

---

# **NEXPOINT**

---

RESIDENTIAL TRUST



# NEXPOINT

---

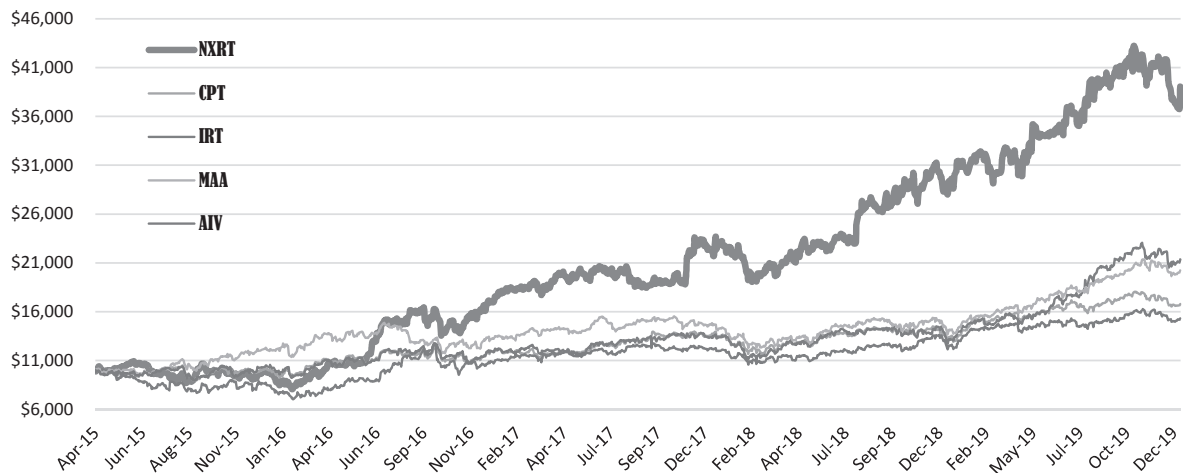
## RESIDENTIAL TRUST

April 10, 2020

TO MY FELLOW SHAREHOLDERS,

NexPoint Residential Trust, Inc. (NYSE: NXRT) (“NXRT” or the “Company”) had another strong year in 2019, our fourth full year as an independently listed public company. NXRT continued to experience robust demand for our well-located value-add communities and completed substantial milestones towards our core business objectives.

### *Performance Highlights*



For the full year 2019, NXRT reported Net Income, FFO, Core FFO and AFFO of \$99.1M, \$40.7M, \$47.6M and \$54.2M, respectively, attributable to common stockholders.<sup>1</sup>

Since inception, we have generated superior Same Store NOI growth relative to our multifamily peers. During 2019, our 2018-2019 Same Store properties average effective rent, total revenue and NOI increased 3.6%, 4.3% and 6.7%, respectively, over the prior year period.<sup>1</sup> NXRT’s 4.3% revenue growth outpaced the average for our peer group by 14 bps, while 6.7% NOI growth proved to be 148 bps better than our peers.<sup>1,2</sup>

Also, we are delighted to highlight the continued success of our value-add program. We completed full and partial renovations on 2,516 units across our portfolio in 2019, adding significant value to our communities, while improving resident quality of life and achieving meaningful returns on invested capital. Our interior

renovation programs have achieved average rent growth of 11.0% resulting in a total return on invested capital expended of 24.5%.

During 2019, we installed 1,327 washer/dryer sets, which produced an ROI of approximately 79%. Looking forward to 2020, we are budgeting to install 816 more washer/dryer sets and expect to produce an estimated ROI of approximately 65%. We completed new technology upgrades at 24 properties throughout the year, consisting of NEST thermostats, smart locks, and USB outlets, which produced an ROI of approximately 38%. For 2020, we are budgeting technology upgrades on approximately 1,590 more units, which we expect to produce an estimated ROI of approximately 44%.<sup>3</sup>

We believe NXRT's focus on acquiring properties with a value-add component should continue to produce attractive returns and outsized Core FFO and NOI growth, which we believe will deliver long-term capital appreciation to stockholders.<sup>3</sup> Additionally, the Company declared dividends totaling \$28.2 million, or \$1.138 per share, in 2019. Driven by excellent cash flow generation and a healthy Core FFO Coverage Ratio (1.70x our dividends declared during the fiscal year 2019)<sup>1</sup>, our board of directors increased the quarterly dividend by 13.6% during the fourth quarter of 2019. This increase in our quarterly dividend to \$0.3125 per share represents a 51.7% increase since inception.

### ***Environmental and Socially Responsible Initiatives***

Throughout the year, NXRT successfully decreased its utility costs while adding value for its residents by participating in Freddie Mac's Green Advantage program. Since inception, NXRT has spent approximately \$6.2 million on green improvements and has fully implemented green improvements at 34 of its properties. As of December 31, 2019, 31 of those properties have reported reduced utility costs of approximately \$2.0 million, saving approximately 271 million gallons of water and reducing resident rent per unit by \$15. The improvements have also saved 9,008,763 kilowatt hours, or 34%, of yearly energy usage. We expect these environmentally-friendly improvements will continue to reduce operating expenses and save our residents money, thereby enhancing property value, asset quality, and extending the runway for further organic revenue growth.<sup>3</sup>

In addition to our green initiatives, mentioned above, NXRT's core strategy allows working-class Americans access to safe, clean and affordable housing in high job growth markets. As homeownership becomes less and less attainable for the general population, we believe our communities fill a void in the workforce housing sector.

NXRT is also proud to report that BH Management, our property management partner, continues to improve upon diversity in the workplace. As of December 31, 2019, 76% of BH employees dedicated to NXRT operations are minorities and 46% are women. NXRT and BH aspire to promote women and minorities to management positions - women account for 93% of managers at BH, while minorities account for 63% of managers at BH.

## ***Superior Capital Allocation & Balance Sheet Management***

During 2019, the Company successfully completed the disposition of six properties, further validating our value creation strategy while generating net cash proceeds of \$286.5 million, an approximate 25% IRR and a 2.48x multiple on invested capital.<sup>4</sup>

The Company has thoughtfully redeployed proceeds, through tax-deferred 1031 exchanges, to acquire better quality assets in superior locations within core markets that we believe will benefit from new management and our value-add program. In total, NXRT added eleven properties to the portfolio during the full year 2019 - this activity represents roughly \$877 million of gross real estate additions across 4,583 multifamily units in five existing markets – Nashville, TN, Dallas, TX, Phoenix, AZ, Orlando, FL and South Florida, as well as a new market – Las Vegas, NV.

From May 2019 through December 2019, through our ATM offering, the Company issued approximately 1.6 million shares of common stock at an average share price of \$45.98 (before sales commissions and offering costs) for approximately \$72.0 million in gross proceeds, which the Company used to pay down the corporate revolver, to acquire 11 properties and for other general corporate purposes.

Throughout the year, we worked diligently to improve our exposure to rising interest rates, as well as our balance sheet. During 2019, we entered into four new interest rate swap agreements that effectively fixed the interest rate on an additional \$325.0 million of floating rate mortgage debt. Added to the \$650.0 million of float-to-fixed interest rate swaps that were previously effective, the new swaps reduced our exposure to interest rate variation by 47%, leaving just 26% of our \$1.4 billion of total debt outstanding exposed to interest rate volatility as of December 31, 2019.

## ***Outlook/Strategic Advantages<sup>3</sup>***

Looking forward to 2020, we expect to continue to see healthy demand, from both renters and investors, for well-located work force housing with value-add potential. We maintain a core focus on delivering internal growth and outsized performance, making prudent capital allocation decisions to drive value creation for our shareholders. In light of the recent COVID-19 outbreak, we are closely monitoring the impact on our tenants and properties. As of the date of this letter, we have not seen a material negative impact to occupancy or rent collections. Although the response implemented by national and local governments only began in earnest in mid-March, and thus the impact is not yet fully known, we continue to see strong demand for our product. We have long maintained Class B assets that have been thoughtfully renovated and will continue to attract tenants, even through a recession, as we provide a high-quality product that can attract tenants currently residing in a Class A community that may be forced to reduce expenditures and locate to a Class B community.

In addition to the attractiveness of our product, price point and the resiliency of our tenant base, we believe we are well positioned to weather the potential longer-term economic impact from the COVID-19 outbreak response. Our debt is manageable as we have practically fixed 89.4% or \$1.17 billion of our floating rate debt at an all-in 1.38% for a weighted average 5.31 years with only \$249.4 million of maturities and

amortization over the next 48 months. As of March 31, 2020, we had \$77.9 million cash on hand, with average occupancy across the portfolio of 94.4%.

We will continue to monitor this situation, communicate frequently and transparently with our investors like we always have, and react accordingly to continue to provide value to our shareholders.

Thank you for your continued support of our team and belief in our company,



James D. Dondero, President

<sup>1</sup> See Non-GAAP Reconciliations included in our Form 10-K for the year ended December 31, 2019 accompanying this letter

<sup>2</sup> Industry leading is based on total return vs NXRT's peer group. NXRT's peer group includes the following NYSE-listed multifamily REITs: APTS, BRG, CPT, IRT, MAA

<sup>3</sup> See Cautionary Statement Regarding Forward Looking Statements in our Form 10-K for the year ended December 31, 2019 accompanying this letter

<sup>4</sup> We define a "multiple on invested capital" as the total return to NXRT (inclusive of the Company's share of property distributions and net cash proceeds from sales, less mortgage debt repaid) divided by NXRT's total capital investment in the properties



# COMPANY PROFILE

---



## NEXPOINT RESIDENTIAL TRUST, INC.

NexPoint Residential Trust is a publicly traded REIT, with its shares listed on the New York Stock Exchange under the symbol “NXRT,” and is primarily focused on acquiring, owning and operating well-located middle-income multifamily properties with “value-add” potential in large cities, primarily in the Southeastern and Southwestern United States. NXRT is externally advised by NexPoint Real Estate Advisors, L.P.

We pursue investments in multifamily real property, typically with a value-add component, where we can invest capital to provide “life style” amenities to “work force” and middle-income housing. Our value-add strategies seek to provide both dramatically-improved communities for our residents and outsized returns for our shareholders.

We believe NXRT is the only pure-play, publicly-traded REIT on the NYSE, focused on value-add multifamily real property. We target markets that we believe have the following characteristics:

- Attractive job growth and household formation fundamentals;
- High costs of homeownership or class A multifamily rental; and
- Elevated or increasing construction or replacement costs for multifamily real property.

Our “value-add” program seeks to provide our residents with “life-style” amenities found in newly constructed multifamily property at a reasonable price as well as increase shareholder value for our investors.

As of December 31, 2019, NXRT owned a portfolio of 40 multifamily communities consisting of 14,920 apartment units in 11 major markets across the SE & SW U.S.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36663

**NexPoint Residential Trust, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Maryland  
(State or other Jurisdiction of  
Incorporation or Organization)  
300 Crescent Court, Suite 700, Dallas, Texas  
(Address of Principal Executive Offices)

47-1881359  
(I.R.S. Employer  
Identification No.)  
75201  
(Zip Code)

(972) 628-4100

(Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NXRT	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). 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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

The aggregate market value of the shares of common stock of the registrant held by non-affiliates of the registrant, based upon the closing price of such shares on June 28, 2019 was approximately \$774,925,308.64.

As of February 21, 2020, the registrant had 25,296,836 shares of its common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the registrant's 2020 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.



**NEXPOINT RESIDENTIAL TRUST, INC.**  
**Form 10-K**  
**Year Ended December 31, 2019**

**INDEX**

	<u>Page</u>
Cautionary Statement Regarding Forward-Looking Statements	ii
<b>PART I</b>	
Item 1. Business	4
Item 1A. Risk Factors	17
Item 1B. Unresolved Staff Comments	36
Item 2. Properties	37
Item 3. Legal Proceedings	38
Item 4. Mine Safety Disclosures	38
<b>PART II</b>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	39
Item 6. Selected Financial Data	41
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	42
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	65
Item 8. Financial Statements and Supplementary Data	66
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	66
Item 9A. Controls and Procedures	66
Item 9B. Other Information	67
<b>PART III</b>	
Item 10. Directors, Executive Officers and Corporate Governance	68
Item 11. Executive Compensation	68
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	68
Item 13. Certain Relationships and Related Transactions, and Director Independence	68
Item 14. Principal Accountant Fees and Services	68
<b>PART IV</b>	
Item 15. Exhibits and Financial Statement Schedules	69
Index to Consolidated Financial Statements	F-1

## Cautionary Statement Regarding Forward-Looking Statements

This annual 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 annual 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 to 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;
- increased risks associated with our strategy of acquiring value-enhancement multifamily properties rather 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 our occupancy rates;
- the risk that we may fail to consummate future 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;
- 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 Americans with Disabilities Act of 1990 (the "ADA") and the Fair Housing Act (the "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;
- 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 risk that we may not replicate the historical results achieved by other entities managed or sponsored by affiliates of NexPoint Real Estate Advisors, L.P. (our “Advisor”), members of our Adviser’s management team or by NexPoint Advisors, L.P. (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 pay to our Adviser and its affiliates;
- risks associated with any 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 properties and 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 the heading “Risk Factors” in this 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 annual 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.

## PART I

### ITEM 1. BUSINESS

#### General

NexPoint Residential Trust, Inc. (the “Company”, “we”, “our”) was incorporated in Maryland on September 19, 2014, and has elected to be taxed as a 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 December 31, 2019, there were 23,819,402 common units in the OP (“OP Units”) outstanding, of which 23,746,169, or 99.7%, were owned by the Company and 73,233, or 0.3%, were owned by a noncontrolling limited partner (see Note 10 to our consolidated financial statements).

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 the Adviser through an agreement dated March 16, 2015, as amended, and renewed on February 17, 2020 for a one-year term (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 Board. The Adviser is wholly owned by our Sponsor. Our Sponsor is affiliated through common control with Highland Capital Management, LP. (“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 entities through which we own the properties in the Portfolio have entered into management agreements with BH Management Services, LLC (“BH”). Pursuant to these agreements, BH operates and leases the underlying properties in the Portfolio and provides construction management services. BH has significant experience operating and leasing multifamily properties, having begun business in 1993 and currently operating and leasing approximately 86,000 multifamily units across the country. The Company pays BH a management fee of approximately 3% of the monthly gross income from each property managed, as well as construction supervision fees and certain other fees. BH is an affiliate of the noncontrolling limited partner of the OP. See Notes 10 and 11 to our consolidated financial statements for additional information.

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 30% 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.

As of December 31, 2019, the Company, through the OP and the wholly owned TRS, owned 40 properties representing 14,724 units in eight states, as further described under Item 2, “Properties” and Notes 3, 4 and 5 to our consolidated financial statements.

## 2019 Highlights

Key highlights and transactions completed in 2019 include the following:

- 2019 ATM Program:** On February 20, 2019, the Company, the OP and the Adviser entered into separate equity distribution agreements (“Equity Distribution Agreements”) with each of Jefferies LLC (“Jefferies”), Raymond James & Associates, Inc. (“Raymond James”) and SunTrust Robinson Humphrey, Inc. (“SunTrust” and together with Jefferies and Raymond James, the “Sales Agents”), pursuant to which the Company may issue and sell from time to time shares of the Company’s common stock, par value \$0.01 per share, having an aggregate sales price of up to \$100,000,000 (the “ATM Program”). During 2019, we issued 1,565,322 shares of common stock, par value \$0.01 per share, at an average share price of \$45.98 (before sales commissions and offering costs) for gross proceeds of approximately \$72.0 million through the ATM Program. We used the majority of the net proceeds from the 2019 ATM Program to acquire 11 properties. The following table below contains summary information of the 2019 ATM Program:

Gross proceeds	\$	71,973,433
Common shares issued		1,565,322
Gross average sale price per share	\$	<u>45.98</u>
Sales commissions	\$	1,079,601
Offering costs		1,019,778
Net proceeds		<u>69,874,054</u>
Average price per share, net	\$	<u>44.64</u>

- Acquisitions:** We completed 11 acquisitions in 2019. Details of the acquisitions are in the table below (dollars in thousands):

Property Name	Location	Date of Acquisition	Purchase Price	Mortgage Debt (1)	# Units	Effective Ownership
Bella Vista	Phoenix, Arizona	January 28, 2019	\$ 48,400	\$ 29,040	248	100%
The Enclave	Tempe, Arizona	January 28, 2019	41,800	25,322	204	100%
The Heritage	Phoenix, Arizona	January 28, 2019	41,900	24,625	204	100%
Summers Landing	Fort Worth, Texas	June 7, 2019	19,396	10,109	196	100%
Residences at Glenview Reserve	Nashville, Tennessee	July 17, 2019	45,000	26,560	360	100%
Residences at West Place	Orlando, Florida	July 17, 2019	55,000	33,817	342	100%
Avant at Pembroke Pines	Pembroke Pines, Florida	August 30, 2019	322,000	177,100	1,520	100%
Arbors of Brentwood	Nashville, Tennessee	September 10, 2019	62,250	34,237	346	100%
Torreyana Apartments	Las Vegas, Nevada	November 22, 2019	68,000	37,400	315	100%
Bloom	Las Vegas, Nevada	November 22, 2019	106,500	58,850	528	100%
Bella Solara	Las Vegas, Nevada	November 22, 2019	66,500	36,575	320	100%
			<u>\$ 876,746</u>	<u>\$ 493,635</u>	<u>4,583</u>	

- (1) For additional information regarding our debt, see Note 6 to our consolidated financial statements.

- **Dispositions:** We sold six properties totaling 2,218 units in 2019. Details of the dispositions are in the table below (in thousands):

Property Name	Location	Date of Sale	Sales Price	Outstanding Principal (1)	Net Cash Proceeds (2)	Gain on Sale of Real Estate
Edgewater at Sandy Springs	Atlanta, Georgia	August 28, 2019	\$ 101,250	\$ 52,000	\$ 100,120	\$ 47,332
Abbingtion Heights	Antioch, Tennessee	August 30, 2019	28,050	16,920	27,605	10,887
Belmont at Duck Creek	Garland, Texas	August 28, 2019	29,500	17,760	29,102	11,993
The Ashlar	Dallas, Texas	August 28, 2019	29,400	14,520	29,029	13,205
Heatherstone	Dallas, Texas	August 28, 2019	16,275	8,880	16,032	6,366
The Pointe at the Foothills	Mesa, Arizona	August 28, 2019	85,400	34,800	84,591	37,901
			<u>\$ 289,875</u>	<u>\$ 144,880</u>	<u>\$ 286,479</u>	<u>\$ 127,684</u>

- (1) Represents the outstanding principal balance when the loan was repaid.
- (2) Represents sales price, net of closing costs.

- **Renovations:** For the properties in our Portfolio as of December 31, 2019, we completed full and partial renovations on 2,516 units at an average cost of \$4,787 per renovated unit. Since inception, for the properties in our Portfolio as of December 31, 2019, we have completed full and partial renovations on 6,927 units at an average cost of \$4,920 per renovated unit that has been leased as of December 31, 2019. We have achieved average rent growth of 11.0%, or a \$101 average monthly rental increase per unit, on all units renovated and leased as of December 31, 2019, resulting in a return on investment on capital expended for interior renovations of 24.5%.
- **Dividends:** We declared dividends totaling \$28.2 million, or \$1.138 per share. During the fourth quarter of 2019, we increased our quarterly dividend for the fourth time since the Spin-Off to \$0.3125 per share, which was an increase of \$0.0375 per share, or a 13.6% increase, over our previous quarterly dividends declared in 2019. The increase in our quarterly dividend to \$0.3125 per share is an increase of \$0.1065 per share, or a 51.7% increase, over our quarterly dividends declared from the Spin-Off through the third quarter of 2016. Our fourth quarter dividend equates to a 2.8% annualized yield based on our closing share price of \$45.00 on December 31, 2019.
- **Results of Operations and Non-GAAP Measures:** We reported the following increases in net income (loss), net operating income (“NOI”), funds from operations (“FFO”), core funds from operations (“Core FFO”) and adjusted funds from operations (“AFFO”) for the year ended December 31, 2019 as compared to the year ended December 31, 2018 (dollars in thousands):

	For the Year Ended December 31,		\$ Change	% Change
	2019	2018		
Net income (loss)	\$ 99,438	\$ (1,614)	\$ 101,052 (1)	N/M
NOI	(2) 102,591	80,175	22,416	28.0%
FFO attributable to common stockholders	(2) 40,718	32,018	8,700	27.2%
Core FFO attributable to common stockholders	(2) 47,573	35,081	12,492	35.6%
AFFO attributable to common stockholders	(2) 54,213	40,753	13,460	33.0%

- (1) The change in our net income (loss) between the periods primarily relates to an increase in gain on sales of real estate of \$114.0 million and an increase in total revenues of \$34.5 million, partially offset by increases in total property operating expenses of \$12.9 million and depreciation and amortization expense of \$21.6 million.
- (2) See Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” for a discussion regarding the non-GAAP measures of NOI, FFO, Core FFO and AFFO provided above, including reconciliations to net income (loss) in accordance with U.S. generally accepted accounting principles (“GAAP”).



- **Same Store Growth:** There are 25 properties encompassing 9,057 units of apartment space in our same store pool for the years ended December 31, 2019 and 2018 (our “2018-2019 Same Store” properties). For our 2018-2019 Same Store properties, we recorded the following operating metrics for the year ended December 31, 2019 as compared to the year ended December 31, 2018:

Operating Metric	2019	2018	% Change
Occupancy (1)	94.5%	94.8%	-0.3%
Average Effective Monthly Rent Per Unit (2)	\$ 1,038	\$ 1,002	3.6%
Rental income (in thousands)	\$ 116,313	\$ 110,902	4.9%
Other income (in thousands)	\$ 2,324	\$ 2,824	-17.7%

- (1) Occupancy is calculated as the number of units occupied as of December 31 for the respective year, divided by the total number of units, expressed as a percentage.
- (2) Average effective monthly rent per unit is equal to the average of the contractual rent for commenced leases as of December 31 for the respective year minus any tenant concessions over the term of the lease, divided by the number of units under commenced leases as of December 31 for the respective year.

