pre-payable and subject to yield maintenance from the date of issuance through August 31, 2022 and is pre-payable at par September 1, 2022 until maturity. As of June 30, 2018, the total indebtedness secured by the property had a blended interest rate of 4.24%.

(8) Debt was assumed upon acquisition of this property and recorded at approximated fair value. The loan is open to pre-payment in the last four months of the term.

(9) Loan can be pre-paid in the first 12 months of the term at par plus 5.00%. Starting in the 13th month of the term through the 81st month of the term, the loan can be pre-paid at par plus 1.00% of the unpaid principal balance and at par during the last three months of the term. The property was held in a consolidated VIE at December 31, 2017. The Company completed the reverse portion of the 1031 Exchange of the property with the sale of Timberglen on January 31, 2018, at which time legal title to the property transferred to the Company. Upon the transfer of title, the property owner is no longer considered a VIE.

(10) The Company reflected a valuation adjustment on its fixed rate debt for Parc500 to adjust it to fair market value on the date of acquisition for the difference between the fair value and the assumed principal amount of debt. The difference is amortized into interest expense over the remaining term of the mortgage.

During the six months ended June 30, 2018, the Company sold one property and repaid the related mortgage loan that encumbered the property, as detailed in the table below (in thousands):

Property Name	Date of Sale	Type	Outstanding Principal (1)
Timberglen	January 31, 2018	Floating	$ 17,226

(1) Represents the outstanding principal balance when the loan was repaid.

The weighted average interest rate of the Company's mortgage indebtedness was 3.80% as of June 30, 2018 and 3.34% as of December 31, 2017. The increase between the periods is primarily related to increases in LIBOR. As of June 30, 2018, the adjusted weighted average interest rate of the Company's mortgage indebtedness was 3.15%. For purposes of calculating the adjusted weighted average interest rate of the outstanding mortgage indebtedness, the Company has included the weighted average fixed rate of 1.3388% on its combined $650.0 million notional amount of interest rate swap agreements, which effectively fix the interest rate on $650.0 million of the Company's floating rate mortgage indebtedness (see Note 7). The interest rate cap agreements the Company has entered into effectively cap one-month LIBOR on $182.4 million of the Company's floating rate mortgage indebtedness at a weighted average rate of 4.62% (see Note 7).

Each of the Company's mortgages is a non-recourse obligation subject to customary provisions. The loan agreements contain customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the

property, whether junior or senior to the loan, and bankruptcy or other insolvency events. As of June 30, 2018, the Company believes it is in compliance with all provisions.

Freddie Mac Multifamily Green Advantage. In order to obtain more favorable pricing on the Company's mortgage debt financing with Freddie Mac, the Company has decided to participate in Freddie Mac's new Multifamily Green Advantage program. In the second quarter of 2017, the Company escrowed approximately $4.2 million to finance smarter, greener property improvements at 18 of its properties, which is expected to be completed by the end of 2018. As of June 30, 2018, the Company had spent approximately $1.8 million on green improvements. The Company expects to reduce water/sewer costs at each property by at least 15% through the replacement of showerheads, plumbing fixtures and toilets with modern energy efficient upgrades.

Credit and Bridge Facilities

The following table contains summary information concerning the Company's credit facility as of June 30, 2018 (dollars in thousands):

	Type	Term (months)	Outstanding Principal	Interest Rate (1)	Maturity Date (2)
$30 Million Credit Facility	Floating	24	$ 35,000	6.09%	12/29/2018
Deferred financing costs, net of accumulated amortization of $10			(5)		
			$ 34,995		

(1) Interest rate is based on one-month LIBOR plus an applicable margin. One-month LIBOR as of June 30, 2018 was 2.0903%.
(2) $5.0 million of the $35.0 million outstanding as of June 30, 2018 matures on July 26, 2018 (see Note 13).

$30 Million Credit Facility. On December 29, 2016, the Company, through the OP, entered into a $30.0 million credit facility (the "$30 Million Credit Facility") with KeyBank National Association ("KeyBank"). On April 27, 2018, the Company, through the OP, amended the $30 Million Credit Facility to temporarily increase the loan commitment by $5.0 million (the "Temporary Increase") and immediately drew $5.0 million. The $5.0 million drawn under the Temporary Increase was required to be and was repaid in full by July 26, 2018 (see Note 13). The Company accounted for the Temporary Increase as an extinguishment of a debt instrument. As such, the Company wrote-off the unamortized deferred financing costs of approximately $0.1 million as of April 27, 2018, which is recorded in loss on extinguishment of debt and modification costs on the accompanying consolidated statements of operations and comprehensive income. The Company incurred approximately $15,000 of deferred financing costs in connection with the Temporary Increase. The $30 Million Credit Facility is a full-term, interest-only facility, has one 12-month extension option on the $30.0 million tranche outstanding and is guaranteed by the OP.

The $30 Million Credit Facility loan agreement contains customary provisions with respect to events of default, covenants and borrowing conditions. Certain prepayments may be required upon a breach of covenants or borrowing conditions. As of June 30, 2018, the Company believes it is in compliance with all provisions of the loan agreement.

2017 Bridge Facility. On June 30, 2017, the Company, through the OP, entered into a $65.9 million bridge facility (the "2017 Bridge Facility") with KeyBank. The 2017 Bridge Facility was a full-term, interest-only facility with an initial four-month term (see below) and was guaranteed by the Company. Interest accrued on the 2017 Bridge Facility at an interest rate of one-month LIBOR plus 3.75%. In July 2017, the Company used proceeds from the sale of Regatta Bay to pay down $11.3 million on the 2017 Bridge Facility. In October 2017, the Company used proceeds from the sale of four properties to pay down approximately $46.0 million on the 2017 Bridge Facility, bringing the outstanding balance to approximately $8.6 million, and also extended the maturity date to March 31, 2018. In

February 2018, the Company used proceeds from the sale of Timberglen to pay the remaining $8.6 million outstanding on the 2017 Bridge Facility, which retired the bridge facility.

Deferred Financing Costs

The Company defers costs incurred in obtaining financing and amortizes the costs over the terms of the related loans using the straight-line method, which approximates the effective interest method. Deferred financing costs, net of amortization, are recorded as a reduction from the related debt on the Company's consolidated balance sheets. Upon repayment of or in conjunction with a material change in the terms of the underlying debt agreement, any unamortized costs are charged to loss on extinguishment of debt and modification costs (see "Loss on Extinguishment of Debt and Modification Costs" below). For the three months ended June 30, 2018 and 2017, the Company wrote-off deferred financing costs of approximately $0.1 million and $0.4 million, respectively, which is included in loss on extinguishment of debt and modification costs on the consolidated statements of operations and comprehensive income. For the six months ended June 30, 2018 and 2017, the Company wrote-off deferred financing costs of approximately $0.5 million and $0.4 million, respectively, which is included in loss on extinguishment of debt and modification costs on the consolidated statements of operations and comprehensive income. For the three months ended June 30, 2018 and 2017, amortization of deferred financing costs of approximately $0.4 million and $0.4 million, respectively, is included in interest expense on the consolidated statements of operations and comprehensive income. For the six months ended June 30, 2018 and 2017, amortization of deferred financing costs of approximately $0.7 million and $1.0 million, respectively, is included in interest expense on the consolidated statements of operations and comprehensive income.

Loss on Extinguishment of Debt and Modification Costs

Upon repayment of or in conjunction with a material change (i.e. a 10% or greater difference in the cash flows between instruments) in the terms of an underlying debt agreement, the Company writes off any unamortized deferred financing costs and fair market value adjustments related to the original debt. Loss on extinguishment of debt and modification costs also includes prepayment penalties incurred on the early repayment of debt and costs incurred in a debt modification that are not capitalized as deferred financing costs.