- **Cash Position:** At December 31, 2019, we had \$71.2 million of cash on our balance sheet, of which \$21.9 million was reserved for future renovations, and \$23.6 million was reserved for lender-required escrows and security deposits. We believe we have adequate cash on hand, in addition to our expected cash flows from operations, to meet our near-term obligations, service our debt, pay distributions and make opportunistic acquisitions.

### Our Real Estate Portfolio

As of December 31, 2019, we owned 40 properties representing 14,724 units in eight states that were approximately 94.2% occupied with a weighted average monthly effective rent per occupied apartment unit of \$1,103. For additional information regarding our Portfolio, see Item 2, “Properties” and Notes 3, 4 and 5 to our consolidated financial statements.

We evaluate our operating performance on an individual property level and view our real estate assets as one industry segment and, accordingly, our properties are aggregated into one reportable segment.

### Our Business Objectives and Strategies

Our primary business objectives are to:

- deliver stable, attractive yields and long-term capital appreciation to our stockholders;
- acquire multifamily properties in markets with attractive job growth and household formation fundamentals primarily in the Southeastern and Southwestern United States;
- acquire assets at discounts to replacement cost;
- implement a value-add program to increase returns to our stockholders;
- own assets that provide lifestyle amenities and upgraded living spaces to low and moderate income renters; and
- recycle capital from dispositions when economic and market conditions present opportunities that we believe are in the best interest of our stockholders.

We intend to accomplish these objectives by:

- **Focusing on Acquiring Class B Properties in Our Core Markets.** We will continue to seek opportunities to acquire primarily Class B multifamily properties at prices that we believe represent discounts to replacement cost, provide the potential for significant long-term value appreciation and that we expect will generate attractive yields for our stockholders. We will focus on these types of opportunities in our core markets, which we consider to be primarily major metropolitan areas in the Southeastern and Southwestern United States.
- **Focusing on Multifamily Properties with a Value-Add Component.** We will continue to seek opportunities to acquire multifamily properties that have a value-add component. Due to a lack of reinvestment by many prior owners, we believe these types of properties provide us the opportunity to make relatively modest capital expenditures that result in a significant increase in rents, thereby generating NOI growth, and thus higher yields and capital appreciation for our stockholders.

- **Prudently Using Leverage to Increase Stockholder Value.** We will typically finance new property acquisitions at a target leverage level of approximately 50-60% loan-to-value (outstanding principal balance to enterprise value). Given that we intend for the majority of our acquisitions to have a value-add component in the first three years of ownership, we will generally seek leverage with the optionality to refinance (such as floating rate debt). In the management team's experience, this leverage strategy allows for the opportunity to maximize returns for our stockholders while providing maximum flexibility. We are currently targeting to reduce our leverage to 40-45% loan-to-value (outstanding principal balance to enterprise value) over time by increasing the value of our properties, refinancing properties we intend to hold longer term and strategically paying down debt with excess cash flows from operations or future equity offerings.

Our Adviser's investment approach combines its management team's experience with a structure that emphasizes thorough market research, local market knowledge, underwriting discipline and risk management in evaluating potential investments with a goal of maximizing long-term stockholder value and a philosophy of thoughtful capital allocation and balance sheet management.

### *Acquisition and Operating Strategy*

We seek primarily Class B multifamily properties that are priced at a discount to replacement cost. We believe that through the implementation of our value-add program we will be able to grow the NOI of these types of properties significantly in the first three years of ownership and thus these types of acquisitions will be accretive over the long-term to our FFO, Core FFO and AFFO. As we progress through the real estate life cycle, these opportunities will become more difficult to find. However, we will continue to take a disciplined approach to acquisitions by primarily pursuing these types of opportunities. Our Adviser's investment approach includes active management of each property acquired. Our Adviser believes that active management is critical to creating value. Prior to the purchase of a property, BH and our Adviser generally tour each property and develop a business strategy for the property. This includes a forecast of the action items to be taken and the capital needed to achieve the anticipated returns. Our Adviser reviews such property-level business strategies on an ongoing basis to anticipate changes or opportunities in the market. In an effort to keep properties in compliance with our underwriting standards and management strategies, our Adviser remains involved throughout the investment life cycle of each acquired property and actively consults with BH throughout the holding period.

We may also allocate up to 30% of our Portfolio to investments in real estate-related debt, mezzanine and other loans and preferred equity and other securities in situations where the risk-return profile is more attractive than investments in common equity. This strategy would be focused on the multifamily property type and would be designed to minimize potential losses during market downturns and maximize risk adjusted total returns to our stockholders in all market cycles.

### *Value-Add Strategy*

We will continue to implement our value-add strategy at our properties where we believe we can achieve a significant increase in rents above what would otherwise be the case with purely organic market increases. Our value-add program has three components: 1) improvement of exteriors and common areas, 2) improvement of interiors and 3) management and cost improvements.

We invest in exterior and common areas improvements at our properties in an effort to enhance asset quality, to improve "curb appeal"/market positioning, and expand or enhance our amenity offerings, all of which we believe will improve tenant retention and modestly drive rent and NOI growth. Renovations to the exteriors and common areas include structural improvements that enhance the physical condition, value and/or useful life of our properties, as well as aesthetic improvements to, among others, landscape and signage. We also seek to improve our competitive positioning by adding to, redecorating or otherwise enhancing our common areas and amenity offerings. As of December 31, 2019, with the exception of the properties we acquired in 2019, we have renovated the exteriors and common areas at a majority of the properties in our Portfolio.

We expect interior renovations, along with organic growth in rents, to be the primary drivers of rent and NOI growth at our properties. Our interior renovations include: 1) aesthetic design enhancements such as kitchen and/or bath remodeling, 2) replacement of outdated appliances, equipment and fixtures, 3) addition of washer/dryer appliances, 4) private yards and 5) smart technologies such as Bluetooth locks, networked climate control systems and USB electrical outlets. We also seek to achieve cost improvements through investment in longer-lived materials, energy conservation projects, and other strategic initiatives. For the properties in our Portfolio as of December 31, 2019, we have completed full and partial renovations on 6,927 units out of our 14,724 total units with an average monthly rental increase per unit of \$101 and an average cost of \$4,920 per renovated unit that has been leased as of December 31, 2019. In cases where we believe rents will grow significantly in a market organically, we will implement the value-add program more strategically in order to capture significant rent and NOI growth without expending additional capital. Additionally, to the extent we believe rents at a property are maximized regardless of the level of additional renovations, we may opt not to further renovate units at that property. As of December 31, 2019, we had reserved approximately \$21.9 million for our planned capital expenditures and other expenses to implement our value-add program, which will complete approximately 3,607 planned interior rehabs, eliminating the need for us to raise additional capital in order to carry out our currently planned value-add program.

### ***Disposition Strategy***

In general, we intend to hold our multifamily properties for production of rental income for a period of at least three years from the date of acquisition. Economic and market conditions may influence us to hold our investments for different periods of time. From time to time, we may sell an asset before the end of the expected holding period, particularly if we receive a bona fide unsolicited offer with attractive terms, have an upcoming liquidity need, such as a debt maturing, are strategically exiting a certain market or sub-market or the sale of the asset would otherwise be in the best interest of our stockholders. When reviewing whether a sale is in the best interest of our stockholders, we take into consideration whether market conditions and asset positioning have maximized the value of the property to us and any potential adverse tax consequences of a sale.

### ***Financing Strategy***

We intend to use leverage in making our investments with an objective of maintaining a strong balance sheet and providing liquidity to grow our Portfolio. We are currently targeting to reduce our leverage to 40-45% loan-to-value (outstanding principal balance to enterprise value) over time by increasing the value of our properties and refinancing properties we intend to hold longer-term. However, we are not subject to any limitations on the amount of leverage we may use, and, accordingly, the amount of leverage we use may be significantly less or greater than what we currently anticipate. We are currently meeting our short-term liquidity needs through our cash and cash equivalents and cash flows from operations.

When interest rates are high or financing is otherwise unavailable on a timely basis, we may purchase certain properties and other assets for cash with the intention of obtaining a loan for a portion of the purchase price at a later time. We will refinance properties during the term of a loan only under certain circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing mortgage, an existing mortgage matures, the value of the property has increased significantly and we can obtain more attractive terms through refinancing the property, or an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment.

We typically use floating rate debt with interest rate swaps and interest rate caps as opposed to using fixed rate debt. We believe this is a more sensible and flexible way to utilize leverage, while limiting our interest rate risk in our strategy as we attempt to increase the value of each property over the course of three years after acquisition through our value-add program. Fixed rate financing is typically more expensive and less flexible since there are typically high prepayment penalties, yield maintenance payments and/or defeasance penalties when refinancing the debt prior to maturity. To the extent we intend to hold a property long-term, we will reassess the use of refinancing with fixed rate debt.

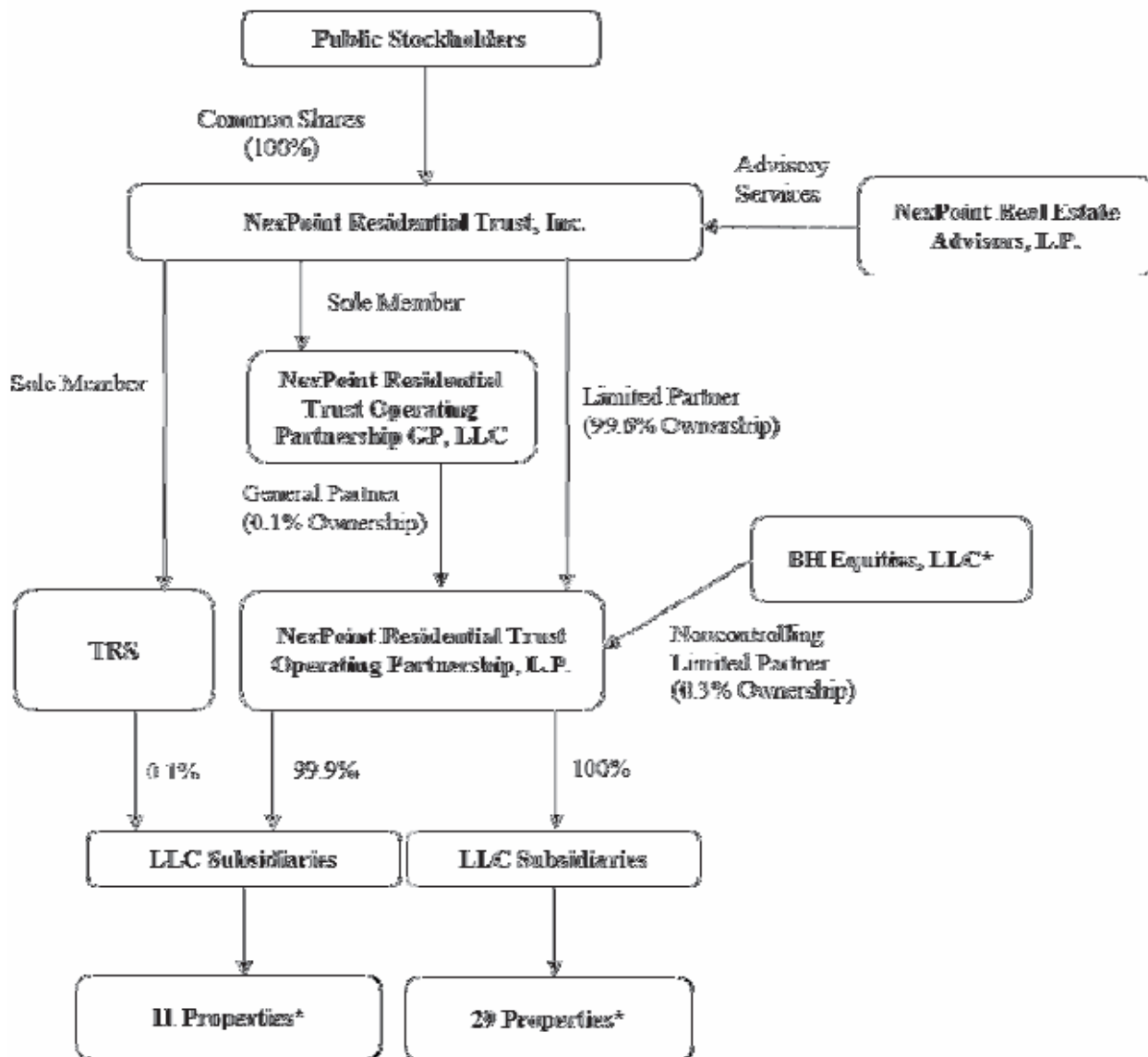
### ***Property Management Strategy***

We seek to achieve long-term earnings growth through superior property management. To achieve this, we have partnered with BH to manage all of our properties as an external manager. In order to align our property manager's interests with those of our stockholders, BH (through an affiliate) is a noncontrolling limited partner of the OP. We believe BH provides the following benefits:

- manages approximately 86,000 multifamily units in 20 states and has managed multifamily communities for 27 years;
- brings a scale of operations we could not otherwise achieve for approximately 3% of gross income, which is the contracted amount we pay for its property management services;
- has operations in all of our current and desired markets, allowing us greater scale when entering new markets or make investments in non-core markets without making substantial investments in management infrastructure in those markets;
- has a construction management operation and substantial experience in renovating Class B multifamily units;
- its scale allows it to obtain highly competitive pricing as it pertains to the costs of our value-add program, increasing our return on investment for renovations;
- helps us source and underwrite opportunities as well as assist in due diligence of properties prior to closing;
- assists in locating potential buyers for our properties;
- its size, scale and experience allows it to keep costs low and maximize rents and occupancy; and
- has proved successful in driving other revenue growth at properties it manages.

## Our Structure

The following chart shows our ownership structure.



\* An affiliate of BH Equities, LLC is the property manager for all of our properties.

## Our Adviser

We are externally managed by our Adviser pursuant to the Advisory Agreement, by and among the OP, our Adviser, and us. Our Adviser was organized on September 5, 2014 and is an affiliate of our Sponsor. Our Adviser has contractual and fiduciary responsibilities to us and our stockholders as further described under “—Our Advisory Agreement” below. The members of our Adviser’s management team are Jim Dondero, Brian Mitts, Matt McGraner and Matthew Goetz, all of whom are employed by our Adviser or its affiliates.

Our Adviser has also entered into a shared services agreement with Highland, pursuant to which Highland or its affiliates provide research and operational support to our Adviser, including services in connection with the due diligence of actual or potential investments, the execution of investment transactions approved by our Adviser and certain back office and administrative services.

## Our Advisory Agreement

Below is a summary of the terms of our Advisory Agreement:

**Duties of Our Adviser.** Our Advisory Agreement provides that our Adviser manage our business and affairs in accordance with the policies and guidelines established by our Board and that our Adviser be under the supervision of our Board. The agreement requires our Adviser to provide us with all services necessary or appropriate to conduct our business, including the following:

- locating, presenting and recommending to us real estate investment opportunities consistent with our investment policies, acquisition and disposition strategies and objectives, including our conflicts of interest policies;
- structuring the terms and conditions of transactions pursuant to which acquisitions and dispositions of properties will be made;
- acquiring and disposing properties on our behalf in compliance with our investment objectives, strategies and applicable tax regulations;
- arranging for the financing and refinancing of properties;
- administering our bookkeeping and accounting functions;
- serving as our consultant in connection with policy decisions to be made by our Board, managing our properties or causing our properties to be managed by another party;
- monitoring our compliance with regulatory requirements, including the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations promulgated thereunder, New York Stock Exchange (“NYSE”) rules and regulations of the Code to maintain our status as a REIT;
- performing administrative services; and
- rendering other services as our Board deems appropriate.

Our Adviser is required to obtain the prior approval of our Board in connection with:

- any investment for which the portion of the consideration paid out of our equity equals or exceeds \$50,000,000;
- any investment that is inconsistent with the publicly disclosed investment guidelines as in effect from time to time, or, if none are then publicly disclosed, as otherwise adopted by our Board from time to time; or
- any engagement of affiliated service providers on behalf of us or the OP, which engagement terms will be negotiated on an arm’s length basis.

For these purposes, “equity” means the purchase price of the investment, exclusive of the proceeds of any debt financing incurred or to be incurred in connection with the relevant investment and anticipated closing and other acquisition costs.

Our Adviser will be prohibited from taking any action, in its sole judgment, or in the sole judgment of our Board, that:

- would adversely affect our qualification as a REIT under the Code, unless our Board had determined that REIT qualification is not in the best interest of us and our stockholders;
- would subject us to regulation under the Investment Company Act of 1940 (the “1940 Act”), except to the extent that we and our Adviser have undertaken in the Advisory Agreement and our charter to comply with Section 15 of the 1940 Act in connection with the entry into, continuation of, or amendment of the Advisory Agreement or any advisory agreement;
- is contrary to or inconsistent with our investment guidelines; or
- would violate any law, rule, regulation or statement of policy of any governmental body or agency having jurisdiction over us or our shares of common stock, or otherwise not be permitted by our charter or bylaws.

**Advisory Fee.** Our Advisory Agreement requires that we pay our Adviser an annual advisory fee of 1.00% of our Average Real Estate Assets.

“Average Real Estate Assets” means the average of the aggregate book value of Real Estate Assets (see below) before reserves for depreciation or other non-cash reserves, computed by taking the average of the book value of real estate assets at the end of each month (1) for which any fee under the Advisory Agreement is calculated or (2) during the year for which any expense reimbursement under the Advisory Agreement is calculated. “Real Estate Assets” is defined broadly in the Advisory Agreement to include, among other things, investments in real estate-related securities and mortgages and reserves for capital expenditures (the value-add program).

In calculating the advisory fee, we categorize our Average Real Estate Assets into either “Contributed Assets” or “New Assets.” The advisory fee on Contributed Assets may not exceed \$4.5 million in any calendar year. This cap is intended to limit the fees paid to our Adviser on the Contributed Assets following the Spin-Off to the fees that would have been paid by NHF to its adviser had the Spin-Off not occurred. The advisory fee on New Assets is not subject to this limitation but is subject to the expense cap mentioned below.

“Contributed Assets” means all of the real estate assets we owned upon the completion of the Spin-Off and is not reduced for dispositions of such assets subsequent to the Spin-Off.

“New Assets” means all of the Average Real Estate Assets other than Contributed Assets. New Assets includes proceeds from the sale of a Contributed Asset that are used to purchase a new investment.

The advisory fee is payable monthly in arrears in cash, unless our Adviser elects, in its sole discretion, to receive all or a portion of such fee in shares of our common stock, subject to the limitations set forth below under “—Limitations on Receiving Shares.” The number of shares issued to our Adviser as payment for the advisory fee will be equal to the dollar amount of the portion of such fee that is payable in shares divided by the volume-weighted average closing price of shares of our common stock for the ten trading days prior to the end of the month for which such fee will be paid, which we refer to as the fee VWAP. Our Adviser computes each installment of the advisory fee as promptly as possible after the end of the month with respect to which such installment is payable.

The accrued fees are payable monthly as promptly as possible after the end of each month during which the Advisory Agreement is in effect. A copy of the computations made by our Adviser to calculate such installment is delivered to our Board for informational purposes only.

**Administrative Fee.** Our Advisory Agreement requires that we pay our Adviser an annual administrative fee of 0.20% of the Average Real Estate Assets.

In calculating the administrative fee, we categorize our Average Real Estate Assets into either Contributed Assets or New Assets. The administrative fee on Contributed Assets may not exceed \$890,000 in any calendar year. This cap is intended to limit the fees paid to our Adviser on the Contributed Assets following the Spin-Off to the fees that would have been paid by NHF to its adviser had the Spin-Off not occurred. The administrative fee on New Assets is not subject to this limitation but is subject to the expense cap described below.

The administrative fee is payable monthly in arrears in cash, unless our Adviser elects, in its sole discretion, to receive all or a portion of such fee in shares of our common stock, subject to the limitations set forth below under “—Limitations on Receiving Shares.” The number of shares issued to our Adviser as payment for the administrative fee will be equal to the dollar amount of the portion of such fee that is payable in shares divided by the fee VWAP. Our Adviser computes each installment of the administrative fee as promptly as possible after the end of each month with respect to which such installment is payable. The accrued fees are payable monthly as promptly as possible after the end of each month during which the Advisory Agreement is in effect. A copy of the computations made by our Adviser to calculate such installment is delivered to our Board for informational purposes only.

**Reimbursement of Expenses.** Our Advisory Agreement requires that we reimburse our Adviser for all of its out-of-pocket expenses in performing its services, including legal, accounting, financial, due diligence and other services performed by our Adviser that outside professionals or outside consultants would otherwise perform and also pay our pro rata share of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our Adviser required for our operations (“Adviser Operating Expenses”). Adviser Operating Expenses do not include expenses for the advisory and administrative services provided under the Advisory Agreement. We will also reimburse our Adviser for any and all expenses (other than underwriters’ discounts) in connection with an offering, including, without limitation, legal, accounting, printing, mailing and filing fees and other documented offering expenses.

When applicable, our Adviser prepares a statement documenting all expenses incurred during each month, and delivers such statement to us within 15 business days after the end of each month. When submitted for reimbursement, such expenses are reimbursed by us no later than the 15th business day immediately following the date of delivery of such statement of expenses to us. All expenses payable by us or reimbursable to our Adviser pursuant to the agreement will not be in amounts greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm’s length basis. Our Adviser may, at its discretion and at any time, waive its right to reimbursement for eligible out-of-pocket expenses paid on our behalf. Once waived, these expenses are considered permanently waived and become non-recoupable in the future.

**Expense Cap.** Reimbursement of Adviser Operating Expenses under the Advisory Agreement, advisory and administrative fees paid to our Adviser and corporate general and administrative expenses such as audit, legal, listing and Board fees and equity-based compensation expense recognized under a long-term incentive plan will not exceed 1.5% of Average Real Estate Assets per calendar year (or part thereof that the Advisory Agreement is in effect) (the “Expense Cap”). The Expense Cap does not limit the reimbursement by us of expenses related to securities offerings paid by our Adviser. The Expense Cap also does not apply to legal, accounting, financial, due diligence and other service fees incurred in connection with mergers and acquisitions, extraordinary litigation or other events outside our ordinary course of business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of real estate assets.

**Term of the Advisory Agreement.** The Advisory Agreement has a one-year term. The Advisory Agreement shall continue in full force and effect so long as the Advisory Agreement is approved at least annually by our Board. On February 17, 2020, our Board, including the independent directors, unanimously approved the renewal of the Advisory Agreement with the Adviser for a one-year term.

The Advisory Agreement may be terminated at any time, without payment of any penalty to our Adviser, by vote of our Board or stockholders, or by our Adviser, in each case on not more than 60 days' nor less than 30 days' prior written notice to the other party. The Advisory Agreement shall automatically and immediately terminate in the event of its "assignment" (as defined in the 1940 Act).

**Amendment.** The Advisory Agreement may only be amended, waived, discharged or terminated in writing signed by the party against which enforcement of the amendment, waiver, discharge or termination is sought.

**Limitations on Receiving Shares.** The ability of our Adviser to receive shares of our common stock as payment for all or a portion of the advisory and administrative fees due under the terms of our Advisory Agreement will be subject to the following limitations: (1) the ownership of shares of common stock by our Adviser may not violate the ownership limitations set forth in our charter, after giving effect to any exception from such ownership limitations that our Board may grant to our Adviser or its affiliates and (2) compliance with all applicable restrictions under the U.S. federal securities laws and the NYSE rules. To the extent that payment of any fee in shares of our common stock would result in a violation of the ownership limits set forth in our charter (taking into account any applicable waiver or any restrictions imposed under the U.S. federal securities laws or NYSE rules), all or a portion of such fee payable to our Adviser will be payable in cash to the extent necessary to avoid such violation.

**Registration Rights.** We entered into a registration rights agreement with our Adviser with respect to any shares of our common stock that our Adviser receives as payment for any fees owed under our Advisory Agreement. These registration rights will require us to file a registration statement with respect to such shares. We agreed to pay all of the expenses relating to registering these securities. The costs associated with registering these securities will not be deducted from the compensation owed to our Adviser.

**Liability and Indemnification of our Adviser.** Under the Advisory Agreement, we are also required to indemnify our Adviser and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding with respect to certain of our Adviser's acts or omissions.

**Other Activities of our Adviser and its Affiliates.** Our Adviser and its affiliates expect to engage in other business ventures, and as a result, their resources will not be dedicated exclusively to our business. However, pursuant to the Advisory Agreement, our Adviser will be required to devote sufficient resources to our administration to discharge its obligations.

**Potential Acquisition of our Adviser.** Many REITs that are listed on a national stock exchange are considered "self-managed" or "internally managed," since the employees of such REITs perform all significant management functions. In contrast, REITs that are not self-managed, like us, are referred to as "externally managed" and typically engage a third party, such as our Adviser, to perform management functions on its behalf. Our independent directors may determine that we should become self-managed through the acquisition of our Adviser, which we refer to as an internalization transaction. See "Risk Factors—If we internalize our management functions, the percentage of our outstanding common stock owned by our other stockholders could be reduced, and we could incur other significant costs associated with being self-managed."

## **Our Property Manager**

The entities through which we own the properties in our Portfolio have entered into management agreements with BH. Pursuant to these agreements, BH operates and leases the underlying properties in our Portfolio. In addition to property management and leasing services, BH also provides us with market research, acquisition advice, a pipeline of investment opportunities and construction management services. We utilize BH for property and construction management services and leasing, paying BH a management fee of approximately 3% of the monthly gross income from each property managed, as well as construction supervision fees and certain other fees described under "—Property Management Agreements" below.

## **Property Management Agreements**

Under these agreements, BH operates, coordinates and supervises the ordinary and usual business and affairs pertaining to the operation, maintenance, leasing, licensing, and management of each property. The following summarizes the terms of the management agreements.

**Term.** The terms of the management agreements will continue until the last day of the calendar month following the second anniversary of the agreement. Upon the expiration of the original term, the agreements will automatically renew on a month-to-month basis until terminated. The agreements may be terminated at any time with 60 days written notice.

**Proposed Management Plans.** Each management agreement requires that BH prepare and submit a proposed management plan and operating budget for the marketing, operation, repair and maintenance, and renovation of the property for the year the agreement is entered into. BH must submit subsequent proposed management plans 45 days prior to the beginning of the next year.

**Amounts Payable under the Management Agreements.** The entities that own the properties pay BH monthly for its services. Pursuant to the management agreements, BH may pay itself out of each property's operating account. Any sums not paid within 10 days after becoming due bear interest at the rate of 18% per annum. Compensation under the management agreements consists of the following components:

- **Management Fee.** The management fee is approximately 3% of the monthly gross income from each property. For the purposes of calculating the management fee, "monthly gross income" is defined as all receipts of every kind and nature actually collected from the operation of the property, determined on a cash basis, including, without limitation, rental or lease payments, late charges, service charges, forfeited security deposits, proceeds of vending machine collections, resident utility payment collections, and all other forms of miscellaneous income (but excluding the collection of any insurance or condemnation awards).
- **Set-Up/Inspection Fees.** BH receives a one-time set-up/inspection fee per unit upon commencement of management of each property.
- **Construction Supervision Fee.** BH receives a construction supervision fee of 5-6% of total project costs if BH performs these services.
- **Renter's Insurance Program Fee; Other Fees.** In the event that the entities that own the properties direct BH to implement a renter's insurance program at a property, the entities pay BH a fee in connection with running such program. In consideration for any additional services other than the services required under the management agreements, the entities pay BH an hourly rate.

Additionally, 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.

**Termination.** A management agreement will terminate automatically in the event that the entity that owns the property is sold or if all or substantially all of the property to which the agreement applies is otherwise disposed of. Additionally, a management agreement may be terminated if certain other events occur, including:

- a default by BH or the entity that owns the property that is not cured prior to the expiration of any applicable cure periods;
- upon written notice by either party if a petition for bankruptcy, reorganization or arrangement is filed by the other party, or if any such petition shall be filed against the other party and is not dismissed within 60 days of the date of such filing, or in the event the other party shall make an assignment for the benefit of creditors, or take advantage of any insolvency statute or similar law;
- upon 15 days written notice in the event that all or substantially all of the property is destroyed by a casualty, or taken by means of eminent domain or condemnation; or
- upon 60 days written notice by either party.

If a management agreement is terminated by the entity that owns the property for any reason, or if it is terminated by BH due to our default or due to the destruction, condemnation or taking by eminent domain of a property, the entity that owns the property will be required to pay damages to BH. Such damages will be equal to the management fee earned by BH for the calendar month immediately preceding the month in which the notice of termination is given, multiplied by the number of months and/or portions thereof remaining from the termination date until the end of the initial term or term year in which the termination occurred.

Additionally, for the month or the partial month after the date of the termination of BH's on-site property management responsibilities, BH will be paid a close-out management fee equivalent to 50% of the last month's full management fee.

**Insurance.** The entities that own the properties are required to maintain property and liability insurance for each property, and its liability insurance policy must include BH as an "Additional Insured." BH is required to maintain, at the entities' expense, workers' compensation insurance covering all employees of BH employed in, on, or about each property so as to provide statutory benefits required by state and federal laws.

**Assignment.** BH may not assign the management agreements without the prior written consent of the entities that own the properties.



**Indemnification.** The entities that own the properties are required to indemnify, defend and hold harmless BH and its agents and employees from and against all claims, liabilities, losses, damages, and/or expenses arising out of (1) BH's performance under the management agreements, or (2) facts, occurrences, or matters first arising before the date of the management agreements. The entities that own the properties are not required to indemnify BH against damages or expenses suffered as a result of the gross negligence, willful misconduct, or fraud on the part of BH, its agents, or employees.

BH is required to indemnify, defend, and hold harmless the entities that own the properties and their agents and employees from and against all claims, liabilities, losses, damages, and/or expenses arising out of the gross negligence, willful misconduct, or fraud on the part of BH, its agents, or employees, and shall at its own cost and expense defend any action or proceeding against us arising therefrom.

## **Regulation**

Multifamily properties are subject to various laws, ordinances and regulations, including regulations relating to common areas, such as swimming pools, activity centers, and recreational facilities. We believe that each of our properties has the necessary permits and approvals to operate its business.

## **Americans with Disabilities Act**

The properties in our Portfolio must comply with Title III of the ADA, to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily accessible accommodations is an ongoing one, and we will continue to assess our properties and make alterations as appropriate in this respect.

## **Fair Housing Act**

The FHA, its state law counterparts and the regulations promulgated by the U.S. Department of Housing and Urban Development and various state agencies, prohibit discrimination in housing on the basis of race or color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women and people securing custody of children under 18) or handicap (disability) and, in some states, financial capability or other bases. A failure to comply with these laws in our operations could result in litigation, fines, penalties or other adverse claims, or could result in limitations or restrictions on our ability to operate, any of which could materially and adversely affect us. We believe that we operate our properties in substantial compliance with the FHA.

## **Environmental Matters**

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under, or migrating from such property, including costs to investigate and clean up such contamination and liability for natural resources. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such contamination, and the liability may be joint and several. These liabilities could be substantial and the cost of any required remediation, removal, fines, or other costs could exceed the value of the property and/or our aggregate assets. In addition, the presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability for costs of remediation and/or personal or property damage or materially adversely affect our ability to sell, lease or develop our properties or to borrow using the properties as collateral. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures.

Independent environmental consultants have conducted Phase I Environmental Site Assessments at all of the properties in our Portfolio using the American Society for Testing and Materials Standard E 1527-05. A Phase I Environmental Site Assessment is a report that identifies potential or existing environmental contamination liabilities. Site assessments are intended to discover and evaluate information regarding the environmental condition of the assessed property and surrounding properties. These assessments do not generally include soil samplings, subsurface investigations or an asbestos survey. None of the site assessments identified any known past or present contamination that we believe would have a material adverse effect on our business, assets or operations. However, the assessments are limited in scope and may have failed to identify all environmental conditions or concerns. A prior owner or operator of a property or historic operations at our properties, or operations and conditions at nearby properties, may have created a material environmental condition that is not known to us or the independent consultants preparing the site assessments. Material environmental conditions may have arisen after the review was completed or may arise in the future, and future laws, ordinances or regulations may impose material additional environmental liability. Moreover, conditions identified in environmental assessments that did not appear material at that time, may in the future result in material liability.

Environmental laws also govern the presence, maintenance and removal of hazardous materials in building materials (e.g., asbestos and lead), and may impose fines and penalties for failure to comply with these requirements or expose us to third-party liability (e.g., liability for personal injury associated with exposure to asbestos). Such laws require that owners or operators of buildings containing hazardous materials properly manage and maintain certain hazardous materials, adequately notify or train those who may come into contact with certain hazardous materials, and undertake special precautions, including removal or other abatement, if certain hazardous materials would be disturbed during renovation or demolition of a building. In addition, the properties in our Portfolio are subject to various federal, state, and local environmental and health and safety requirements, such as state and local fire requirements.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs. We are not presently aware of any material adverse indoor air quality issues at our properties.

The cost of future environmental compliance may materially and adversely affect us. See “Risk Factors—We may face high costs associated with the investigation or remediation of environmental contamination, including asbestos, lead-based paint, chemical vapor, subsurface contamination and mold growth.”

### **Insurance**

We carry comprehensive general liability coverage on the properties in our Portfolio, with limits of liability customary within the industry to insure against liability claims and related defense costs. Similarly, we are insured against the risk of direct physical damage in amounts necessary to reimburse us on a replacement-cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period. The majority of our property policies for all U.S. operating and development communities include coverage for the perils of flood, tornado and earthquake shock with limits and deductibles customary in the industry and specific to the project. We will also obtain title insurance policies when acquiring new properties, which insure fee title to the properties in our Portfolio. We have obtained coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. These policies include limits and terms we consider commercially reasonable. There are certain losses (including, but not limited to, losses arising from environmental conditions, acts of war or certain kinds of terrorist attacks) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. In addition, for the properties in our Portfolio, we could self-insure certain portions of our insurance program and therefore, use our own funds to satisfy those limits. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice. In the opinion of our management team, the properties in our Portfolio are adequately insured.

### **Competition**

In attracting and retaining residents to occupy the properties in our Portfolio, we compete with numerous other housing alternatives. The properties in our Portfolio compete directly with other rental apartments as well as condominiums and single-family homes that are available for rent or purchase in the sub-markets in which our properties are located. Principal factors of competition include rent or price charged, attractiveness of the location and property and quality and breadth of services and amenities. If our competitors offer leases at rental rates below current market rates, or below the rental rates that the tenants of the properties in our Portfolio pay, we may lose potential tenants and we may be pressured to reduce rental rates below those currently charged or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when the tenants’ leases expire.

The number of competitive properties relative to demand in a particular area has a material effect on our ability to lease apartment units at our properties and on the rents we charge. In addition, we compete with numerous other investors for suitable properties. This competition affects our ability to acquire properties and the price that we pay in such acquisitions.

### **Employees**

Our Adviser conducts substantially all of our operations and provides asset management for our real estate investments. We expect we will only have accounting employees while the Advisory Agreement is in effect. As of December 31, 2019, we had three employees.

## Corporate Information

Our Adviser's offices are located at 300 Crescent Court, Suite 700, Dallas, Texas 75201. Our Adviser's telephone number is (972) 628-4100. We maintain a website at [www.nexpointliving.com](http://www.nexpointliving.com). We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) available on our website as soon as reasonably practicable after we file such material with, or furnish it to, the SEC. Information contained on, or accessible through our website, is not incorporated by reference into and does not constitute a part of this annual report or any other report or documents we file with or furnish to the SEC. These documents may also be found on the SEC's website at [www.sec.gov](http://www.sec.gov).

### Item 1A. Risk Factors

*You should carefully consider the following risks and other information in this annual report in evaluating us and our common stock. Any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our business, financial condition or results of operations, and could, in turn, impact the trading price of our common stock.*

#### Risks Related to Our Business and Industry

***Unfavorable market and economic conditions in the United States and globally and in the specific markets or submarkets where our properties are located could adversely affect occupancy levels, rental rates, rent collections, operating expenses and the overall market value of our assets, and impair our ability to sell, recapitalize or refinance our assets.***

Unfavorable market conditions in the areas in which we operate and unfavorable economic conditions in the United States and globally may significantly affect our occupancy levels, our rental rates, rent collections, operating expenses, the market value of our properties and our ability to strategically acquire, dispose, recapitalize or refinance our multifamily properties on economically favorable terms or at all. Our ability to lease our properties at favorable rates is adversely affected by increases in supply of multifamily communities in our markets and is dependent upon overall economic conditions, which are adversely affected by, among other things, job losses and unemployment levels, a recession, personal debt levels, a downturn in the housing market, stock market volatility and uncertainty about the future. Some of our major expenses, including debt service and real estate taxes, generally do not decline when related rents decline. We expect that any declines in our occupancy levels, rental revenues and/or the values of our multifamily properties would cause us to have less cash available to pay our indebtedness, fund necessary capital expenditures and to make distributions to our stockholders, which could negatively affect our financial condition and the market value of our assets. Factors that may affect our occupancy levels, our revenues, our NOI and/or the value of our properties include the following, among others:

- downturns in global, national, regional and local economic conditions;
- declines in the financial condition of our residents, which may make it more difficult for us to collect rents from these residents;
- the inability or unwillingness of our residents to pay rent increases;
- a decline in household formation;
- a decline in employment or lack of employment growth;
- an oversupply of, or a reduced demand for, apartment homes;
- changes in market rental rates in our core markets;
- our ability to renew leases or re-lease space on favorable terms;
- the timing and costs associated with property improvements, repairs and renovations;
- declines in mortgage interest rates, making home and condominium ownership more affordable;
- changes in home loan lending practices, including the easing of credit underwriting standards, increasing the availability of home loans and thereby reducing demand for apartment homes;
- government or builder incentives which enable first-time homebuyers to put little or no money down, making alternative housing options more attractive;
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents to offset increases in operating costs; and
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes (particularly as a result of increased local, state and national government budget deficits and debt and potentially reduced federal aid to state and local governments), utilities, insurance, compensation of on-site associates and routine maintenance.

***We are subject to risks inherent in ownership of real estate.***

Real estate cash flows and values are affected by a number of factors, including competition from other available properties and the ability to provide adequate property maintenance and insurance and to control operating costs. Real estate cash flows and values are also affected by such factors as government regulations (including zoning, usage and tax laws) limitations on rent and rent increases, interest rate levels, the availability of financing, property tax rates, utility expenses, potential liability under environmental and other laws and changes in environmental and other laws.

***Real estate investments are relatively illiquid and may limit our flexibility.***

Equity real estate investments are relatively illiquid, which tends to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions. Our inability to sell our properties on favorable terms or at all could have a material adverse effect on our sources of working capital and our ability to satisfy our debt obligations. In addition, real estate can at times be difficult to sell quickly at prices we find acceptable. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the number of multifamily properties in our Portfolio promptly in response to changes in economic or other conditions.

***Our multifamily properties are concentrated in certain geographic markets, which makes us more susceptible to adverse developments in those markets.***

Our most significant geographic investment concentrations are primarily in the Southeastern and Southwestern United States. We are, therefore, subject to increased exposure from economic and other competitive factors specific to markets within these geographic areas. To the extent general economic conditions worsen in one or more of these markets, or if any of these areas experience a natural disaster, the value of our Portfolio and our market rental rates could be adversely affected. As a result, our results of operations, cash flow, cash available for distribution, including cash available to pay distributions to our stockholders, and our ability to satisfy our debt obligations could be materially adversely affected.

***Our strategy for acquiring value-enhancement multifamily properties involves greater risks than more conservative investment strategies.***

Our primary strategy is a value-add strategy. Therefore, for a majority of our Portfolio, we intend to execute a “value-enhancement” strategy whereby we will acquire under-managed assets in high-demand neighborhoods, invest additional capital, and reposition the properties to increase both average rental rates and resale value. Our strategy for acquiring value-enhancement multifamily properties involves greater risks than more conservative investment strategies. The risks related to these value-enhancement investments include risks related to delays in the repositioning or improvement process, higher than expected capital improvement costs, the additional capital needed to execute our value-add program, including possible borrowings or raising additional equity necessary to fund such costs, and ultimately that the repositioning process may not result in the higher rents and occupancy rates anticipated. In addition, our value-enhancement properties may not produce revenue while undergoing capital improvements. Furthermore, we may also be unable to complete the improvements of these properties and may be forced to hold or sell these properties at a loss. For these and other reasons, we cannot assure you that we will realize growth in the value of our value-enhancement multifamily properties, and as a result, our ability to make distributions to our stockholders could be adversely affected.

***Potential reforms or changes to Freddie Mac and Fannie Mae could adversely affect our business.***

As of December 31, 2019, we had approximately \$1.2 billion and \$15.2 million of outstanding consolidated indebtedness under our Freddie Mac and Fannie Mae mortgage loans, respectively. We rely on national and regional institutions, including Freddie Mac and Fannie Mae, to provide financing for our acquisitions and permanent financing on properties we may develop in the future. Currently, there is significant uncertainty regarding the futures of Freddie Mac and Fannie Mae. Should Freddie Mac and Fannie Mae have their mandates changed or reduced, be disbanded or reorganized by the government, privatized or otherwise discontinue providing liquidity to our sector, it could significantly reduce our access to debt capital and/or increase borrowing costs and could significantly reduce our sales of assets and/or the values realized upon sale.

***Competition could limit our ability to acquire attractive investment opportunities, which could adversely affect our profitability and impede our growth.***

We compete with numerous real estate companies and other owners of real estate in seeking multifamily properties for acquisition and pursuing buyers for dispositions. We expect that other real estate investors, including insurance companies, private equity funds, sovereign wealth funds, pension funds, other REITs and other well-capitalized investors, will compete with us to acquire existing properties and to develop new properties, and many of these investors will have greater sources of capital to acquire properties. This competition could increase prices for properties of the type we would likely pursue and 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.***

Our multifamily properties compete with other housing alternatives to attract residents, including other rental apartments, condominiums and single-family homes that are available for rent, as well as new and existing condominiums and single-family homes for sale. All of our multifamily properties are located in developed areas that include other multifamily properties and/or condominiums. The number of competitive multifamily properties and/or condominiums in a particular area, and any increased affordability of owner occupied single and multifamily homes caused by declining housing prices, low mortgage interest rates and government programs to promote home ownership, could have a material adverse effect on our ability to lease our apartments and the rents we are able to obtain. In addition, single-family homes and other residential properties provide housing alternatives to residents and potential residents of our multifamily properties.

***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 relatively low residential mortgage interest rates currently available and government-sponsored programs to promote home ownership have resulted in a record high level on the National Association of Realtor's Housing Affordability Index, an index used to measure whether or not a typical family could qualify for a mortgage loan on a typical home. The foregoing factors may encourage potential renters to purchase residences rather than lease them, thereby causing a decline in the occupancy rates of our properties.

***We may fail to consummate future property acquisitions, and we may not be able to find suitable alternative investment opportunities.***

When acquiring properties in the future, we may be subject to various closing conditions, and there can be no assurance that we can satisfy these conditions or that the acquisitions will close. If we fail to consummate future acquisitions, there can be no assurance that we will be able to find suitable alternative investment opportunities.