Schedule of Debt Maturities

The aggregate scheduled maturities, including amortizing principal payments, of total debt for the next five calendar years subsequent to June 30, 2018 are as follows (in thousands):

	Operating Properties	Held For Sale Property	Credit Facility	Total
2018	$1,207	$110	$35,000	$36,317
2019	2,448	210	—	2,658
2020	2,483	211	—	2,694
2021	2,531	224	—	2,755
2022	11,422	12,745	—	24,167
Thereafter	717,102	—	—	717,102
Total	$737,193	$13,500	$35,000	$785,693

7. Fair Value of Derivatives and Financial Instruments

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820, Fair Value Measurement and Disclosures, establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy):

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are the unobservable inputs for the asset or liability, which are typically based on an entity's own assumption, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on input from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company utilizes independent third parties to perform the allocation of value analysis for each property acquisition and to perform the market valuations on its derivative financial instruments and has established policies, as described above, processes and procedures intended to ensure that the valuation methodologies for investments and derivative financial instruments are fair and consistent as of the measurement date.

Derivative Financial Instruments and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company may enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to the Company's borrowings. In order to minimize counterparty credit risk, the Company enters into and expects to enter into hedging arrangements only with major financial institutions that have high credit ratings.

The Company utilizes an independent third party to perform the market valuations on its derivative financial instruments. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair values of interest rate caps are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both the Company's own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of the Company's derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of June 30, 2018 and December 31, 2017 were classified as Level 2 of the fair value hierarchy.

The Company's main objective in using interest rate derivatives is to add stability to interest expense related to floating rate debt. To accomplish this objective, the Company primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The interest rate swaps have terms ranging from four to five years. Interest rate caps

involve the receipt of variable-rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. The interest rate caps have terms ranging from three to four years. During the six months ended June 30, 2018 and 2017, such derivatives were used to hedge the variable cash flows associated with a majority of the Company's floating rate debt. The interest rate cap agreements the Company has entered into effectively cap one-month LIBOR on $182.4 million of the Company's floating rate mortgage indebtedness at a weighted average rate of 4.62%.

The changes in fair value of derivative financial instruments that are designated as cash flow hedges are recorded in OCI and are subsequently reclassified into net income (loss) in the period that the hedged forecasted transaction affects earnings. Amounts reported in OCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's floating rate debt. Prior to the Company's adoption of ASU 2017-12 on January 1, 2018, the ineffective portion of changes in the fair value of the Company's derivatives designated as cash flow hedges was recognized directly in net income (loss) as interest expense. The adoption of ASU 2017-12 eliminates the separate measurement of effectiveness and ineffectiveness, and all changes in the fair value of derivatives that are designated as cash flow hedges are recorded directly in OCI. Therefore, during the three and six months ended June 30, 2018, the Company recorded no gain or loss related to the ineffective portion of changes in the fair value of its derivatives designated as cash flow hedges. During the three and six months ended June 30, 2017, the Company recorded approximately $0.1 million and $0.1 million, respectively, of gain related to the ineffective portion of changes in the fair value of its derivatives designated as cash flow hedges, which is recorded as a decrease to interest expense on the accompanying consolidated statements of operations and comprehensive income.

In order to fix a portion of, and mitigate the risk associated with, the Company's floating rate indebtedness (without incurring substantial prepayment penalties or defeasance costs typically associated with fixed rate indebtedness when repaid early or refinanced), the Company, through the OP, has entered into seven interest rate swap transactions with KeyBank (the "Counterparty") with a combined notional amount of $650.0 million. The interest rate swaps the Company has entered into effectively replace the floating interest rate (one-month LIBOR) with respect to that amount with a weighted average fixed rate of 1.3388%. The Company has designated these interest rate swaps as cash flow hedges of interest rate risk.

As of June 30, 2018, the Company had the following outstanding interest rate swaps that were designated as cash flow hedges of interest rate risk (dollars in thousands):

Effective Date	Termination Date	Notional	Fixed Rate (1)
July 1, 2016	June 1, 2021	$100,000	1.1055%
July 1, 2016	June 1, 2021	100,000	1.0210%
July 1, 2016	June 1, 2021	100,000	0.9000%
September 1, 2016	June 1, 2021	100,000	0.9560%
April 1, 2017	April 1, 2022	100,000	1.9570%
May 1, 2017	April 1, 2022	50,000	1.9610%
July 1, 2017	July 1, 2022	100,000	1.7820%
		$650,000	1.3388% (2)

(1) The floating rate option for the interest rate swaps is one-month LIBOR. As of June 30, 2018, one-month LIBOR was 2.0903%.

(2) Represents the weighted average fixed rate of the interest rate swaps.