***Acquisitions may not yield anticipated results, which could negatively affect our financial condition and results of operations.***

We intend to actively acquire multifamily properties for rental operations as market conditions, including access to the debt and equity markets, dictate. We may also acquire multifamily properties that are unoccupied or in the early stages of lease-up. We may be unable to lease-up these multifamily properties on schedule, resulting in decreases in expected rental revenues and/or lower yields as the result of lower occupancy and rental rates as well as higher than expected concessions. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position or to complete a development project. We may be unable to integrate the existing operations of newly acquired multifamily properties and over time such communities may not perform as well as existing communities or as we initially anticipated in terms of occupancy and/or rental rates. Additionally, we expect that other major real estate investors with significant capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development efforts. This competition may increase acquisition costs for multifamily properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms.

***Variable rate debt is subject to interest rate risk, which could increase our interest expense, increase the cost to refinance and increase the cost of issuing new debt.***

As of December 31, 2019, approximately \$1.3 billion of our total debt outstanding bears interest at variable rates, and we may also borrow additional money at variable interest rates in the future. As of December 31, 2019, 11 interest rate swap agreements, with a combined notional amount of \$975.0 million and terms expiring in 2021, 2022, 2024 and 2026, effectively fix the interest rate on \$975.0 million, or 73%, of our \$1.3 billion of floating rate mortgage debt outstanding. As of December 31, 2019, the interest rate cap agreements we have entered into effectively cap one-month LIBOR on \$346.5 million of our floating rate mortgage debt outstanding at a weighted average rate of 5.74% for the term of the agreements, which is generally 3-4 years. Except to the extent we have arrangements in place that hedge against the risk of rising interest rates, increases in interest rates would increase our interest expense under these instruments and would increase the cost of refinancing these instruments and issuing new debt. As a result, our cash flow and our ability to service our indebtedness and to make distributions to our stockholders would be adversely affected, which could adversely affect the market price of our common stock.

***We have a substantial amount of variable rate debt and interest rate swaps indexed to LIBOR. We may be adversely affected upon the transition away from LIBOR after 2021.***

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee ("ARRC") has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. We have material contracts that are indexed to USD-LIBOR and are monitoring this activity and evaluating the related risks. The potential effect of any transition on our cost of capital cannot be determined and any changes to benchmark interest rates could increase our financing costs, which could impact our results of operations and cash flows.

***We are subject to certain risks associated with selling apartment communities, which could limit our operational and financial flexibility.***

We periodically dispose of apartment communities that no longer meet our strategic objectives, but adverse market conditions may make it difficult to sell apartment communities like the ones we own. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. These conditions may limit our ability to dispose of properties and to change our portfolio promptly in order to meet our strategic objectives, which may in turn have a material adverse effect on our financial condition and the market value of our assets. We are also subject to the following risks in connection with sales of our apartment communities:

- a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as 1031 Exchanges so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash proceeds generated from our property sales; and
- federal tax laws limit our ability to profit on the sale of communities that we have owned for less than two years, and this limitation may prevent us from selling communities when market conditions are favorable.

***We may be subject to contingent or unknown liabilities related to properties or business that we have acquired or may acquire for which we may have limited or no recourse against the sellers.***

The properties or businesses that we have acquired or may acquire, may be subject to unknown or contingent liabilities for which we have limited or no recourse against the sellers. Unknown liabilities might include liabilities for, among other things, cleanup or remediation of undisclosed environmental conditions, liabilities under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), claims of residents, vendors or other persons dealing with the entities prior to the acquisition of such property, tax liabilities, and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. Because many liabilities, including tax liabilities, may not be identified within the applicable contractual indemnification period, we may have no recourse against any of the owners from whom we acquire such properties for these liabilities. The existence of such liabilities could significantly and adversely affect the value of the property subject to such liability. As a result, if a liability were asserted against us based on ownership of any of such properties, then we might have to pay substantial sums to settle it, which could adversely affect our cash flows.

***We are subject to losses that are either uninsurable, not economically insurable or that are in excess of our insurance coverage.***

There are certain types of losses (including, but not limited to, losses arising from environmental conditions, earthquakes, tornados and hurricanes, acts of war or certain kinds of terrorist attacks) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. We carry commercial general liability insurance, property insurance and terrorism insurance with respect to our communities with limits and on terms we consider commercially reasonable. If an uninsured loss or liability were to occur, whether because of a lack of insurance coverage or a loss in excess of insured limits, we could lose our capital invested in a community, as well as the anticipated future revenues from such community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with, or court ordered damages to, that third party. A significant uninsured property or liability loss could materially and adversely affect our business and our financial condition and results of operations.

***Our environmental assessments may not identify all potential environmental liabilities and our remediation actions may be insufficient.***

Properties being considered for potential acquisition by us are subjected to at least a Phase I or similar environmental assessment prior to closing, which generally does not involve invasive techniques such as soil or ground water sampling. A Phase II assessment is conducted if recommended in the Phase I report. These assessments, together with subsurface assessments conducted on some properties, have not revealed, and we are not otherwise aware of, any environmental conditions that we believe would have a material adverse effect on our business, assets, financial condition or results of operations. However, such environmental assessments may not identify all potential environmental liabilities. Moreover, we may in the future discover adverse environmental conditions at our communities, including at communities we acquire in the future, which may have a material adverse effect on our business, assets, financial condition or results of operations. In connection with our ownership, operation and selective development of communities, from time to time we undertake substantial remedial action in response to the presence of subsurface or other contaminants, including contaminants in soil, groundwater and soil vapor beneath or affecting our buildings. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination, or if remediation costs exceed estimates. We can provide no assurance, however, that all necessary remediation actions have been or will be undertaken at our communities or that we will be indemnified, in full or at all, in the event that environmental liability arises.

***We may face high costs associated with the investigation or remediation of environmental contamination, including asbestos, lead-based paint, chemical vapor, subsurface contamination and mold growth.***

We are subject to various federal, state and local environmental and public health laws, regulations and ordinances. Under various federal, state and local environmental and public health laws, regulations and ordinances, we may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties (including in some cases natural substances such as methane and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial and may exceed any insurance coverage we have for such events. The presence of such substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, sell or rent the affected property. In addition, some environmental laws create or allow a government agency to impose a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

***We face risks relating to asbestos.***

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials (“ACMs”) when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. ACMs may have been used in the construction of a number of the communities that we acquired and may have been used in the construction of communities we acquire in the future. We will implement an operations and maintenance program at each of the communities at which we discover ACMs. We can provide no assurance that we will not incur any material liabilities as a result of the presence of ACMs at our communities.

***We face risks relating to lead-based paint.***

Some of our communities may have lead-based paint and we may have to implement an operations and maintenance program at some of our communities. Communities that we acquire in the future may also have lead-based paint. We can provide no assurance that we will not incur any material liabilities as a result of the presence of lead-based paint at our communities.

***We face risks relating to chemical vapors and subsurface contamination.***

We are also aware that environmental agencies and third parties have, in the case of certain communities with on-site or nearby contamination, asserted claims for remediation, property damage or personal injury based on the alleged actual or potential intrusion into buildings of chemical vapors (e.g., radon) or volatile organic compounds from soils or groundwater underlying or in the vicinity of those buildings or on nearby properties. We can provide no assurance that we will not incur any material liabilities as a result of vapor intrusion at our communities.

***We face risks relating to mold growth.***

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that certain molds may in some instances lead to adverse health effects, including allergic or other reactions. To help limit mold growth, we educate residents about the importance of adequate ventilation and include a lease requirement that they notify us when they see mold or excessive moisture. We have established procedures for promptly addressing and remediating mold or excessive moisture when we become aware of its presence regardless of whether the resident believes or we believe a health risk is present. However, we can provide no assurance that mold or excessive moisture will be detected and remediated in a timely manner. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities that may exceed any applicable insurance coverage.

***Compliance with various laws and regulations, including accessibility, building and health and safety laws and regulations, may be costly, may adversely affect our operations or expose us to liability.***

In addition to compliance with environmental regulations, we must comply with various laws and regulations such as accessibility, building, zoning, landlord/tenant and health and safety laws and regulations, including, but not limited to, the ADA and the FHA. Some of those laws and regulations may conflict with one another or be subject to limited judicial or regulatory interpretations. Under those laws and regulations, we may be liable for, among other things, the costs of bringing our properties into compliance with the statutory and regulatory requirements. Noncompliance with certain of these laws and regulations may result in liability without regard to fault and the imposition of fines and could give rise to actions brought against us by governmental entities and/or third parties who claim to be or have been damaged as a consequence of an apartment not being in compliance with the subject laws and regulations. As part of our due diligence procedures in connection with the acquisition of a property, we typically conduct an investigation of the property’s compliance with known laws and regulatory requirements with which we must comply once we acquire a property, including a review of compliance with the ADA and local zoning regulations. Our investigations and these assessments may not have revealed, and may not with respect to future acquisitions reveal, all potential noncompliance issues or related liabilities and we can provide no assurance that our development properties have been, or that our future development projects will be, designed and built in accordance with all applicable legal requirements.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. Noncompliance with such laws and regulations may subject us to fines and penalties. We can provide no assurance that we will not incur any material liabilities as a result of noncompliance with these laws.

***We may obtain only limited warranties when we acquire a property and may only have limited recourse if our due diligence did not identify any issues that may subject us to unknown liabilities or lower the value of our property, which could adversely affect our financial condition and ability to make distributions to you.***

The seller of a property often sells the property in its “as is” condition on a “where is” basis and “with all faults,” without any warranties of merchantability or fitness for a particular use or purpose. In addition, purchase agreements may contain only limited warranties, representations and indemnifications that will survive for only a limited period after the closing. The acquisition of, or purchase of, properties with limited warranties increases the risk that we may lose some or all of our invested capital in the property, lose rental income from that property or may be subject to unknown liabilities with respect to such properties.

***Short-term apartment leases expose us to the effects of declining market rent, which could adversely affect our ability to make cash distributions to our stockholders.***

Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues may be impacted by declines in market rents more quickly than if our leases were for longer terms.

***We may be subject to risks involved in real estate activity through joint ventures.***

We may acquire properties through joint ventures when we believe circumstances warrant the use of such structures. Joint venture investments involve risks, including: the possibility that joint venture partners might refuse to make capital contributions when due; that we may be responsible to joint venture partners for indemnifiable losses; that joint venture partners might at any time have business or economic goals which are inconsistent with ours; and that joint venture partners may be in a position to take action or withhold consent contrary to our recommendations, instructions or requests. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest. Further, joint venture partners may fail to meet their obligations to the joint venture as a result of financial distress or otherwise, and we would be forced to make contributions to maintain the value of the property. To the extent joint venture partners do not meet their obligations to the joint venture or they take action inconsistent with the interests of the joint venture, we could be adversely affected.

If we acquire properties through joint ventures, we may be required to make decisions jointly with the other investors who have interests in the respective joint ventures. We might not have the same interests as the other investors in relation to these decisions or transactions. Accordingly, we might not be able to favorably resolve any of these issues, or we might have to provide financial or other inducements to the other investors to obtain a favorable resolution.

In addition, various restrictive provisions and third-party rights, including consent rights to certain transactions, may apply to sales or transfers of interests in joint ventures. Consequently, decisions to buy or sell interests in a property or properties relating to joint ventures may be subject to the prior consent of other investors. These restrictive provisions and third-party rights would potentially preclude us from achieving full value of the properties because of our inability to obtain the necessary consents to sell or transfer the interests.

***We depend on information systems, and systems failures could significantly disrupt our business, which may, in turn, negatively affect our ability to pay dividends to our stockholders.***

Our business depends on the communications and information systems of our Sponsor, to which we have access through our Adviser. In addition, certain of these systems are provided to our Sponsor by third-party service providers. Any failure or interruption of such systems, including as a result of the termination of an agreement with any such third-party service provider, could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our operating results and negatively affect our ability to pay dividends to our stockholders.

***Breaches of our data security could materially harm our business and reputation.***

We collect and retain certain personal information provided by our tenants. While security measures to protect the confidentiality of this information are in place, we can provide no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and/or loss of this information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance.



***The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act, may strain our resources, increase our costs and place additional demands on management, and we may be unable to comply with these requirements in a timely or cost-effective manner.***

As a public company with listed equity securities, we are required to comply with new laws, regulations and requirements, certain corporate governance provisions of the Sarbanes-Oxley Act, related regulations of the SEC, including compliance with the reporting requirements of the Exchange Act and the requirements of the NYSE, with which we were not required to comply with as a private company. Complying with these statutes, regulations and requirements occupies a significant amount of time of our Board and management and requires us to incur significant costs and expenses. As a result of being a public company, we are required to:

- maintain a more comprehensive compliance function;
- design, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- comply with rules promulgated by the NYSE;
- prepare and distribute periodic public reports in compliance with our obligations under federal securities laws;
- maintain and review new internal policies, such as those relating to disclosure controls and procedures and insider trading;
- involve and retain to a greater degree outside counsel and accountants in the above activities; and
- maintain an investor relations function.

If our profitability is adversely affected because of these additional costs, it could have a negative effect on the trading price of our common stock.

***Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting.***

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operations, financial condition or liquidity.

***We may incur mortgage indebtedness and other borrowings, which we have broad authority to incur, that may increase our business risks and decrease the value of your investment.***

We expect that in most instances, we will acquire real properties by using either existing financing or borrowing new funds. In addition, we may incur additional mortgage and other secured debt and pledge all or some of our unpledged real properties as security for that debt to obtain funds to acquire additional real properties. We may borrow if we need funds to satisfy the REIT tax qualification requirement that we generally distribute annually to our stockholders at least 90% of our REIT taxable income (which does not equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. We also may borrow if we otherwise deem it necessary or advisable to assure that we maintain our qualification as a REIT.

If there is a shortfall between the cash flow from a property and the cash flow needed to service the related debt, then the amount available for distributions to stockholders may be reduced. In addition, incurring secured debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of your investment. For U.S. federal income tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. In such event, we may be unable to pay the amount of distributions required in order to maintain our REIT status. We may give full or partial guarantees to lenders of mortgage and other secured debt to the entities that own our properties. When we provide a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages or other secured debt contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected, which could result in losing our REIT status and would result in a decrease in the value of your investment.

***We have a substantial amount of indebtedness, which may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.***

As of December 31, 2019, there was \$1.2 billion million of mortgage debt outstanding related to our Portfolio.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and development activities, or pay the dividends necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from prohibited transactions, discussed below in “—Risks Related to Our Structure”) or in violation of certain covenants to which we may be subject;
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; and/or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these consequences were to materialize, our financial condition, results of operations, cash flow and trading price of our common stock could be adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

***We may be unable to refinance current or future indebtedness on favorable terms, if at all.***

We may not be able to refinance existing debt on terms as favorable as the terms of existing indebtedness, or at all, including as a result of increases in interest rates or a decline in the value of our Portfolio or portions thereof. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our operating cash flow will not be sufficient in all years to repay all maturing debt. As a result, certain of our other debt may default, we may be forced to postpone capital expenditures necessary for the maintenance of our properties, we may have to dispose of one or more properties on terms that would otherwise be unacceptable to us or we may be forced to allow the mortgage holder to foreclose on a property. Foreclosure on mortgaged properties or an inability to refinance existing indebtedness would likely have a negative impact on our financial condition and results of operations and could adversely affect our ability to make distributions to our stockholders.

***Our debt agreements include restrictive covenants, which could limit our flexibility and our ability to make distributions.***

Our debt agreements, including our lines of credit, contain customary negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property, to reduce or change insurance coverage or to engage in material asset sales, mergers, consolidations and acquisitions. Our debt agreements require certain mandatory prepayments upon disposition of underlying collateral. Early repayments of certain debt are subject to prepayment penalties. Failure to comply with these covenants could cause a default under the agreements and result in a requirement to repay the indebtedness prior to its maturity, which could have an adverse effect on our cash flow and ability to make distributions to our stockholders. In addition, loan documents may limit our ability to replace a property’s property manager or terminate certain operating or lease agreements related to a property. These or other limitations would decrease our operating flexibility and our ability to achieve our operating objectives.

***If we are required to make payments under any “bad boy” carve out guarantees that we have provided in connection with certain mortgages and related loans, our business and financial results could be materially adversely affected.***

In obtaining certain non-recourse loans, we have provided our lenders with standard carve out guarantees. These guarantees are only applicable if and when the borrower directly, or indirectly through an agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper (commonly referred to as “bad boy” guarantees). Although we believe that “bad boy” carve out guarantees are not guarantees of payment in the event of foreclosure or other actions of the foreclosing lender that are beyond the borrower’s control, some lenders in the real estate industry have recently sought to make claims for payment under such guarantees. In the event such a claim were made against us under a “bad boy” carve out guarantee, following foreclosure on mortgages or related loans, and such claim were successful, our business and financial results could be materially adversely affected.

***Derivatives and hedging activity could adversely affect cash flow.***

In the normal course of business, we use derivatives to manage our exposure to interest rate volatility on debt instruments, including hedging for future debt issuances. At other times, we may utilize derivatives to increase our exposure to floating interest rates. However, these hedging arrangements may not have the desired beneficial impact. Hedging arrangements, which can include a number of counterparties, may expose us to additional risks, including failure of any of our counterparties to perform under these contracts, and may involve extensive costs, such as transaction fees or, if we terminate them, breakage costs. No strategy can completely insulate us from the risks associated with interest rate fluctuations.

**Risks Related to Our Structure**

**The recent Chapter 11 bankruptcy filing by Highland Capital Management, L.P. (“Highland”) may have materially adverse consequences on our business, financial condition and results of operations.**

On October 16, 2019, Highland filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of Delaware, or the Highland Bankruptcy. The Highland Bankruptcy stems from a potential judgment being sought against Highland relating to a financial crisis-era fund previously managed by Highland. The fund has been in liquidation since 2011. The liquidation plan, which was finalized and approved by investors and Highland in 2011, established a committee of fund investor representatives, or the Redeemer Committee, to coordinate the liquidation process. Between 2011 and 2016, Highland distributed over \$1.55 billion of the approximately \$1.70 billion amount to be liquidated. Then, on July 5, 2016, the Redeemer Committee filed a complaint against Highland resulting from a contract dispute over the timing of management fees and other related claims. Highland believes it acted in the interest of investors and disputes the Redeemer Committee’s claims. However, in consideration of its liquidity profile, Highland determined that it was necessary to commence the voluntary Chapter 11 proceedings. Although Highland disputes the underlying claims, entry of the judgment in its maximum potential amount could result in a judgment against Highland in an amount greater than Highland’s liquid assets. Neither our Advisor nor our Sponsor are parties to Highland’s bankruptcy filing.

**The Highland Bankruptcy could create potential conflicts of interest and uncertainly related to our commercial relationship with Highland.**

The implications and outcome of the Highland Bankruptcy are inherently uncertain. Certain of our directors and executive officers serve, or have previously served, in various capacities at Highland or its affiliated entities and, due to the uncertain nature of bankruptcy proceedings and the respective parties’ objectives, Highland or such directors and executive officers may encounter potential conflicts of interests with us. In addition, the treatment of relationships (including as related to contractual obligations) between associated parties in bankruptcy proceedings can be uncertain, which could harm our commercial relationship with Highland.

***We depend upon key personnel of our Adviser and its affiliates and our property manager.***

We are an externally managed REIT and therefore we do not have any internal management capacity and only have accounting employees. We also depend on BH for our property management and construction services. We depend to a significant degree on the diligence, skill and network of business contacts of the management team and other key personnel of our Adviser and of our property manager to achieve our investment objectives, including Messrs. Dondero, Mitts, McGraner and Goetz, all of whom may be difficult to replace. We expect that our Adviser will evaluate, negotiate, structure, close and monitor our investments in accordance with the terms of the Advisory Agreement.

We also depend upon the senior professionals of our Adviser and our property manager to maintain relationships with sources of potential investments, and we rely upon these relationships to provide us with potential investment opportunities. We cannot assure you that these individuals will continue to provide indirect investment advice to us. If these individuals, including the members of the management team of our Adviser, do not maintain their existing relationships with our Adviser, maintain existing relationships or develop new relationships with other sources of investment opportunities, we may not be able to grow our investment portfolio. In addition, individuals with whom the senior professionals of our Adviser and our property manager have relationships are not obligated to provide us with investment opportunities. Therefore, we can offer no assurance that such relationships will generate investment opportunities for us.

Our Adviser relies on Highland, a registered investment adviser under common control with our Adviser, to provide investment research and operational support to our Adviser, including services in connection with research, due diligence of actual or potential investments, the execution of investment transactions approved by our Adviser and certain back office services and administrative services. If Highland does not provide such services to our Adviser, there can be no assurance that our Adviser would be able to find a substitute service provider with the same experience or on the same terms as Highland.

***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 Highland or its affiliates.***

Our primary focus in making investments generally differs from that of existing investment funds, accounts or other investment vehicles that are or have been managed by affiliates of our Adviser, members of our Adviser's management team or sponsored by Highland or its affiliates. In addition, the previously sponsored investment programs by Highland were significantly different from us in terms of targeted assets, regulatory structure and limitations, investment strategy and objectives and investment personnel. Past performance is not a guarantee of future results, and there can be no assurance that we will achieve comparable results of those Highland affiliates. We also cannot assure you that we will replicate the historical results achieved by members of the management team, and we caution you that our investment returns could be substantially lower than the returns achieved by them in prior periods. Additionally, all or a portion of the prior results may have been achieved in particular market conditions which may never be repeated.

***Our Adviser can resign on 30 days' notice from its role as adviser, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business, and results of operations and cash flows.***

The Advisory Agreement gives our Adviser the right to resign after giving not more than 60 nor less than 30 days' written notice, whether we have found a replacement or not. If our Adviser resigns, we may not be able to find a new adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 30 to 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption and our financial condition, business and results of operations, as well as our ability to pay distributions, are likely to be adversely affected. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the experience possessed by our Adviser and its affiliates. Even if we are able to retain comparable management, the integration of such management and its lack of familiarity with our investment objectives may result in additional costs and time delays that may adversely affect our business, financial condition, results of operations and cash flows.

***You will have limited control over changes in our policies and operations, which increases the uncertainty and risks you face as a stockholder.***

Our Board determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our Board may amend or revise these and other policies without your vote. Our Board's broad discretion in setting policies and your inability to exert control over those policies increases the uncertainty and risks you face as a stockholder.

***We may change our targeted investments without stockholder consent.***

We expect our portfolio of investments in commercial real estate to consist primarily of multifamily properties. Though this is our current target portfolio, we may make adjustments to our target portfolio based on real estate market conditions and investment opportunities, and we may change our targeted investments and investment guidelines at any time without the consent of our stockholders. Any such change could result in us making investments that are different from, and possibly riskier than, the investments described in this annual report. These policies may change over time. A change in our targeted investments or investment guidelines, which may occur without notice to you or without your consent, may increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect the value of our common stock and our ability to make distributions to you. We intend to disclose any changes in our investment policies in our next required periodic report, if any.

***We pay substantial fees and expenses to our Adviser and its affiliates and to our property manager, which payments increase the risk that you will not earn a profit on your investment.***

Pursuant to the Advisory Agreement, we pay significant fees to our Adviser and its affiliates. Those fees include advisory and administrative fees and obligations to reimburse our Adviser and its affiliates for expenses they incur in connection with providing services to us, including certain personnel services.

Additionally, pursuant to the management agreements we have entered into with BH, we pay significant fees to BH. These fees include property management fees, construction management and other customary property manager fees.

***If we internalize our management functions, the percentage of our outstanding common stock owned by our other stockholders could be reduced, and we could incur other significant costs associated with being self-managed.***

In the future, our Board may consider internalizing the functions performed for us by our Adviser by, among other methods, acquiring our Adviser's assets. The method by which we could internalize these functions could take many forms. There is no assurance that internalizing our management functions will be beneficial to us and our stockholders. An acquisition of our Adviser could result in a dilution of your interests as a stockholder and could reduce earnings per share and FFO, Core FFO and AFFO per share. Additionally, we may not realize the perceived benefits, we may not be able to properly integrate a new staff of managers and employees or we may not be able to effectively replicate the services provided previously by our Adviser, property manager or their affiliates. Internalization transactions, including without limitation, transactions involving the acquisition of affiliated advisers or property managers have also, in some cases, been the subject of litigation. Even if these claims are without merit, we could be forced

to spend significant amounts of money defending claims that would reduce the amount of funds available for us to invest in properties or other investments and to pay distributions. All of these factors could have a material adverse effect on our results of operations, financial condition and ability to pay distributions.

***There are significant potential conflicts of interest that could affect our investment returns.***

As a result of our arrangements with our Adviser, there may be times when our Adviser or its affiliates have interests that differ from those of our stockholders, giving rise to a conflict of interest.

Our directors and management team serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do, or of investment funds managed by our Adviser or its affiliates. Similarly, our Adviser or its affiliates may have other clients with similar, different or competing investment objectives, including NexPoint Real Estate Advisors IV, L.P. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the best interest of us or our stockholders. For example, the management team of our Adviser has, and will continue to have, management responsibilities for other investment funds, accounts or other investment vehicles managed or sponsored by our Adviser or its affiliates. Our investment objectives may overlap with the investment objectives of such affiliated investment funds, accounts or other investment vehicles. As a result, those individuals may face conflicts in the allocation of investment opportunities among us and other investment funds or accounts advised by or affiliated with our Adviser. Our Adviser will seek to allocate investment opportunities among eligible accounts in a manner consistent with its allocation policy. However, we can offer no assurance that such opportunities will be allocated to us fairly or equitably in the short-term or over time.

Additionally, under the Advisory Agreement, our Adviser does not assume any responsibility to us other than to render the services called for under that agreement, and it will not be responsible for any action of our Board in following or declining to follow our Adviser's advice or recommendations. In addition, we have agreed to indemnify our Adviser and each of its officers, directors, members, managers and employees from and against any claims or liabilities, including reasonable legal fees and other expenses reasonably incurred, arising out of or in connection with our business and operations or any action taken or omitted on our behalf pursuant to authority granted by the Advisory Agreement, except where attributable to gross negligence, willful misconduct, bad faith or reckless disregard of such person's duties under the Advisory Agreement. These protections may lead our Adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

***Our Adviser faces conflicts of interest relating to the fee structure under our Advisory Agreement, which could result in actions that are not necessarily in the long-term best interest of our stockholders.***

Under our Advisory Agreement, our Adviser or its affiliates is entitled to fees that are structured in a manner intended to provide incentives to our Adviser to perform in our best interest and in the best interest of our stockholders. However, because our Adviser is entitled to receive substantial compensation regardless of performance, our Adviser's interests are not wholly aligned with those of our stockholders. In that regard, our Adviser could be motivated to recommend riskier or more speculative investments that would entitle our Adviser to the highest fees. For example, because advisory and administrative fees payable to our Adviser are based on our total real estate assets, including any form of investment leverage, our Adviser may have an incentive to incur a high level of leverage or to acquire properties on less than favorable terms in order to increase the total amount of real estate assets under management. In addition, our Adviser's ability to receive higher fees and reimbursements depends on our continued investment in real properties. Therefore, the interest of our Adviser and its affiliates in receiving fees may conflict with the interest of our stockholders in earning income on their investment in our common stock.

***Our Adviser, Sponsor and their officers and employees face competing demands relating to their time, and this may cause our operating results to suffer.***

Our Adviser, our Sponsor and their officers and employees and their respective affiliates are key personnel, general partners, sponsors, managers, owners and advisers of other real estate investment programs, including investment products sponsored by affiliates of our Adviser, some of which have investment objectives and legal and financial obligations similar to ours and may have other business interests as well. Because these persons have competing demands on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. If this occurs, the returns on our investments may suffer.

***We may compete with other entities affiliated with our Sponsor and property manager for tenants.***

Neither our Sponsor and its affiliates nor BH and its affiliates is prohibited from engaging, directly or indirectly, in any other business or from possessing interests in any other business venture, including ventures involved in the acquisition, development, ownership, management, leasing or sale of real estate, including properties in the vicinity of the properties in our Portfolio. Our Sponsor and/or its affiliates and BH and its affiliates may own and/or manage properties in the same geographical areas in which we currently own and expect to acquire real estate assets. Therefore, our properties may compete for tenants with other properties owned and/or managed by our Sponsor and its affiliates and BH and its affiliates. Our Sponsor and BH may face conflicts of interest when

evaluating tenant opportunities for our properties and other properties owned and/or managed by our Sponsor and its affiliates and BH and its affiliates, and these conflicts of interest may have a negative impact on our ability to attract and retain tenants.

***Our failure to qualify as a REIT for federal income tax purposes would reduce the amount of income we have available for distribution and limit our ability to make distributions to our stockholders.***

Our qualification as a REIT depends upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Code. The REIT qualification requirements are extremely complex and interpretation of the U.S. federal income tax laws governing qualification as a REIT is limited. Furthermore, future legislative, judicial or administrative changes to the federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT. We believe we have been and are organized and qualify as a REIT, and we intend to operate in a manner that will permit us to continue to qualify as a REIT. However, we cannot assure you that we have qualified as a REIT, or that we will remain qualified as a REIT in the future.

If we were to fail to qualify as a REIT for any taxable year, we would be subject to federal income tax on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of shares of our common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from taxation as a REIT and would not be allowed to re-elect REIT status for the four taxable years following the year in which we failed to qualify as a REIT.

The rule against re-electing REIT status following a loss of such status would also apply to us if NREO failed to qualify as a REIT for its taxable years ending on or before December 31, 2015, because we are treated as a successor to NREO for U.S. federal income tax purposes. Although NREO has represented to us that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT, and covenanted in the agreement between us and our Adviser to use its reasonable best efforts to maintain its REIT status for each of NREO's taxable years ending on or before December 31, 2015, no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. Although, in the event of a breach, we may be able to seek damages from NHF and NREO, there can be no assurance that such damages, if any, would appropriately compensate us.

***If our operating partnership failed to qualify as a partnership or is not otherwise disregarded for U.S. federal income tax purposes, we would cease to qualify as a REIT.***

Our OP intends to qualify as a partnership for federal income tax purposes, and intends to take that position for all income tax reporting purposes. If classified as a partnership, our OP generally will not be a taxable entity and will not incur federal income tax liability. However, our OP would be treated as a corporation for federal income tax purposes if it was a "publicly traded partnership," unless at least 90% of its income was qualifying income as defined in the Code. A "publicly traded partnership" is a partnership whose partnership interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial equivalent thereof). Although our OP's partnership units are not traded on an established securities market, because of the redemption rights of its outside limited partner, the OP's units held by such limited partner could be viewed as readily tradable on a secondary market (or the substantial equivalent thereof), and our OP may not qualify for one of the "safe harbors" under the applicable tax regulations. Qualifying income for the 90% test generally includes passive income, such as real property rents, dividends and interest. The income requirements applicable to REITs and the definition of qualifying income for purposes of this 90% test are similar in most respects. Our OP may not meet this qualifying income test. If our OP were to be taxed as a corporation, it would incur substantial tax liabilities, and we would then fail to qualify as a REIT for federal income tax purposes, unless we qualified for relief under certain statutory savings provisions, and our ability to raise additional capital and pay distributions to our stockholders would be impaired.

***Complying with REIT requirements may force us to liquidate otherwise attractive investments.***

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance. In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and mortgage-backed securities. The remainder of our investment in securities (other than government securities, securities of TRSs and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of TRSs and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax

consequences. As a result, we may be required to liquidate otherwise attractive investments from our Portfolio. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

***Complying with REIT requirements may limit our ability to hedge our liabilities effectively and may cause us to incur tax liabilities.***

The REIT provisions of the Code may limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets or to offset certain other positions, if properly identified under applicable Treasury Regulations, does not constitute “gross income” for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions will likely be treated as non-qualifying income for purposes of the 75% or 95% gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS generally will not provide any tax benefit, except for being carried forward against future taxable income of such TRS.

***Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flows.***

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, any TRS we form in the future will be subject to regular corporate federal, state and local taxes. Any of these taxes would decrease cash available for distributions to stockholders.

***Our ownership of interests in TRSs raises certain tax risks.***

A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a TRS. A TRS also includes any corporation other than a REIT with respect to which a TRS owns securities possessing more than 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a TRS may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A TRS is subject to income tax as a regular C corporation. We currently own interests in a TRS and may acquire securities in additional TRSs in the future.

We will be required to pay a 100% tax on any “redetermined rents,” “redetermined deductions,” “excess interest” or “redetermined TRS service income.” In general, redetermined rents are rents from real property that are overstated as a result of services furnished to any of our tenants by a TRS of ours. Redetermined deductions and excess interest generally represent amounts that are deducted by a TRS of ours for amounts paid to us that are in excess of the amounts that would have been deducted based on arm’s length negotiations. Redetermined TRS service income generally represents amounts by which the gross income of a TRS attributable to its services for or on behalf of us (other than to a tenant of ours) would be increased based on arm’s length negotiations.

Our TRS is and any TRS we acquire in the future will be subject to corporate income tax at the federal, state and local levels, (including on the gain realized from the sale of property held by it, as well as on income earned while such property is operated by the TRS). This tax obligation, if material, would diminish the amount of the proceeds from the sale or operation of such property, or other income earned through the TRS that would be distributable to our stockholders. Federal, state and local corporate income tax rates may be increased in the future, and any such increase would reduce the amount of the net proceeds available for distribution by us to our stockholders from the sale of property or other income earned through a TRS after the effective date of any increase in such tax rates. We do not anticipate material income tax obligations in connection with our ownership of interests in TRSs.

As a REIT, the value of non-mortgage securities we may hold in our TRSs generally may not exceed 20% of the total value of our assets at the end of any calendar quarter. If the IRS were to determine that the value of our interests in all of our TRSs exceeded this limit at the end of any calendar quarter, then we would fail to qualify as a REIT. If we determine it to be in our best interest to own a substantial number of our properties through one or more TRSs, then it is possible that the IRS may conclude that the value of our interests in our TRSs exceeds 20% of the value of our total assets at the end of any calendar quarter and therefore cause us to fail to qualify as a REIT. Additionally, as a REIT, no more than 25% of our gross income with respect to any year may, in general, be from sources other than certain real estate-related assets. Dividends paid to us from a TRS are typically considered to be non-real estate income. Therefore, we may fail to qualify as a REIT if dividends from all of our TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of our gross income with respect to such year.

***The sale of certain properties could result in significant tax liabilities unless we are able to defer the taxable gain through 1031 Exchanges.***

In general, we structure asset sales for possible inclusion in 1031 Exchanges. The ability to complete a 1031 Exchange depends on many factors, including, among others, identifying and acquiring suitable replacement property within limited time periods, and the ownership structure of the properties being sold and acquired. Therefore, we are not always able to sell an asset as part of a 1031 Exchange. When successful, a 1031 Exchange enables us to defer the taxable gain on the asset sold. If we cannot defer the taxable gain resulting from the sales of certain properties, our business, financial condition, results of operations and cash flow, the market price per share of our common stock and our ability to satisfy our debt service obligations and make distributions to our stockholders could be materially and adversely affected.

***Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.***

For so long as we qualify as a REIT, our ability to dispose of property during the first few years following its acquisition may be restricted to a substantial extent as a result of our REIT qualification. Under applicable provisions of the Code regarding prohibited transactions by REITs, while we qualify as a REIT, we will be subject to a 100% penalty tax on any gain recognized on the sale or other disposition of any property (other than foreclosure property) that we own or hold an interest in, directly or indirectly through any subsidiary entity, including our operating partnership, but generally excluding TRSs, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of a trade or business. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. During such time as we qualify as a REIT, we intend to avoid the 100% prohibited transaction tax by (1) conducting activities that may otherwise be considered prohibited transactions through a TRS (but such TRS will incur corporate rate income taxes with respect to any income or gain recognized by it), (2) conducting our operations in such a manner so that no sale or other disposition of an asset we own or hold an interest in, directly or through any subsidiary, will be treated as a prohibited transaction, or (3) structuring certain dispositions of our properties to comply with the requirements of the prohibited transaction safe harbor available under the Code for properties that, among other requirements, have been held for at least two years. No assurance can be given that any particular property that we own or hold an interest in, directly or through any subsidiary entity, including our operating partnership, but generally excluding TRSs, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

***To continue qualifying as a REIT, we must meet annual distribution requirements, which may force us to forgo otherwise attractive opportunities or borrow funds during unfavorable market conditions. This could delay or hinder our ability to meet our investment objectives and reduce your overall return.***

In order to qualify as a REIT, we must distribute annually to our stockholders at least 90% of our REIT taxable income (which does not equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. We will be subject to U.S. federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on investments in real estate assets and it is possible that we might be required to borrow funds, possibly at unfavorable rates, or sell assets to fund these distributions. It is possible that we might not always be able to make distributions sufficient to meet the annual distribution requirements and to avoid U.S. federal income and excise taxes on our earnings while we qualify as a REIT.

***Dividends payable by REITs generally do not qualify for the reduced tax rates available for some dividends.***

Currently, the maximum tax rate applicable to qualified dividend income payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for this reduced rate. Distributions from REITs that are treated as dividends but are not designated as qualified dividends or capital gain dividends are treated as ordinary income. Under the Tax Cuts and Jobs Act (the "TCJA"), the rate brackets for non-corporate taxpayers' ordinary income are adjusted, the top tax rate is reduced from 39.6% to 37%, and ordinary REIT dividends are taxed at even lower effective rates. Under the TCJA, for taxable years beginning after December 31, 2017 and before January 1, 2026, distributions from REITs that are treated as dividends but are not designated as qualified dividends or capital gain dividends are taxed as ordinary income after deducting 20% of the amount of the dividend in the case of non-corporate stockholders. At the maximum ordinary income tax rate of 37% applicable for taxable years beginning after December 31, 2017 and before January 1, 2026, the maximum tax rate on ordinary REIT dividends for non-corporate stockholders is 29.6%. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock. In addition, certain U.S. stockholders may be subject to a 3.8% Medicare tax on dividends payable by REITs. Tax rates could be changed in future legislation.



***The share ownership restrictions of the Code for REITs and the 6.2% share ownership limit in our charter may inhibit market activity in shares of our stock and restrict our business combination opportunities.***

In order to qualify as a REIT, five or fewer individuals, as defined in the Code, may not own, actually or constructively, more than 50% in value of our issued and outstanding shares of stock at any time during the last half of each taxable year, other than the first year for which a REIT election is made. Attribution rules in the Code determine if any individual or entity actually or constructively owns shares of our common stock under this requirement. Additionally, at least 100 persons must beneficially own shares of our common stock during at least 335 days of a taxable year for each taxable year, other than the first year for which a REIT election is made. To help insure that we meet these tests, among other purposes, our charter restricts the acquisition and ownership of shares of our common stock.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT while we so qualify. Unless exempted by our Board (prospectively or retroactively), for so long as we qualify as a REIT, our charter prohibits, among other limitations on ownership and transfer of shares of our stock, any person from beneficially or constructively owning (applying certain attribution rules under the Code) more than 6.2% in value of the aggregate of the outstanding shares of our capital stock and more than 6.2% (in value or in number of shares, whichever is more restrictive) of the outstanding shares of our common stock. Our Board may not grant an exemption from these restrictions to any proposed transferee whose ownership in excess of the 6.2% ownership limit would result in our failing to qualify as a REIT. Our Board granted a waiver from the ownership limits for Highland and its affiliates, and may grant additional waivers in the future. These waivers will be subject to certain initial and ongoing conditions designed to protect our status as a REIT. These restrictions on transferability and ownership will not apply, however, if our Board determines that it is no longer in our best interest to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to so qualify as a REIT.

These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of the stockholders.

***The ability of the Board to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.***

Our charter provides that our Board may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income and will be subject to U.S. federal income tax at regular corporate rates and state and local taxes, which may have adverse consequences on our total return to our stockholders.

***New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify or remain qualified as a REIT.***

The federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which could result in statutory changes as well as frequent revisions to regulations and interpretations.

The Tax Cuts and Jobs Act, or the TCJA, significantly changed the federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Additional technical corrections or other amendments to the TCJA or administrative guidance interpreting the TCJA may be forthcoming at any time. There can be no assurance that future changes to the federal income tax laws or regulatory changes will not be proposed or enacted that could impact our business and financial results. Furthermore, the REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department, which may result in revisions to regulations and interpretations in addition to statutory changes. If enacted, certain of such changes could have an adverse impact on our business and financial results.

We cannot predict whether, when or to what extent the TCJA and any new federal tax laws, regulations, interpretations or rulings will impact the real estate investment industry or REITs. Prospective investors are urged to consult their tax advisors regarding the effect of the TCJA and potential future changes to the federal tax laws on an investment in our stock.

***Foreign investors may be subject to U.S. federal withholding tax and may be subject to U.S. federal income tax on distributions received from us and upon disposition of shares of our common stock.***

Subject to certain exceptions, distributions received from us will be treated as dividends of ordinary income to the extent of our current or accumulated earnings and profits. Such dividends paid to a non-U.S. stockholder ordinarily will be subject to U.S. withholding tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty, unless the distributions are treated as “effectively connected” with the conduct by the non-U.S. stockholder of a U.S. trade or business. Pursuant to the Foreign Investment in Real Property Tax Act of 1980 (“FIRPTA”), capital gain distributions attributable to sales or exchanges of “U.S. real property interests” (“USRPIs”), generally will be taxed to a non-U.S. stockholder as if such gain were effectively connected with a U.S. trade or business. However, a capital gain dividend will not be treated as effectively connected income if (1) the distribution is

received with respect to a class of stock that is regularly traded on an established securities market located in the United States and (2) the non-U.S. stockholder does not own more than 10% of the class of our stock at any time during the one-year period ending on the date the distribution is received.

Gain recognized by a non-U.S. stockholder upon the sale or exchange of our common stock generally will not be subject to U.S. federal income taxation unless such stock constitutes a USRPI under FIRPTA. Our common stock will not constitute a USRPI so long as we are a “domestically-controlled” REIT. A REIT is “domestically controlled” if less than 50% of the REIT’s stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT’s existence. We cannot assure you that we will qualify as a “domestically controlled” REIT. If we were to fail to so qualify, gain realized by foreign investors on a sale of shares of our stock would be subject to FIRPTA tax, unless the shares of our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 10% of the value of our outstanding common stock.

## **Risks Related to the Ownership of our Common Stock**

*Our common stock is listed on the NYSE and broad market fluctuations could negatively affect the market price of our stock.*

We have listed shares of our common stock on the NYSE under the symbol “NXRT.” The price of NXRT common stock may fluctuate significantly. Further, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in our operations or earnings estimates or publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this annual report;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our underlying asset value;
- investor confidence in the stock and bond markets, generally;
- changes in tax laws;
- future equity issuances;
- failure to meet income estimates;
- failure to meet and maintain REIT qualifications; and
- general market and economic conditions.

In the past, class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management’s attention and resources, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

***The form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.***

The form, timing and/or amount of dividend distributions will be declared at the discretion of our Board and will depend on actual cash flows from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as our Board may consider relevant. Our Board may modify our dividend policy from time to time at its discretion.

***We may be unable to make distributions at expected levels, which could result in a decrease in the market price of our common stock.***

If sufficient cash is not available for distribution from our operations, we may have to fund distributions from working capital, borrow to provide funds for such distributions, reduce the amount of such distributions, or issue stock dividends. To the extent we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been. If cash available for distribution generated by our assets is less than we expect, our inability to make the expected distributions could result in a decrease in the market price of our common stock. In addition, if we make stock dividends in lieu of cash distributions, it may have a dilutive effect on the holdings of our stockholders.

All distributions are made at the discretion of our Board and are based upon, among other factors, our historical and projected results of operations, financial condition, cash flows and liquidity, maintenance of our REIT qualification and other tax considerations, capital expenditure and other expense obligations, debt covenants, contractual prohibitions or other limitations, applicable law and such other matters as our Board may deem relevant from time to time. We may not be able to make distributions in the future, and our inability to make distributions, or to make distributions at expected levels, could result in a decrease in the market price of our common stock.