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements but either do not meet the strict requirements to apply hedge accounting in accordance with FASB ASC 815, Derivatives and Hedging, or the Company has elected not to designate such derivatives. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in net income (loss) as interest expense.

As of June 30, 2018, the Company had the following outstanding derivatives that were not designated as hedges in qualifying hedging relationships (dollars in thousands):

Product	Number of Instruments	Notional
Interest rate caps	11	$182,373

As of June 30, 2017, the Company had 27 interest rate cap derivatives, with a notional amount of $427.2 million, which were not designated as hedges in qualifying hedging relationships.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of June 30, 2018 and December 31, 2017 (in thousands):

Asset Derivatives	Liability Derivatives

	Balance Sheet Location	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:					
Interest rate swaps	Fair market value of interest rate swaps	$26,827	$ 16,480	$ —	$ —
Derivatives not designated as hedging instruments:					
Interest rate caps	Prepaid and other assets	11	4	—	—
Total		$26,838	$ 16,484	$ —	$ —

The tables below present the effect of the Company's derivative financial instruments on the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Amount of gain (loss) recognized in OCI 2018	2017	Location of gain (loss) reclassified from accumulated OCI into income	Amount of gain (loss) reclassified from OCI into income 2018	2017	Location of gain (loss) recognized in income	Amount of gain (loss) recognized in income 2018	2017*
Derivatives designated as hedging instruments:								
For the three months ended June 30,								
Interest rate products	$3,653	$(2,543)(1)	Interest expense	$904	$(448)(1)	Interest expense	$ —	$ 85 (2)
For the six months ended June 30,								
Interest rate products	11,753	(1,921)(1)	Interest expense	1,243	(783)(1)	Interest expense	—	(25)(2) (3)

* Includes amounts excluded from effectiveness testing.

(1) Represents the effective portion of changes in fair value.

(2) Represents the ineffective portion of changes in fair value.

(3) Includes approximately $90,000 of loss reclassified from OCI for missed forecasted transactions due to hedged forecasted transactions being no longer probable.

	Location of gain (loss) recognized in income	Amount of gain (loss) recognized in income 2018	2017
Derivatives not designated as hedging instruments:			
For the three months ended June 30,			
Interest rate products	Interest expense	$(12)	$ (1)
For the six months ended June 30,			
Interest rate products	Interest expense	(2)	(5)

Other Financial Instruments Carried at Fair Value

Redeemable noncontrolling interests in the OP have a redemption feature and are marked to their redemption value if such value exceeds the carrying value of the redeemable noncontrolling interests in the OP (see Note 10). The redemption value is based on the fair value of the Company's common stock at the redemption date, and therefore, is calculated based on the fair value of the Company's common stock at the balance sheet date. Since the valuation is based on observable inputs such as quoted prices for similar instruments in active markets, redeemable noncontrolling interests in the OP are classified as Level 2 if they are adjusted to their redemption value.

Financial Instruments Not Carried at Fair Value

At June 30, 2018 and December 31, 2017, the fair values of cash and cash equivalents, restricted cash, accounts receivable, prepaid assets, accounts payable and other accrued liabilities, accrued real estate taxes payable, accrued interest payable, security deposits and prepaid rent approximated their carrying values because of the short term nature of these instruments. The estimated fair values of other financial instruments were determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize on the disposition of the financial instruments. The use of different market assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

Long-term indebtedness is carried at amounts that reasonably approximate their fair value. In calculating the fair value of its long-term indebtedness, the Company used interest rate and spread assumptions that reflect current credit worthiness and market conditions available for the issuance of long-term debt with similar terms and remaining maturities. These financial instruments utilize Level 2 inputs.

Real estate assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, the Company will evaluate the recoverability of such real estate assets based on estimated future cash flows and the estimated liquidation value of such real estate assets, and provide for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the real estate asset. If impaired, the real estate asset will be written down to its estimated fair value. There can be no assurance that the estimates discussed herein, using Level 3 inputs, are indicative of the amounts the Company could realize on disposition of the real estate asset. For the six months ended June 30, 2018 and 2017, the Company did not record any impairment charges related to real estate assets.