***Our charter permits the Board to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring us in a manner that could otherwise result in a premium price to our stockholders.***

Our Board may classify or reclassify any unissued shares of common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our Board could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

***Future issuances of debt securities and equity securities may negatively affect the market price of shares of our common stock and, in the case of equity securities, may be dilutive to existing stockholders and could reduce the overall value of your investment.***

In the future, we may issue debt or equity securities or incur other financial obligations, including stock dividends and shares that may be issued in exchange for common units and equity plan shares/units. Upon liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before common stockholders. We are not required to offer any such additional debt or equity securities to existing stockholders on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities (including common units and convertible preferred units), warrants or options, will dilute the holdings of our existing common stockholders and such issuances or the perception of such issuances may reduce the market price of shares of our common stock. Any convertible preferred units would have, and any series or class of our preferred stock would likely have, a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common stockholders.

Existing stockholders do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue 600 million shares of capital stock, of which 500 million shares are designated as common stock and 100 million shares are designated as preferred stock. Our Board may increase the number of authorized shares of capital stock without stockholder approval. Our Board may elect to (1) sell additional shares in future public offerings; (2) issue equity interests in private offerings; (3) issue shares of our common stock under a long-term incentive plan to our directors, officers and other key employees (and those of our Adviser or its affiliates and our subsidiaries), our non-employee directors, and potentially certain non-employees who perform employee-type functions; (4) issue shares to our Adviser, its successors or assigns, in payment of an outstanding fee obligation or as consideration in a related-party transaction; or (5) issue shares of our common stock to sellers of properties we acquire in connection with an exchange of OP Units. To the extent we issue additional equity interests, your percentage ownership interest in us will be diluted. Further, depending upon the terms of such transactions, most notably the offering price per share, existing stockholders may also experience a dilution in the book value of their investment in us.

***Our rights and the rights of our stockholders to recover claims against our independent directors are limited, which could reduce your and our recovery against them if they negligently cause us to incur losses.***

Maryland law provides that a director has no liability in the capacity as a director if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in the company's best interest and with the care that an ordinarily prudent person

in a like position would use under similar circumstances. As permitted by the Maryland General Corporation Law (the “MGCL”), our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those capacities and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding to the maximum extent permitted by Maryland law. We have entered into indemnification agreements with our directors and executive officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. Accordingly, in the event that actions taken by any of our directors or officers are immune or exculpated from, or indemnified against, liability but which impede our performance, our stockholders’ ability to recover damages from that director or officer will be limited.

***Our charter and bylaws contain provisions that may delay, defer or prevent an acquisition of our common stock or a change in control.***

Our charter and bylaws contain a number of provisions, the exercise or existence of which could delay, defer or prevent a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interest, including the following:

- ***Our Charter Contains Restrictions on the Ownership and Transfer of Our Stock.*** In order for us to qualify, and elect to be taxed, as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year other than the first year for which we elect to be taxed as a REIT. Subject to certain exceptions, our charter prohibits any stockholder from owning beneficially or constructively more than 6.2% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock, or 6.2% in value of the aggregate of the outstanding shares of all classes or series of our stock. We refer to these restrictions collectively as the “ownership limits.” The constructive ownership rules under the Code are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 6.2% of our outstanding shares of common stock or the outstanding shares of all classes or series of our stock by an individual or entity could cause that individual or entity or another individual or entity to own constructively in excess of the relevant ownership limits. Our charter also prohibits any person from owning shares of our stock that would result in our being “closely held” under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT. Any attempt to own or transfer shares of our common stock or of any of our other capital stock in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void. These ownership limits may prevent a third party from acquiring control of us if our Board does not grant an exemption from the ownership limits, even if our stockholders believe the change in control is in their best interest. Our Board granted a waiver from the ownership limits applicable to holders of our common stock to Highland and its affiliates and may grant additional waivers in the future. These waivers will be subject to certain initial and ongoing conditions designed to protect our status as a REIT.
- ***Our Board Has the Power to Cause Us to Issue Additional Shares of Our Stock without Stockholder Approval.*** Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our Board may, without stockholder approval, amend our charter to increase the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our Board may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our shares of common stock or otherwise be in the best interest of our stockholders.

***Certain provisions of Maryland law may limit the ability of a third party to acquire control of us.***

Certain provisions of the MGCL may have the effect of inhibiting a third party from acquiring us or of impeding a change of control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation) or an affiliate of any interested stockholder and us for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations; and
- “control share” provisions that provide that holders of “control shares” of us (defined as voting shares of stock that, if aggregated with all other shares of stock owned or controlled by the acquirer, would entitle the acquirer to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of issued and outstanding “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, excluding all interested shares.

Pursuant to the Maryland Business Combination Act, our Board by resolution exempted from the provisions of the Maryland Business Combination Act all business combinations (1) between our Adviser, Highland or their respective affiliates and us and (2) between any other person and us, provided that such business combination is first approved by our Board (including a majority of our directors who are not affiliates or associates of such person). Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. There can be no assurance that these exemptions or resolutions will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, such as a classified board, some of which are not currently provided for in our charter or bylaws.

***Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could materially and adversely affect our business and the market price of our common stock.***

Under the Sarbanes-Oxley Act, we must maintain effective disclosure controls and procedures and internal control over financial reporting, which require significant resources and management oversight. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. Matters impacting our internal controls may cause us to be unable to report our financial data on a timely basis, or may cause us to restate previously issued financial data, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in the market price for our common stock and impairing our ability to raise capital.

Additionally, as we are no longer an emerging growth company, as defined by the JOBS Act, our independent registered public accounting firm is required pursuant to Section 404(b) of the Sarbanes-Oxley Act to attest to the effectiveness of our internal control over financial reporting on an annual basis. If we cannot maintain effective disclosure controls and procedures or internal control over financial reporting, or our independent registered public accounting firm cannot provide an unqualified attestation report on the effectiveness of our internal control over financial reporting, investor confidence and, in turn, the market price of our common stock could decline.

**Risks Related to Our Spin-Off**

***Potential indemnification liabilities pursuant to the Separation and Distribution Agreement could materially adversely affect us.***

The 2015 Separation and Distribution Agreement between us and NHF provided for, among other things, the principal corporate transactions required to affect the separation, certain conditions to the Spin-Off and provisions governing the relationship between us and NHF with respect to and resulting from the Spin-Off.

Among other things, the Separation and Distribution Agreement also provided for indemnification obligations designed to make us financially responsible for substantially all liabilities that may exist relating to or arising out of our business. If we are required to

indemnify NHF under the circumstances set forth in the Separation and Distribution Agreement, we may be subject to substantial liabilities.

*In connection with our separation from NHF, NHF will indemnify us for certain liabilities. However, there can be no assurance that these indemnities will be sufficient to insure us against the full amount of such liabilities, or that NHF's ability to satisfy its indemnification obligation will not be impaired in the future.*

Pursuant to the Separation and Distribution Agreement, NHF has agreed to indemnify us for certain liabilities, including certain tax liabilities. However, third parties could seek to hold us responsible for any of the liabilities that NHF has agreed to retain, and there can be no assurance that NHF will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from NHF any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from NHF.

**Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

As of December 31, 2019, our Portfolio consisted of 40 properties representing 14,724 units in eight states. The following table provides a summary of the properties in our Portfolio as of December 31, 2019:

Properties by State	Location	Number of Units	Date Acquired	Purchase Price (in thousands)	As of December 31, 2019			
					Average Effective Monthly Rent Per Unit (1)	% Occupied (2)	Number of Units Rehabbed (3)	Rehab Expenditures per Unit (4)
<b>2018-2019 Same Store Properties</b>								
<b>Texas</b>								
Arbors on Forest Ridge	Bedford, Texas	210	1/31/2014	\$ 12,805	\$ 894	95.7%	244	\$ 8,579
Eagle Crest	Irving, Texas	447	1/31/2014	27,325	969	96.6%	152	6,177
Silverbrook	Grand Prairie, Texas	642	1/31/2014	30,400	870	95.5%	633	7,081
Versailles	Dallas, Texas	388	2/26/2015	26,165	923	93.0%	453	12,266
Venue at 8651	Fort Worth, Texas	333	10/30/2015	19,250	924	96.1%	383	11,524
Old Farm	Houston, Texas	734	12/29/2016	84,721	1,162	92.8%	—	—
Stone Creek at Old Farm	Houston, Texas	190	12/29/2016	23,332	1,194	95.8%	—	—
Hollister Place	Houston, Texas	260	2/1/2017	24,500	995	93.1%	367	11,953
Atera Apartments	Dallas, Texas	380	10/25/2017	59,200	1,256	93.4%	185	19,141
<b>Florida</b>								
The Summit at Sabal Park	Tampa, Florida	252	8/20/2014	19,050	1,010	97.2%	315	5,691
Courtney Cove	Tampa, Florida	324	8/20/2014	18,950	927	94.8%	158	—
Sabal Palm at Lake Buena Vista	Orlando, Florida	400	11/5/2014	49,500	1,270	93.8%	234	—
Cornerstone	Orlando, Florida	430	1/15/2015	31,550	1,053	95.6%	291	155,900
Seasons 704 Apartments	West Palm Beach, Florida	222	4/15/2015	21,000	1,155	94.6%	154	—
Parc500	West Palm Beach, Florida	217	7/27/2016	22,421	1,304	93.1%	138	—
<b>Georgia</b>								
The Preserve at Terrell Mill	Marietta, Georgia	752	2/6/2015	58,000	969	94.9%	485	—
Rockledge Apartments	Marietta, Georgia	708	6/30/2017	113,500	1,260	95.3%	449	11,133
<b>Tennessee</b>								
Beechwood Terrace	Antioch, Tennessee	300	7/21/2014	21,400	937	91.3%	309	10,520
Willow Grove	Nashville, Tennessee	244	7/21/2014	13,750	1,002	97.5%	174	31,482
Woodbridge	Nashville, Tennessee	220	7/21/2014	16,000	1,061	91.8%	188	8,633
<b>Arizona</b>								
Madera Point	Mesa, Arizona	256	8/5/2015	22,525	924	96.1%	197	64,552
The Venue on Camelback	Phoenix, Arizona	415	10/11/2016	44,600	777	94.2%	108	—
<b>North Carolina</b>								
Radbourne Lake	Charlotte, North Carolina	225	9/30/2014	24,250	1,118	90.7%	297	55,936
Timber Creek	Charlotte, North Carolina	352	9/30/2014	22,750	916	94.9%	224	19,634
<b>Virginia</b>								
Southpoint Reserve at Stoney Creek	(5) Fredericksburg, Virginia	156	12/18/2014	17,000	1,152	92.3%	63	—
<b>Total 2018-2019 Same Store Properties</b>		<b>9,057</b>		<b>\$ 823,944</b>	<b>\$ 1,038</b>	<b>94.5%</b>	<b>6,201</b>	<b>\$ 18,145</b>
<b>Non-Same Store Properties</b>								
<b>Texas</b>								
Crestmont Reserve	Dallas, Texas	242	9/26/2018	24,680	902	94.2%	105	3,075
Cutter's Point	(6) Richardson, Texas	—	1/31/2014	15,845	—	0.0%	—	—
Summers Landing	Fort Worth, Texas	196	6/7/2019	19,396	920	91.8%	35	2,177
<b>Nevada</b>								
Bella Solara	Las Vegas, Nevada	320	11/22/2019	66,500	1,136	91.9%	—	—
Bloom	Las Vegas, Nevada	528	11/22/2019	106,500	1,105	90.9%	—	—
Torreyana Apartments	Las Vegas, Nevada	315	11/22/2019	68,000	1,171	95.6%	—	—
<b>Tennessee</b>								
Arbors of Brentwood	Nashville, Tennessee	346	9/10/2019	62,250	1,192	96.2%	47	738
Cedar Pointe	Antioch, Tennessee	210	8/24/2018	26,500	1,066	91.4%	96	3,746
Brandywine I & II	Nashville, Tennessee	632	9/26/2018	79,800	978	93.7%	89	345,848
Residences at Glenview Reserve	Nashville, Tennessee	360	7/17/2019	45,000	977	94.4%	9	—
<b>Arizona</b>								
Bella Vista	Phoenix, Arizona	248	1/28/2019	48,400	1,265	97.2%	33	—
The Enclave	Tempe, Arizona	204	1/28/2019	41,800	1,295	93.6%	26	—
The Heritage	Phoenix, Arizona	204	1/28/2019	41,900	1,265	96.6%	31	—
<b>Florida</b>								
Avant at Pembroke Pines	Pembroke Pines, Florida	1,520	8/30/2019	322,000	1,498	93.7%	5	—
Residences at West Place	Orlando, Florida	342	7/17/2019	55,000	1,211	92.7%	34	—
<b>Total Non-Same Store Properties</b>		<b>5,667</b>		<b>\$ 1,023,571</b>	<b>\$ 1,209</b>	<b>93.7%</b>	<b>510</b>	<b>\$ 13,423</b>
<b>Total</b>		<b>14,724</b>		<b>\$ 1,847,515</b>	<b>\$ 1,103</b>	<b>94.2%</b>	<b>6,711</b>	<b>\$ 17,533</b>

- (1) Average effective monthly rent per unit is equal to the average of the contractual rent for commenced leases as of December 31, 2019 minus any tenant concessions over the term of the lease, divided by the number of units under commenced leases as of December 31, 2019.
- (2) Percent occupied is calculated as the number of units occupied as of December 31, 2019, divided by the total number of units, expressed as a percentage.
- (3) Inclusive of all full and partial interior upgrades completed.

- (4) Inclusive of all full and partial interior upgrades completed and leased as of December 31, 2019.
- (5) Property was classified as held for sale as of December 31, 2019.
- (6) Cutter's Point incurred significant tornado damage on October 20, 2019 which resulted in the property ceasing operations in order to start reconstruction. (see Note 5).

For additional information regarding our Portfolio, see Notes 3, 4, 5 and 6 to our consolidated financial statements.

**Item 3. Legal Proceedings**

From time to time, we are party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by government agencies.

**Item 4. Mine Safety Disclosures**

Not applicable.



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Stockholder Information

On February 21, 2020, we had 25,296,836 shares of common stock outstanding held by a total of approximately 996 record holders. The number of record holders is based on the records of American Stock Transfer & Trust Company, LLC, who serves as our transfer agent. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

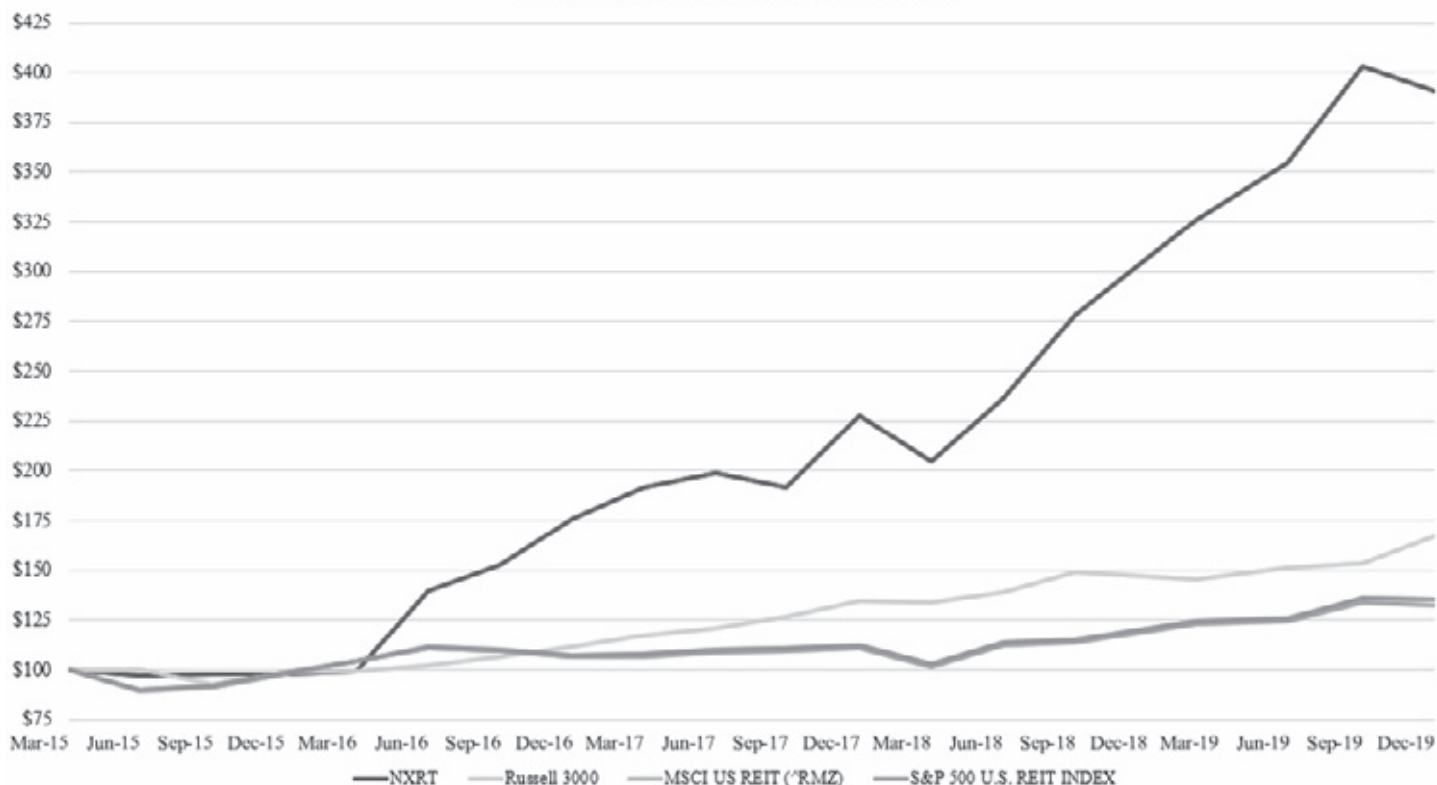
#### Market Information

Our common stock trades on the NYSE under the ticker symbol "NXRT."

## PERFORMANCE GRAPH

On April 1, 2015, our common stock commenced trading on the NYSE. The following graph compares the cumulative total stockholder return on our common shares for the measurement period commencing March 31, 2015 and ending December 31, 2019 with the cumulative total returns of the Russell 3000 Index, the MSCI U.S. REIT Index (^RMZ), the Standard & Poor's U.S. REIT Index and the National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index. The following graph assumes an investment of \$100 on the initial day of the relevant measurement period and that all dividends were reinvested.

**Cumulative Total Shareholder Return Index**



## Item 6. Selected Financial Data

The following table summarizes selected financial data about the Company. The following selected financial data information should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements, including the notes thereto, included elsewhere herein. The selected financial data presented below has been derived from our audited consolidated financial statements (in thousands, except per share amounts):

	As of December 31,				
	2019	2018	2017	2016	2015
<b>Balance Sheet Data</b>					
Net real estate investments (1)	\$ 1,781,810	\$ 1,087,542	\$ 991,156	\$ 963,037	\$ 902,882
Total assets	1,865,989	1,161,210	1,055,375	1,035,397	970,060
Mortgage debt, net (1)	1,186,547	838,020	754,405	423,138	676,324
Credit and bridge facilities, net	216,501	—	38,419	340,366	28,805
Total debt, net (1)	1,403,048	838,020	792,824	763,504	705,129
Total liabilities	1,436,453	862,615	813,796	779,295	721,122
Redeemable noncontrolling interests in the Operating Partnership	3,295	2,567	2,135	—	—
Noncontrolling interests	—	—	—	24,558	27,390
Stockholders' equity	426,241	296,028	239,444	231,544	221,548
<b>For the Year Ended December 31,</b>					
	2019	2018	2017	2016	2015 (2)
<b>Operating Data</b>					
Total revenues	\$ 181,066	\$ 146,597	\$ 144,235	\$ 132,848	\$ 117,658
Net income (loss)	99,438	(1,614)	56,359	25,888	(10,992)
Net income (loss) attributable to common stockholders	99,140	(1,609)	53,374	21,882	(10,832)
Earnings (loss) per weighted average common share - basic	4.11	(0.08)	2.53	1.03	(0.51)
Earnings (loss) per weighted average common share - diluted	4.03	(0.08)	2.49	1.03	(0.51)
Weighted average common shares outstanding - basic	24,116	21,189	21,057	21,232	21,294
Weighted average common shares outstanding - diluted	24,593	21,667	21,399	21,314	21,294
<b>Cash Flow Data</b>					
Cash flows provided by operating activities	\$ 51,366	\$ 41,743	\$ 37,506	\$ 33,776	\$ 34,514
Cash flows provided by (used in) investing activities	(553,129)	(136,954)	2,324	(51,904)	(283,000)
Cash flows provided by (used in) financing activities	529,816	95,092	(51,843)	10,294	251,102
<b>Other Data</b>					
Dividends declared per common share	\$ 1.138	\$ 1.025	\$ 0.910	\$ 0.838	\$ 0.618
FFO attributable to common stockholders (3)	\$ 40,718	\$ 32,018	\$ 25,051	\$ 31,016	\$ 25,639
FFO per share - basic	1.69	1.51	1.19	1.46	1.20
FFO per share - diluted	1.66	1.48	1.17	1.46	1.20
Core FFO attributable to common stockholders (3)	\$ 47,573	\$ 35,081	\$ 30,147	\$ 31,485	\$ 28,944
Core FFO per share - basic	1.97	1.66	1.43	1.48	1.36
Core FFO per share - diluted	1.93	1.62	1.41	1.48	1.36
AFFO attributable to common stockholders (3)	\$ 54,213	\$ 40,753	\$ 34,772	\$ 33,593	\$ 29,933
AFFO per share - basic	2.25	1.92	1.65	1.58	1.41
AFFO per share - diluted	2.20	1.88	1.62	1.58	1.41

- (1) Includes amounts classified as held for sale, where applicable.
- (2) We began operations on March 31, 2015, as described above, and therefore we had no operating activities or earnings (loss) per share before March 31, 2015. However, for purposes of the consolidated statements of operations and comprehensive income, we have presented basic and diluted earnings (loss), FFO, Core FFO and AFFO per share as if the operating activities of our predecessor were those of us and assuming the shares outstanding at the date of the Spin-Off were outstanding for all periods prior to the Spin-Off.
- (3) FFO, Core FFO and AFFO are non-GAAP measures. For definitions of these non-GAAP measures, as well an explanation of why we believe these measures are useful and reconciliations to the most directly comparable GAAP financial measures, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*The following is a discussion and analysis of our financial condition and our historical results of operations. The following should be read in conjunction with our financial statements and accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected, forecasted, or expected in these forward-looking statements as a result of various factors, including, but not limited to, those discussed below and elsewhere in this annual report. See “Cautionary Statement Regarding Forward-Looking Statements” and “Risk Factors” in this annual report. Our management believes the assumptions underlying the Company’s financial statements and accompanying notes are reasonable. However, the Company’s financial statements and accompanying notes may not be an indication of our financial condition and results of operations in the future.*

### Overview

As of December 31, 2019, our Portfolio consisted of 40 multifamily properties primarily located in the Southeastern and Southwestern United States encompassing 14,724 units of apartment space that was approximately 94.2% leased with a weighted average monthly effective rent per occupied apartment unit of \$1,103. Substantially all of our business is conducted through the OP. We own the Portfolio through the OP and our TRS. The OP owns approximately 99.9% of the Portfolio; our TRS owns approximately 0.1% of the Portfolio. The OP GP is the sole general partner of the OP. As of December 31, 2019, there were 23,819,402 OP Units outstanding, of which 23,746,169, or 99.7%, were owned by us and 73,233, or 0.3%, were owned by an unaffiliated limited partner (see Note 10 to our consolidated financial statements).

We are primarily focused on 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. We generate revenue primarily by leasing our multifamily properties. We intend to employ targeted management and a value-add program at a majority of our properties in an attempt to improve rental rates and the NOI at our properties and achieve long-term capital appreciation for our stockholders. We are externally managed by the Adviser through the Advisory Agreement, by and among the OP, the Adviser and us. The Advisory Agreement was renewed on February 17, 2020 for a one-year term. The Adviser is wholly owned by NexPoint Advisors, L.P.

We began operations on March 31, 2015 as a result of the transfer and contribution by NHF of all but one of the multifamily properties owned by NHF through its wholly owned subsidiary NREO in exchange for 100% of its outstanding common stock. We use the term “predecessor” to mean the carve-out business of NREO, which owned all or a majority interest in the multifamily properties transferred or contributed to us by NHF through NREO. On March 31, 2015, NHF distributed all of the outstanding shares of our 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.” Substantially all of our operations were conducted by our predecessor prior to March 31, 2015. With the exception of a nominal amount of initial cash funded at inception, we did not own any assets prior to March 31, 2015. Our predecessor included all of the properties in our Portfolio that were held indirectly by NREO prior to the Spin-Off. Our predecessor was determined in accordance with the rules and regulations of the SEC. References throughout this report to the “Company,” “we,” or “our,” include the activity of the predecessor defined above.

On February 20, 2019, the Company, the OP and the Adviser entered into separate equity distribution agreements (“Equity Distribution Agreements”) with each of Jefferies LLC (“Jefferies”), Raymond James & Associates, Inc. (“Raymond James”) and SunTrust Robinson Humphrey, Inc. (“SunTrust” and together with Jefferies and Raymond James, the “Sales Agents”), pursuant to which the Company may issue and sell from time to time shares of the Company’s common stock, par value \$0.01 per share, having an aggregate sales price of up to \$100,000,000 (the “ATM Program”). Sales of shares of common stock under the ATM Program, if any, may be made in transactions that are deemed to be “at the market” offerings, as defined in Rule 415 under the Securities Act of 1933, as amended, including, without limitation, sales made by means of ordinary brokers’ transactions on the New York Stock Exchange, to or through a market maker at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices based on prevailing market prices. In addition to the issuance and sale of shares of common stock, the Company may enter into forward sale agreements with each of Jefferies and Raymond James, or their respective affiliates, through the ATM Program. During the three months ended December 31, 2019, the Company issued 445,835 shares of common stock at an average price of \$47.82 per share, for gross proceeds of approximately \$21.3 million and paid approximately \$0.3 million in fees to the Sales Agents. During the year ended December 31, 2019, the Company issued 1,565,322 shares of common stock at an average price of \$45.98 per share, for gross proceeds of approximately \$72.0 million. The Company paid approximately \$1.1 million in fees to the Sales Agents with respect to such sales and incurred other issuance costs of approximately \$1.0 million, both of which were netted against the gross proceeds and recorded in additional paid in capital. The ATM Program may be terminated by the Company at any time and expires automatically once aggregate sales under the ATM Program reach \$100,000,000 (see Note 8 to our consolidated financial statements).

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code, and expect to continue to qualify as a REIT. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income to our stockholders. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. We believe we qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we 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. We had no significant taxes associated with our TRS for the years ended December 31, 2019, 2018 and 2017.

## **Components of Our Revenues and Expenses**

### ***Revenues***

*Rental income.* Our earnings are primarily attributable to the rental revenue from our multifamily properties. We anticipate that the leases we enter into for our multifamily properties will typically be for one year or less on average. Also included are utility reimbursements, late fees, pet fees, and other rental fees charged to tenants.

*Other income.* Other income includes ancillary income earned from tenants such as non-refundable fees, application fees, laundry fees, cable TV income, and other miscellaneous fees charged to tenants.

### ***Expenses***

*Property operating expenses.* Property operating expenses include property maintenance costs, salary and employee benefit costs, utilities, casualty-related expenses and recoveries and other property operating costs.

*Real estate taxes and insurance.* Real estate taxes include the property taxes assessed by local and state authorities depending on the location of each property. Insurance includes the cost of commercial, general liability, and other needed insurance for each property.

*Property management fees.* Property management fees include fees paid to BH, our property manager, or other third party management companies for managing each property (see Note 10 to our consolidated financial statements).

*Advisory and administrative fees.* Advisory and administrative fees include the fees paid to our Adviser pursuant to the Advisory Agreement (see Note 11 to our consolidated financial statements).

*Corporate general and administrative expenses.* Corporate general and administrative expenses include, but are not limited to, audit fees, legal fees, listing fees, board of director fees, equity-based compensation expense, investor relations costs and payments of reimbursements to our Adviser for operating expenses. Corporate general and administrative expenses and the advisory and administrative fees paid to our Adviser (including advisory and administrative fees on properties defined in the Advisory Agreement as New Assets) will not exceed 1.5% of Average Real Estate Assets per calendar year (or part thereof that the Advisory Agreement is in effect), calculated in accordance with the Advisory Agreement, or the Expense Cap. The Expense Cap does not limit the reimbursement by us of expenses related to securities offerings paid by our Adviser. The Expense Cap also does not apply to legal, accounting, financial, due diligence, and other service fees incurred in connection with mergers and acquisitions, extraordinary litigation, or other events outside our ordinary course of business or any out-of-pocket acquisition or due diligence expenses incurred in connection with the acquisition or disposition of real estate assets. Additionally, in the sole discretion of the Adviser, the Adviser may elect to waive certain advisory and administrative fees otherwise due. If advisory and administrative fees are waived in a period, the waived fees for that period are considered to be waived permanently and the Adviser may not be reimbursed in the future.

*Property general and administrative expenses.* Property general and administrative expenses include the costs of marketing, professional fees, general office supplies, and other administrative related costs of each property.

*Depreciation and amortization.* Depreciation and amortization costs primarily include depreciation of our multifamily properties and amortization of acquired in-place leases.

### ***Other Income and Expense***

*Interest expense.* Interest expense primarily includes the cost of interest expense on debt, the amortization of deferred financing costs and the related impact of interest rate derivatives used to manage our interest rate risk.

*Loss on extinguishment of debt and modification costs.* Loss on extinguishment of debt and modification costs includes prepayment penalties and defeasance costs, the write-off of unamortized deferred financing costs and fair market value adjustments of assumed debt related to the early repayment of debt, costs incurred in a debt modification that are not capitalized as deferred financing costs and other costs incurred in a debt extinguishment.

*Casualty losses.* Casualty losses include expenses resulting from damages from an unexpected and unusual event such as a natural disaster. Expenses can include additional payments on insurance premiums, impairment recognized on a property, and other abnormal expenses arising from the related event.

*Miscellaneous income.* Miscellaneous income includes proceeds received from insurance for business interruption involving the loss of rental income at a property that has temporarily suspended operations due to an unexpected and unusual event.

*Gain on sales of real estate.* Gain on sales of real estate includes the gain recognized upon sales of properties. Gain on sales of real estate is calculated by deducting the carrying value of the real estate and costs incurred to sell the properties from the sales prices of the properties.

## Results of Operations for the Years Ended December 31, 2019, 2018 and 2017

### *The year ended December 31, 2019 as compared to the year ended December 31, 2018*

The following table sets forth a summary of our operating results for the years ended December 31, 2019 and 2018 (in thousands):

	For the Year Ended December 31,		\$ Change
	2019	2018	
Total revenues	\$ 181,066	\$ 146,597	\$ 34,469
Total expenses	(166,157)	(129,805)	(36,352)
Operating income before gain on sales of real estate	14,909	16,792	(1,883)
Gain on sales of real estate	127,684	13,742	113,942
Operating income	142,593	30,534	112,059
Interest expense	(37,385)	(28,572)	(8,813)
Loss on extinguishment of debt and modification costs	(2,869)	(3,576)	707
Casualty losses (1)	(3,488)	—	(3,488)
Miscellaneous income	587	—	587
Net income (loss)	99,438	(1,614)	101,052
Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	298	(5)	303
Net income (loss) attributable to common stockholders	<u>\$ 99,140</u>	<u>\$ (1,609)</u>	<u>\$ 100,749</u>

(1) Casualty losses for the year ended December 31, 2019 are related to tornado damage incurred at Cutter's Point on October 20, 2019 (see Note 5).

The change in our net income (loss) for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily relates to an increase in gain on sales of real estate and an increase in total revenues, and was partially offset by increases in total property operating expenses and depreciation and amortization expense. The change in our net income (loss) between the periods was also due to our acquisition and disposition activity in 2018 and 2019 and the timing of the transactions (we acquired three properties in the third quarter of 2018, and disposed of one property in the first quarter of 2018; we purchased three properties in the first quarter of 2019, one property in the second quarter of 2019, four properties in the third quarter of 2019, three properties in the fourth quarter of 2019, and disposed of six properties in the third quarter of 2019).

### **Revenues**

Rental income was \$177.2 million for the year ended December 31, 2019 compared to \$143.2 million for the year ended December 31, 2018, which was an increase of approximately \$34.0 million. The increase between the periods was primarily due to our acquisition and disposition activity in 2018 and 2019 and the timing of the transactions, as described above, and a 12.0% increase in the weighted average monthly effective rent per occupied apartment unit in our Portfolio to \$1,103 as of December 31, 2019 from \$985 as of December 31, 2018, primarily driven by the value-add program that we have implemented and organic growth in rents in the markets where our properties are located.

*Other income.* Other income was \$3.9 million for the year ended December 31, 2019 compared to \$3.4 million for the year ended December 31, 2018, which was an increase of approximately \$0.5 million. The increase between the periods was primarily due to a \$0.6 million increase in in cable TV income.

## **Expenses**

*Property operating expenses.* Property operating expenses were \$42.7 million for the year ended December 31, 2019 compared to \$35.8 million for the year ended December 31, 2018, which was an increase of approximately \$6.9 million. The increase between the periods was primarily due to our acquisition and disposition activity in 2018 and 2019 and the timing of the transactions, as described above. The increase between periods was also due to a \$3.1 million, or 16.5%, increase in payroll expenses.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$25.1 million for the year ended December 31, 2019 compared to \$20.7 million for the year ended December 31, 2018, which was an increase of approximately \$4.4 million. The increase between the periods was primarily due to a \$3.8 million, or 21%, increase in property taxes. Property taxes incurred in the first year of ownership may be significantly less than subsequent years since the purchase price of the property may trigger a significant increase in assessed value by the taxing authority in subsequent years, increasing the cost of real estate taxes.

*Property management fees.* Property management fees were \$5.4 million for the year ended December 31, 2019 compared to \$4.4 million for the year ended December 31, 2018, which was an increase of approximately \$1.0 million. The increase between the periods was primarily due to an increase in total revenues, which the fee is primarily based on.

*Advisory and administrative fees.* Advisory and administrative fees remained flat at \$7.5 million for the years ended December 31, 2019 and 2018. The amount incurred during the years ended December 31, 2019 and 2018 represents the maximum fee allowed on properties defined as Contributed Assets under the Advisory Agreement plus \$2.1 million and \$2.1 million, respectively, of advisory and administrative fees incurred on certain properties defined as New Assets. For the year ended December 31, 2019, our Adviser elected to voluntarily waive the advisory and administrative fees incurred on the 19 properties we acquired subsequent to October 2016, which totaled approximately \$9.1 million and are considered to be permanently waived. For the year ended December 31, 2018, our Adviser elected to voluntarily waive the advisory and administrative fees incurred on the eight properties we acquired subsequent to October 2016, which totaled approximately \$4.1 million and are considered to be permanently waived for the period. The advisory and administrative fees waived by our Adviser for the years ended December 31, 2019 and 2018 are considered to be permanently waived for the periods. Our Adviser is not contractually obligated to waive fees on New Assets in the future and may cease waiving fees on New Assets at its discretion. Advisory and administrative fees may increase in future periods as we acquire additional properties, which will be classified as New Assets.

*Corporate general and administrative expenses.* Corporate general and administrative expenses were \$9.6 million for the year ended December 31, 2019 compared to \$7.8 million for the year ended December 31, 2018, which was an increase of approximately \$1.8 million. The increase between the periods was primarily due to approximately \$5.1 million of equity-based compensation expense recognized during the year ended December 31, 2019 related to the grants of restricted stock units to our directors, officers, employees and certain key employees of our Adviser pursuant to our long-term incentive plan (the "2016 LTIP"), compared to \$4.2 million of equity-based compensation expense recognized during the year ended December 31, 2018 (see Note 8 to our consolidated financial statements). Subject to the Expense Cap, corporate general and administrative expenses may increase in future periods as we acquire additional properties.

*Property general and administrative expenses.* Property general and administrative expenses were \$6.8 million for the year ended December 31, 2019 compared to \$6.1 million for the year ended December 31, 2018, which was an increase of approximately \$0.7 million. The increase between the periods was primarily due to our acquisition and disposition activity in 2018 and 2019 and the timing of the transactions, as described above.

*Depreciation and amortization.* Depreciation and amortization costs were \$69.1 million for the year ended December 31, 2019 compared to \$47.5 million for the year ended December 31, 2018, which was an increase of approximately \$21.6 million. The increase between the periods was primarily due to the amortization of intangible lease assets of \$12.7 million related to 14 properties for the year ended December 31, 2019 compared to \$2.5 million related to four properties for the year ended December 31, 2018, which was an increase of approximately \$10.3 million. The amortization of intangible lease assets over a six-month period from the date of acquisition is expected to increase the amortization expense during the initial year of operations for each property.

### Other Income and Expense

*Interest expense.* Interest expense was \$37.4 million for the year ended December 31, 2019 compared to \$28.6 million for the year ended December 31, 2018, which was an increase of approximately \$8.8 million. The increase between the periods was primarily due to an increase in interest on debt of approximately \$10.9 million, partially offset by a decrease in interest rate swap expense of \$2.2 million. The following table details the various costs included in interest expense for the years ended December 31, 2019 and 2018 (in thousands):

	For the Year Ended December 31,		\$ Change
	2019	2018	
Interest on debt	\$ 41,744	\$ 30,870	\$ 10,874
Amortization of deferred financing costs	2,083	1,650	433
Interest rate swaps	(6,472)	(4,224)	(2,248)
Interest rate caps expense	30	276	(246)
Total	<u>\$ 37,385</u>	<u>\$ 28,572</u>	<u>\$ 8,813</u>

*Loss on extinguishment of debt and modification costs.* Loss on extinguishment of debt and modification costs was \$2.9 million for the year ended December 31, 2019 compared to \$3.6 million for the year ended December 31, 2018, which was a decrease of approximately \$0.7 million. The decrease between periods was primarily due to a decrease in debt modification and other extinguishment costs of \$0.5 million. The following table details the various costs included in loss on extinguishment of debt and modification costs for the years ended December 31, 2019 and 2018 (in thousands):

	For the Year Ended December 31,		\$ Change
	2019	2018	
Prepayment penalties and defeasance costs	\$ 1,449	\$ 1,706	\$ (257)
Write-off of deferred financing costs	1,419	1,412	7
Write-off of fair market value adjustment of assumed debt	—	(27)	27
Debt modification and other extinguishment costs	1	485	(484)
Total	<u>\$ 2,869</u>	<u>\$ 3,576</u>	<u>\$ (707)</u>

*Casualty losses.* Casualty losses were \$3.5 million for the year ended December 31, 2019; there were no casualty losses for the year ended December 31, 2018. This is related to significant damages sustained at Cutter's Point due to a tornado hitting the property (see Note 5).

*Miscellaneous income.* Miscellaneous income was \$0.6 million for the year ended December 31, 2019; there was no miscellaneous income for the year ended December 31, 2018. This is related to business interruption proceeds received from insurance for lost rents at Cutter's Point (see Note 5).

*Gain on sales of real estate.* Gain on sales of real estate was \$127.7 million for the year ended December 31, 2019 compared to \$13.7 million for the year ended December 31, 2018, which was an increase of approximately \$114.0 million. During the year ended December 31, 2019, we sold six properties; during the year ended December 31, 2018, we sold one property.



***The year ended December 31, 2018 as compared to the year ended December 31, 2017***

The following table sets forth a summary of our operating results for the years ended December 31, 2018 and 2017 (in thousands):

	For the Year Ended December 31,		\$ Change
	2018	2017	
Total revenues	\$ 146,597	\$ 144,235	\$ 2,362
Total expenses	(129,805)	(130,946)	1,141
Operating income	16,792	13,289	3,503
Interest expense	(28,572)	(29,576)	1,004
Loss on extinguishment of debt and modification costs	(3,576)	(5,719)	2,143
Gain on sales of real estate	13,742	78,365	(64,623)
Net income (loss)	(1,614)	56,359	(57,973)
Net income attributable to noncontrolling interests	—	2,836	(2,836)
Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	(5)	149	(154)
Net income (loss) attributable to common stockholders	<u>\$ (1,609)</u>	<u>\$ 53,374</u>	<u>\$ (54,983)</u>

The change in our net income (loss) for the year ended December 31, 2018 as compared to the year ended December 31, 2017 primarily relates to a decrease in gain on sales of real estate, and was partially offset by an increase in total revenues and decreases in total property operating expenses, depreciation and amortization expense and loss on extinguishment of debt and modification costs. The change in our net income (loss) between the periods was also due to our acquisition and disposition activity in 2017 and 2018 and the timing of the transactions (we acquired one property in the first quarter of 2017, one property in the second quarter of 2017, one property in the fourth quarter of 2017 and three properties in the third quarter of 2018; we sold four properties in the second quarter of 2017, five properties in the third quarter of 2017 and one property in the first quarter of 2018).

***Revenues***

*Rental income.* Rental income was \$143.2 million for the year ended December 31, 2018 compared to \$140.9 million for the year ended December 31, 2017, which was an increase of approximately \$2.3 million. The increase between the periods was primarily due to our acquisition and disposition activity in 2017 and 2018 and the timing of the transactions, as described above, and a 3.9% increase in the weighted average monthly effective rent per occupied apartment unit in our Portfolio to \$985 as of December 31, 2018 from \$948 as of December 31, 2017, primarily driven by the value-add program that we have implemented and organic growth in rents in the markets where our properties are located. The increase between the periods was also due to an increase in the occupancy rate of our Portfolio of 0.8% to 94.6% as of December 31, 2018 from 93.8% as of December 31, 2017.

*Other income.* Other income was \$3.4 million for the year ended December 31, 2018 and remained flat at \$3.4 million for the year ended December 31, 2017.

***Expenses***

*Property operating expenses.* Property operating expenses were \$35.8 million for the year ended December 31, 2018 compared to \$38.9 million for the year ended December 31, 2017, which was a decrease of approximately \$3.1 million. The decrease between the periods was primarily due to our acquisition and disposition activity in 2017 and 2018 and the timing of the transactions, as described above. The decrease between the periods was also due to a \$1.5 million, or 13.5%, decrease in utility costs and a \$0.8 million, or 4.8%, decrease in labor costs.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$20.7 million for the year ended December 31, 2018 compared to \$19.2 million for the year ended December 31, 2017, which was an increase of approximately \$1.5 million. The increase between the periods was primarily due to a \$1.5 million, or 9.4%, increase in property taxes. Property taxes incurred in the first year of ownership may be significantly less than subsequent years since the purchase price of the property may trigger a significant increase in assessed value by the taxing authority in subsequent years, increasing the cost of real estate taxes.

*Property management fees.* Property management fees were \$4.4 million for the year ended December 31, 2018 compared to \$4.3 million for the year ended December 31, 2017, which was an increase of approximately \$0.1 million. The increase between the periods was primarily due to an increase in total revenues, which the fee is primarily based on.