8. Stockholders' Equity

Common Stock

The Company began operations on March 31, 2015 as a result of the Spin-Off. During the six months ended June 30, 2018, the Company issued 80,743 shares of common stock pursuant to its long-term incentive plan and retired 382,941 shares of common stock it had repurchased pursuant to its share repurchase program (see "Share Repurchase Program" and "Long Term Incentive Plan" below). As of June 30, 2018, the Company had 20,747,367 shares of common stock, $0.01 par value per share, issued and outstanding.

Share Repurchase Program

On June 15, 2016, the Board authorized the repurchase by the Company of up to $30.0 million of its common stock, $0.01 par value per share, during a two-year period that was set to expire on June 15, 2018 (the "Share Repurchase Program"). On April 30, 2018, the Board authorized increasing the Share Repurchase Program to up to $40.0 million, and extending it by an additional two years to June 15, 2020. The Company may utilize various methods to effect the repurchases, and the timing and extent of the repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, including whether the Company's common stock is trading at a significant discount to net asset value per share. Repurchases under this program may be discontinued at any time. During the six months ended June 30, 2018, the Company repurchased 382,941 shares of its common stock, $0.01 par value per share, at a total cost of approximately $9,672,000, or $25.26 per share. As of June 30, 2018, the Company had repurchased 737,458 shares of its common stock, $0.01 par value per share, at a total cost of approximately $16,694,000, or $22.64 per share.

Treasury Stock

From time to time, in accordance with the Company's share repurchase program, the Company may repurchase shares of its common stock in the open market. Until any such shares are retired, the cost of the shares is included in common stock held in treasury at cost on the consolidated balance sheet. The number of shares of common stock classified as treasury shares reduces the number of shares of the Company's common stock outstanding and, accordingly, are considered in the weighted average number of shares outstanding during the period. During the six months ended June 30, 2018, the Company retired 382,941 shares of its common stock held in treasury. As of June 30, 2018 and December 31, 2017, the Company had no shares of common stock held in treasury.

Long Term Incentive Plan

On June 15, 2016, the Company's stockholders approved a long-term incentive plan (the "2016 LTIP") and the Company filed a registration statement on Form S-8 registering 2,100,000 shares of common stock, $0.01 par value per share, which the Company may issue pursuant to the 2016 LTIP. The 2016 LTIP authorizes the compensation committee of the Board to provide equity-based compensation in the form of stock options, appreciation rights, restricted shares, restricted stock units, performance shares, performance units and certain other awards denominated or payable in, or otherwise based on, the Company's common stock or factors that may influence the value of the Company's common stock, plus cash incentive awards, for the purpose of providing the Company's directors, officers and other key employees (and those of the Adviser and the Company's subsidiaries), the Company's non-employee directors, and potentially certain non-employees who perform employee-type functions, incentives and rewards for performance.

Restricted Stock Units. Under the 2016 LTIP, restricted stock units may be granted to the Company's directors, officers and other key employees (and those of the Adviser and the Company's subsidiaries) and typically vest over a three to four year period for officers, employees and certain key employees of the Adviser and annually for

directors. Beginning on the date of grant, restricted stock units earn dividends that are payable in cash on the vesting date. On August 11, 2016, pursuant to the 2016 LTIP, the Company granted 209,797 restricted stock units to its directors and officers. On March 16, 2017, pursuant to the 2016 LTIP, the Company granted 219,802 restricted stock units to its directors and officers. On February 15, 2018, pursuant to the 2016 LTIP, the Company granted 275,795 restricted stock units to its directors, officers, employees and certain key employees of the Adviser. The following table includes the number of restricted stock units granted, vested, forfeited and outstanding as of June 30, 2018:

	2018		
	Number of Units		Weighted Average Grant Date Fair Value
Outstanding January 1,	319,342		$ 21.52
Granted	275,795		23.57
Vested	(80,743)		22.57
Forfeited	—		—
Outstanding June 30,	514,394	(1)	$ 22.45

(1) 49,768 restricted stock units vest in August 2018 and 49,772 restricted stock units vest in August 2019. 69,529 restricted stock units vest in March 2019 and 69,530 restricted stock units vest in March 2020. 78,563 restricted stock units vest in February 2019 and 65,744 restricted stock units vest in each of February 2020, 2021 and 2022.

As of June 30, 2018, the Company had issued 191,000 shares of common stock under the 2016 LTIP. For the three months ended June 30, 2018 and 2017, the Company recognized approximately $1.1 million and $1.0 million, respectively, of equity-based compensation expense related to grants of restricted stock units, which is included in corporate general and administrative expenses on the consolidated statements of operations and comprehensive income. For the six months ended June 30, 2018 and 2017, the Company recognized approximately $2.0 million and $1.6 million, respectively, of equity-based compensation expense related to grants of restricted stock units. As of June 30, 2018, the Company had recognized a liability of approximately $0.5 million related to dividends earned on restricted stock units that are payable in cash upon vesting.

9. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of the Company's common stock outstanding, which is adjusted for shares classified as treasury shares during the period and excludes any unvested restricted stock units issued pursuant to the 2016 LTIP. Diluted earnings (loss) per share is computed by adjusting basic earnings (loss) per share for the dilutive effect of the assumed vesting of restricted stock units. During periods of net loss, the assumed vesting of restricted stock units is anti-dilutive and is not included in the calculation of earnings (loss) per share.

The effect of the conversion of OP Units held by noncontrolling limited partners is not reflected in the computation of basic and diluted earnings (loss) per share, as they are exchangeable for common stock on a one-for-one basis. The income (loss) allocable to such units is allocated on this same basis and reflected as net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership in the accompanying consolidated statements of operations and comprehensive income. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings (loss) per share. See Note 10 for additional information.

The following table sets forth the computation of basic and diluted earnings (loss) per share for the periods presented (in thousands, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator for earnings (loss) per share:				
Net income (loss)	$(1,666)	$9,930	$8,428	$6,626
Net income attributable to noncontrolling interests	—	2,524	—	2,836
Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	(5)	—	25	—
Net income (loss) attributable to common stockholders	$(1,661)	$7,406	$8,403	$3,790
Denominator for earnings (loss) per share:				
Weighted average common shares outstanding	20,780	21,044	20,883	21,044
Denominator for basic earnings (loss) per share	20,780	21,044	20,883	21,044
Weighted average unvested restricted stock units	515	429	479	339
Denominator for diluted earnings (loss) per share	21,295	21,473	21,362	21,383
Earnings (loss) per weighted average common share:				
Basic	$(0.08)	$0.35	$0.40	$0.18
Diluted	$(0.08)	$0.34	$0.39	$0.18

10. Noncontrolling Interests

Redeemable Noncontrolling Interests in the OP

Interests in the OP held by limited partners are represented by OP Units. Net income (loss) is allocated to holders of OP Units based upon net income (loss) attributable to common stockholders and the weighted average number of OP Units outstanding to total common shares plus OP Units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to OP Units in accordance with the terms of the partnership agreement of the OP. Each time the OP distributes cash to the Company, outside limited partners of the OP receive their pro-rata share of the distribution. Redeemable noncontrolling interests in the OP have a redemption feature and are marked to their redemption value if such value exceeds the carrying value of the redeemable noncontrolling interests in the OP.

On June 30, 2017, the Company and the OP entered into a contribution agreement (the “Contribution Agreement”) with BH Equities, LLC and its affiliates (collectively, “BH Equity”), whereby the Company purchased 100% of the joint venture interests in the Portfolio owned by BH Equity, representing approximately 8.4% ownership in the Portfolio (the “BH Buyout”), for total consideration of approximately $51.7 million (the “Purchase Amount”). The Purchase Amount consisted of approximately $49.7 million in cash that was paid on June 30, 2017 and 73,233 OP Units (initially valued at $2.0 million) that were issued on August 1, 2017. The number of OP Units issued was calculated by dividing $2.0 million by the midpoint of the range of the Company’s net asset value as publicly disclosed in connection with the Company’s release of its second quarter of 2017 earnings results, which was $27.31 per share.

In connection with the issuance of OP Units to BH Equity on August 1, 2017, the Company and the OP amended the partnership agreement of the OP (the “Amendment”). Pursuant to the Amendment, limited partners holding OP Units have the right to cause the OP to redeem their units at a redemption price equal to and in the form of the Cash Amount (as defined in the partnership agreement of the OP), provided that such OP Units have been outstanding for at least one year. The Company, through the OP GP, as the general partner of the OP may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Share Amount (one share of common stock of the Company for each OP Unit), as defined in the partnership agreement of the OP. Notwithstanding the foregoing, a limited partner will not be entitled to exercise its redemption right to the extent the issuance of the Company’s common stock to the redeeming limited partner would (1) be prohibited, as determined in the Company’s sole discretion, under the Company’s charter or (2) cause the acquisition of common stock by such redeeming limited partner to be “integrated” with any other distribution of the Company’s common stock for purposes of complying with the Securities Act of 1933, as amended. Accordingly, the Company records the OP Units held by noncontrolling limited partners outside of permanent equity and reports the OP Units at the greater of their carrying value or their redemption value using the Company’s stock price at each balance sheet date.

The following table sets forth the redeemable noncontrolling interests in the OP for the six months ended June 30, 2018 (in thousands):

Redeemable noncontrolling interests in the OP, December 31, 2017	$2,135
Net income attributable to redeemable noncontrolling interests in the OP	25
Other comprehensive income attributable to redeemable noncontrolling interests in the OP	32
Distributions to redeemable noncontrolling interests in the OP	(131)
Adjustment to reflect redemption value of redeemable noncontrolling interests in the OP	22
Redeemable noncontrolling interests in the OP, June 30, 2018	$2,083

Noncontrolling Interests

Noncontrolling interests have in the past and may in the future be comprised of joint venture partners’ interests in joint ventures the Company consolidates. When applicable, the Company reports its joint venture partners’ interests in its consolidated joint ventures and other subsidiary interests held by third parties as noncontrolling interests. The Company records these noncontrolling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investment’s net income or loss, equity contributions, return of capital, and distributions. Generally, these noncontrolling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the noncontrolling interest holder based on its economic ownership percentage.

On June 30, 2017, in connection with the BH Buyout, the Company purchased 100% of the outstanding noncontrolling interests in its joint ventures for approximately $51.7 million. On June 30, 2017, prior to the BH Buyout, the carrying value of such noncontrolling interests was approximately $20.5 million. On June 30, 2017, the

Company eliminated the carrying value of such noncontrolling interests on its consolidated balance sheet. The remaining $31.2 million of the Purchase Amount resulted in a reduction to additional paid-in capital on the Company's consolidated balance sheet.

11. Related Party Transactions

Fees and Reimbursements to BH and its Affiliates

The Company has entered into management agreements with BH Management Services, LLC ("BH"), the Company's property manager and an independently owned third party, who manages the Company's properties and supervises the implementation of the Company's value-add program. BH is an affiliate of BH Equity, who was a noncontrolling interest member of the Company's joint ventures prior to the BH Buyout on June 30, 2017. Through BH Equity's noncontrolling interests in such joint ventures, BH Equity was deemed to be a related party. With the completion of the BH Buyout, BH Equity is no longer deemed to be a related party. BH Equity became a noncontrolling limited partner of the OP upon execution of the Amendment. BH and its affiliates do not have common ownership in any joint venture with the Adviser; there is also no common ownership between BH and its affiliates and the Adviser.

The property management fee paid to BH is approximately 3% of the monthly gross income from each property managed. Currently, BH manages all of the Company's properties. Additionally, the Company may pay BH certain other fees, including: (1) a fee of $15-25 per unit for the one-time setup and inspection of properties, (2) a construction supervision fee of 5-6% of total project costs, which is capitalized, (3) acquisition fees and due diligence costs reimbursements, and (4) other owner approved fees at $55 per hour. BH also acts as a paymaster for the properties and is reimbursed at cost for various operating expenses it pays on behalf of the properties. The following is a summary of fees that the properties incurred to BH and its affiliates, as well as reimbursements paid to BH from the properties for various operating expenses, for the three and six months ended June 30, 2018 and 2017 (in thousands):

		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2018	2017	2018	2017
Fees incurred					
Property management fees	(1)	$1,066	$1,057	$2,120	$2,170
Construction supervision fees	(2)	283	254	570	438
Acquisition fees	(3)	—	414	—	505