*Advisory and administrative fees.* Advisory and administrative fees were \$7.5 million for the year ended December 31, 2018 compared to \$7.4 million for the year ended December 31, 2017, which was an increase of approximately \$0.1 million. The amount incurred during the years ended December 31, 2018 and 2017 represents the maximum fee allowed on properties defined as Contributed Assets under the Advisory Agreement plus approximately \$2.1 million and \$2.0 million, respectively, of advisory and administrative fees incurred on certain properties defined as New Assets. For the year ended December 31, 2018, our Adviser elected to voluntarily waive the advisory and administrative fees incurred on the eight properties we acquired subsequent to October 2016, which totaled approximately \$4.1 million. For the year ended December 31, 2017, our Adviser elected to voluntarily waive the advisory and administrative fees incurred on the five properties we acquired subsequent to October 2016, which totaled approximately \$2.4 million. The advisory and administrative fees waived by our Adviser for the years ended December 31, 2018 and 2017 are considered to be permanently waived for the periods. Our Adviser is not contractually obligated to waive fees on New Assets in the future and may cease waiving fees on New Assets at its discretion. Advisory and administrative fees may increase in future periods as we acquire additional properties, which will be classified as New Assets.

*Corporate general and administrative expenses.* Corporate general and administrative expenses were \$7.8 million for the year ended December 31, 2018 compared to \$6.3 million for the year ended December 31, 2017, which was an increase of approximately \$1.5 million. The increase between the periods was primarily due to approximately \$4.2 million of equity-based compensation expense recognized during the year ended December 31, 2018 related to the grants of restricted stock units to our directors, officers, employees and certain key employees of our Adviser pursuant to our 2016 LTIP, compared to \$3.1 million of equity-based compensation expense recognized during the year ended December 31, 2017 (see Note 8 to our consolidated financial statements). Subject to the Expense Cap, corporate general and administrative expenses may increase in future periods as we acquire additional properties.

*Property general and administrative expenses.* Property general and administrative expenses were \$6.1 million for the year ended December 31, 2018 compared to \$6.2 million for the year ended December 31, 2017, which was a decrease of approximately \$0.1 million. The decrease between the periods was primarily due to our acquisition and disposition activity in 2017 and 2018 and the timing of the transactions, as described above.

*Depreciation and amortization.* Depreciation and amortization costs were \$47.5 million for the year ended December 31, 2018 compared to \$48.8 million for the year ended December 31, 2017, which was a decrease of approximately \$1.3 million. The decrease between the periods was primarily due to the amortization of intangible lease assets of \$2.5 million related to four properties for the year ended December 31, 2018 compared to \$8.9 million related to seven properties for the year ended December 31, 2017, which was a decrease of approximately \$6.4 million. The decrease between the periods was partially offset by a \$5.1 million increase in depreciation expense, primarily due to our acquisition activity in 2017 and 2018 and the timing of the transactions, as described above. The amortization of intangible lease assets over a six-month period from the date of acquisition is expected to increase the amortization expense during the initial year of operations for each property.

### **Other Income and Expense**

*Interest expense.* Interest expense was \$28.6 million for the year ended December 31, 2018 compared to \$29.6 million for the year ended December 31, 2017, which was a decrease of approximately \$1.0 million. The decrease between the periods was primarily due to an increase in gain recognized related to the effective portion of changes in fair value of our interest rate swap derivatives designated as cash flow hedges of approximately \$5.3 million (see “Debt, Derivatives and Hedging Activity – Interest Rate Swap Agreements” below). The decrease between the periods was partially offset by an increase in interest on debt of approximately \$4.6 million. The following table details the various costs included in interest expense for the years ended December 31, 2018 and 2017 (in thousands):

	<b>For the Year Ended December 31,</b>		<b>\$ Change</b>
	<b>2018</b>	<b>2017</b>	
Interest on debt	\$ 30,870	\$ 26,268	\$ 4,602
Amortization of deferred financing costs	1,650	1,995	(345)
Interest rate swaps - effective portion	(4,224)	1,113	(5,337)
Interest rate swaps - ineffective portion	(1) —	(309)	309
Interest rate caps expense	276	509	(233)
Total	<u>\$ 28,572</u>	<u>\$ 29,576</u>	<u>\$ (1,004)</u>

- (1) Prior to our adoption of ASU 2017-12, Derivatives and Hedging (Topic 815) (“ASU 2017-12”) on January 1, 2018, the ineffective portion of changes in the fair value of our 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 other comprehensive income (“OCI”). See Notes 2 and 7 to our consolidated financial statements for additional information.

*Loss on extinguishment of debt and modification costs.* Loss on extinguishment of debt and modification costs was \$3.6 million for the year ended December 31, 2018 compared to \$5.7 million for the year ended December 31, 2017, which was a decrease of approximately \$2.1 million. The decrease between the periods was primarily due to decreases in debt modification and other extinguishment costs of approximately \$1.5 million and prepayment penalties and defeasance costs of approximately \$1.0 million. The following table details the various costs included in loss on extinguishment of debt and modification costs for the years ended December 31, 2018 and 2017 (in thousands):

	For the Year Ended December 31,		\$ Change
	2018	2017	
Prepayment penalties and defeasance costs	\$ 1,706	\$ 2,701	\$ (995)
Write-off of deferred financing costs	1,412	1,003	409
Write-off of fair market value adjustment of assumed debt	(27)	—	(27)
Debt modification and other extinguishment costs	485	2,015	(1,530)
Total	<u>\$ 3,576</u>	<u>\$ 5,719</u>	<u>\$ (2,143)</u>

*Gain on sales of real estate.* Gain on sales of real estate was \$13.7 million for the year ended December 31, 2018 compared to \$78.4 million for the year ended December 31, 2017, which was a decrease of approximately \$64.7 million. During the year ended December 31, 2018, we sold one property; during the year ended December 31, 2017, we sold nine properties.

## Non-GAAP Measurements

### *Net Operating Income and Same Store Net Operating Income*

NOI is a non-GAAP financial measure of performance. NOI is used by investors and our management to evaluate and compare the performance of our properties to other comparable properties, to determine trends in earnings and to compute the fair value of our properties as NOI is not affected by (1) the cost of funds, (2) acquisition costs, (3) advisory and administrative fees, (4) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP and gains or losses on extinguishment of debt and modification costs, (5) corporate general and administrative expenses, (6) other gains and losses that are specific to us, (7) casualty-related expenses/(recoveries) and casualty losses, (8) property general and administrative expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees and (9) miscellaneous income.

The cost of funds is eliminated from net income (loss) because it is specific to our particular financing capabilities and constraints. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Acquisition costs and non-operating fees to affiliates are eliminated because they do not reflect continuing operating costs of the property owner. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our multifamily properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is reasonably captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Extinguishment of debt and modification costs are excluded because renegotiations of terms in existing loans are rare. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale, which will usually change from period to period. Casualty-related expenses and recoveries are excluded because they do not reflect continuing operating costs of the property owner. Casualty losses are excluded because of the infrequent and unusual nature of the sustained damages. Miscellaneous income is excluded because of the infrequent and usual nature of the gains. Entity level general and administrative expenses incurred at the properties are eliminated as they are specific to the way in which we have chosen to hold our properties and are the result of our ownership structuring. Also, expenses that are incurred upon acquisition of a property do not reflect continuing operating costs of the property owner. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these items from net income is useful because the resulting measure captures the actual ongoing revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes corporate general and administrative expenses, interest expense, loss on extinguishment of debt and modification costs, acquisition costs, casualty losses, miscellaneous income, certain fees to affiliates such as advisory and administrative fees, depreciation and amortization expense, gains or losses from the sale of properties, and other gains and losses as determined under GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income, which further limits its usefulness.

NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income (loss) as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income (loss) computed in accordance with GAAP and discussions elsewhere in “—Results of Operations” regarding the components of net income (loss) that are eliminated in the calculation of NOI. Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

We define “Same Store NOI” as NOI for our properties that are comparable between periods. We view Same Store NOI as an important measure of the operating performance of our properties because it allows us to compare operating results of properties owned for the entirety of the current and comparable periods and therefore eliminates variations caused by acquisitions or dispositions during the periods.

### Net Operating Income for Our 2018-2019 Same Store and Non-Same Store Properties for the Years Ended December 31, 2019 and 2018

There are 25 properties encompassing 9,057 units of apartment space in our same store pool for the years ended December 31, 2019 and 2018 (our “2018-2019 Same Store” properties). Our 2018-2019 Same Store properties exclude the following 15 properties in our Portfolio as of December 31, 2019: Cedar Pointe, Crestmont Reserve, Brandywine I & II, Bella Vista, The Enclave, The Heritage, Summers Landing, Residences at Glenview Reserve, Residences at West Place, Avant at Pembroke Pines, Arbors of Brentwood, Torreyana, Bloom, Bella Solara and Cutter’s Point, which has suspended operations to undergo reconstruction due to damages sustained (see Note 5).

The following table reflects the revenues, property operating expenses and NOI for the years ended December 31, 2019 and 2018 for our 2018-2019 Same Store and Non-Same Store properties (dollars in thousands):

	For the Year Ended December 31,		\$ Change	% Change
	2019	2018		
<b>Revenues</b>				
Same Store				
Rental income	\$ 116,313	\$ 110,902	\$ 5,411	4.9%
Other income	2,324	2,824	(500)	-17.7%
Same Store revenues	118,637	113,726	4,911	4.3%
Non-Same Store				
Rental income	60,849	32,256	28,593	88.6%
Other income	1,580	615	965	156.9%
Non-Same Store revenues	62,429	32,871	29,558	89.9%
Total revenues	181,066	146,597	34,469	23.5%
<b>Operating expenses</b>				
Same Store				
Property operating expenses (1)	28,255	27,676	579	2.1%
Real estate taxes and insurance	17,317	17,127	190	1.1%
Property management fees (2)	3,543	3,391	152	4.5%
Property general and administrative expenses (3)	3,561	3,737	(176)	-4.7%
Same Store operating expenses	52,676	51,931	745	1.4%
Non-Same Store				
Property operating expenses (4)	14,471	8,811	5,660	64.2%
Real estate taxes and insurance	7,796	3,586	4,210	117.4%
Property management fees (2)	1,845	991	854	86.2%
Property general and administrative expenses (5)	1,687	1,103	584	52.9%
Non-Same Store operating expenses	25,799	14,491	11,308	78.0%
Total operating expenses	78,475	66,422	12,053	18.1%
<b>NOI</b>				
Same Store	65,961	61,795	4,166	6.7%
Non-Same Store	36,630	18,380	18,250	99.3%
<b>Total NOI</b>	<b>\$ 102,591</b>	<b>\$ 80,175</b>	<b>\$ 22,416</b>	<b>28.0%</b>

(1) For the years ended December 31, 2019 and 2018, excludes approximately \$48,000 and \$752,000, respectively, of casualty-related recoveries.

- (2) Fees incurred to an unaffiliated third party that is an affiliate of the noncontrolling limited partner of the OP.
- (3) For the years ended December 31, 2019 and 2018, excludes approximately \$769,000 and \$843,000, respectively, of expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees.
- (4) For the years ended December 31, 2019 and 2018, excludes approximately \$14,000 and \$89,000, respectively, of casualty-related expenses.
- (5) For the years ended December 31, 2019 and 2018, excludes approximately \$748,000 and \$451,000, respectively, of expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees.

See reconciliation of net income (loss) to NOI below under “NOI and 2018-2019 Same Store NOI for the Years Ended December 31, 2019 and 2018.”

### ***2018-2019 Same Store Results of Operations for the Years Ended December 31, 2019 and 2018***

As of December 31, 2019, our 2018-2019 Same Store properties were approximately 94.5% leased with a weighted average monthly effective rent per occupied apartment unit of \$1,038. As of December 31, 2018, our 2018-2019 Same Store properties were approximately 94.8% leased with a weighted average monthly effective rent per occupied apartment unit of \$1,002. For our 2018-2019 Same Store properties, we recorded the following operating results for the year ended December 31, 2019 as compared to the year ended December 31, 2018:

#### ***Revenues***

*Rental income.* Rental income was \$116.3 million for the year ended December 31, 2019 compared to \$110.9 million for the year ended December 31, 2018, which was an increase of approximately \$5.4 million, or 4.9%. The majority of the increase is related to a 3.6% increase in the weighted average monthly effective rent per occupied apartment unit to \$1,038 as of December 31, 2019 from \$1,002 as of December 31, 2018.

*Other income.* Other income was \$2.3 million for the year ended December 31, 2019 compared to \$2.8 million for the year ended December 31, 2018, which was a decrease of approximately \$0.5 million, or 17.7%. The majority of the decrease is related to a \$0.5 million decrease in non-refundable fees.

#### ***Expenses***

*Property operating expenses.* Property operating expenses were \$28.3 million for the year ended December 31, 2019 compared to \$27.7 million for the year ended December 31, 2018, which was an increase of approximately \$0.6 million, or 2.1%. The majority of the increase is related to a \$0.6 million, or 6.7%, increase in repairs and maintenance costs.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$17.3 million for the year ended December 31, 2019 compared to \$17.1 million for the year ended December 31, 2018, which was an increase of approximately \$0.2 million, or 1.1%. The majority of the increase is related to a \$0.5 million, or 3.4%, increase in property taxes, partially offset by a \$0.3 million, or 13.1%, decrease in insurance expense.

*Property management fees.* Property management fees were \$3.5 million for the year ended December 31, 2019 compared to \$3.4 million for the year ended December 31, 2018, which was an increase of approximately \$0.1 million, or 4.5%. The majority of the increase is related to an increase in total revenues, which the fee is primarily based on.

*Property general and administrative expenses.* Property general and administrative expenses were \$3.6 million for the year ended December 31, 2019 compared to \$3.7 million for the year ended December 31, 2018, which was a decrease of approximately \$0.1 million, or 4.7%. The majority of the decrease is related to a \$0.1 million, or 9.5%, decrease in marketing costs.

### **Net Operating Income for Our 2017-2019 Same Store and Non-Same Store Properties for the Years Ended December 31, 2019, 2018 and 2017**

There are 22 properties encompassing 7,709 units of apartment space in our same store pool for the years ended December 31, 2019, 2018 and 2017 (our “2017-2019 Same Store” properties). Our 2017-2019 Same Store properties exclude the following 18 properties in our Portfolio as of December 31, 2019: Hollister Place, Rockledge Apartments, Atera Apartments, Cedar Pointe, Crestmont Reserve, Brandywine I & II, Bella Vista, The Enclave, The Heritage, Summers Landing, Residences at Glenview Reserve, Residences at West Place, Avant at Pembroke Pines, Arbors of Brentwood, Torreyana, Bloom, Bella Solara and Cutter’s Point, which has suspended operations to undergo reconstruction due to damages sustained (see Note 5).

The following table reflects the revenues, property operating expenses and NOI for the years ended December 31, 2019, 2018 and 2017 for our 2017-2019 Same Store and Non-Same Store properties (dollars in thousands):

	For the Year Ended December 31,			2019 compared to 2018		2018 compared to 2017	
	2019	2018	2017	\$ Change	% Change	\$ Change	% Change
<b>Revenues</b>							
<b>Same Store</b>							
Rental income	\$ 96,703	\$ 92,141	\$ 88,167	\$ 4,562	5.0%	\$ 3,974	4.5%
Other income	2,003	2,469	2,257	(466)	-18.9%	212	9.4%
Same Store revenues	98,706	94,610	90,424	4,096	4.3%	4,186	4.6%
<b>Non-Same Store</b>							
Rental income	80,459	51,017	52,715	29,442	57.7%	(1,698)	-3.2%
Other income	1,901	970	1,096	931	96.0%	(126)	-11.5%
Non-Same Store revenues	82,360	51,987	53,811	30,373	58.4%	(1,824)	-3.4%
Total revenues	181,066	146,597	144,235	34,469	23.5%	2,362	1.6%
<b>Operating expenses</b>							
<b>Same Store</b>							
Property operating expenses (1)	24,162	23,573	23,878	589	2.5%	(305)	-1.3%
Real estate taxes and insurance	13,564	13,145	12,505	419	3.2%	640	5.1%
Property management fees (2)	2,970	2,840	2,720	130	4.6%	120	4.4%
Property general and administrative expenses (3)	3,023	3,162	3,117	(139)	-4.4%	45	1.4%
Same Store operating expenses	43,719	42,720	42,220	999	2.3%	500	1.2%
<b>Non-Same Store</b>							
Property operating expenses (4)	18,564	12,914	15,259	5,650	43.8%	(2,345)	-15.4%
Real estate taxes and insurance	11,549	7,568	6,656	3,981	52.6%	912	13.7%
Property management fees (2)	2,418	1,542	1,610	876	56.8%	(68)	-4.2%
Property general and administrative expenses (5)	2,225	1,678	1,912	547	32.6%	(234)	-12.2%
Non-Same Store operating expenses	34,756	23,702	25,437	11,054	46.6%	(1,735)	-6.8%
Total operating expenses	78,475	66,422	67,657	12,053	18.1%	(1,235)	-1.8%
<b>NOI</b>							
Same Store	54,987	51,890	48,204	3,097	6.0%	3,686	7.6%
Non-Same Store	47,604	28,285	28,374	19,319	68.3%	(89)	-0.3%
<b>Total NOI</b>	<b>\$ 102,591</b>	<b>\$ 80,175</b>	<b>\$ 76,578</b>	<b>\$ 22,416</b>	<b>28.0%</b>	<b>\$ 3,597</b>	<b>4.7%</b>

- (1) For the years ended December 31, 2019, 2018 and 2017, excludes approximately \$72,000, \$743,000 and \$338,000, respectively, of casualty-related recoveries.
- (2) Fees incurred to an unaffiliated third party that is an affiliate of the noncontrolling limited partner of the OP.
- (3) For the years ended December 31, 2019, 2018 and 2017, excludes approximately \$658,000, \$742,000 and \$750,000, respectively, of expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees.
- (4) For the years ended December 31, 2019, 2018 and 2017, excludes approximately \$38,000, \$80,000 and \$51,000, respectively, of casualty-related expenses.
- (5) For the years ended December 31, 2019, 2018 and 2017, excludes approximately \$859,000, \$552,000 and \$380,000, respectively, of expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees.

See reconciliation of net income (loss) to NOI below under “NOI and 2017-2019 Same Store NOI for the Years Ended December 31, 2019, 2018 and 2017.”

#### **2017-2019 Same Store Results of Operations for the Years Ended December 31, 2019 and 2018**

As of December 31, 2019, our 2017-2019 Same Store properties were approximately 94.5% leased with a weighted average monthly effective rent per occupied apartment unit of \$1,008. As of December 31, 2018, our 2017-2019 Same Store properties were approximately 94.7% leased with a weighted average monthly effective rent per occupied apartment unit of \$974. For our 2017-2019 Same Store properties, we recorded the following operating results for the year ended December 31, 2019 as compared to the year ended December 31, 2018:

## **Revenues**

*Rental income.* Rental income was \$96.7 million for the year ended December 31, 2019 compared to \$92.1 million for the year ended December 31, 2018, which was an increase of approximately \$4.6 million, or 5.0%. The majority of the increase is related to a 3.5% increase in the weighted average monthly effective rent per occupied apartment unit to \$1,008 as of December 31, 2019 from \$974 as of December 31, 2018, partially offset by a 0.2% decrease in occupancy.

*Other income.* Other income was \$2.0 million for the year ended December 31, 2019 compared to \$2.5 million for the year ended December 31, 2018, which was a decrease of approximately \$0.5 million, or 18.9%. The majority of the decrease is related to a \$0.5 million decrease in non-refundable fees.

## **Expenses**

*Property operating expenses.* Property operating expenses were \$24.2 million for the year ended December 31, 2019 compared to \$23.6 million for the year ended December 31, 2018, which was an increase of approximately \$0.6 million, or 2.5%. The majority of the increase is related to increases in repairs and maintenance costs of \$0.6 million.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$13.6 million for the year ended December 31, 2019 compared to \$13.1 million for the year ended December 31, 2018, which was an increase of approximately \$0.5 million, or 3.2%. The majority of the increase is related to a \$0.7 million, or 6.3%, increase in property taxes.

*Property management fees.* Property management fees were \$3.0 million for the year ended December 31, 2019 compared to \$2.8 million for the year ended December 31, 2018, which was an increase of approximately \$0.2 million, or 4.6%. The majority of the increase is related to an increase in total revenues, which the fee is primarily based on.

*Property general and administrative expenses.* Property general and administrative expenses were \$3.0 million for the year ended December 31, 2019 compared to \$3.2 million for the year ended December 31, 2018, which was a decrease of approximately \$0.2 million, or 4.4%. The majority of the decrease is related to a \$0.1 million decrease in marketing expenses.

## **2017-2019 Same Store Results of Operations for the Years Ended December 31, 2018 and 2017**

As of December 31, 2018, our 2017-2019 Same Store properties were approximately 94.7% leased with a weighted average monthly effective rent per occupied apartment unit of \$974. As of December 31, 2017, our 2017-2019 Same Store properties were approximately 94.2% leased with a weighted average monthly effective rent per occupied apartment unit of \$931. For our 2017-2019 Same Store properties, we recorded the following operating results for the year end December 31, 2018 as compared to the year ended December 31, 2017:

## **Revenues**

*Rental income.* Rental income was \$92.1 million for the year ended December 31, 2018 compared to \$88.2 million for the year ended December 31, 2017, which was an increase of approximately \$3.9 million, or 4.5%. The majority of the increase is related to a 4.6% increase in the weighted average monthly effective rent per occupied apartment unit to \$974 as of December 31, 2018 from \$931 as of December 31, 2017, as well as a 0.5% increase in occupancy.

*Other income.* Other income was \$2.5 million for the year ended December 31, 2018 compared to \$2.3 million for the year ended December 31, 2017, which was an increase of approximately \$0.2 million, or 9.4%. The majority of the increase is related to a \$0.5 million increase in non-refundable fees.

## **Expenses**

*Property operating expenses.* Property operating expenses were \$23.6 million for the year ended December 31, 2018 compared to \$23.9 million for the year ended December 31, 2017, which was a decrease of approximately \$0.3 million, or 1.3%. The majority of the decrease is related to a \$0.6 million, or 9.4%, decrease in utilities costs.

*Real estate taxes and insurance.* Real estate taxes and insurance costs were \$13.1 million for the year ended December 31, 2018 compared to \$12.5 million for the year ended December 31, 2017, which was an increase of approximately \$0.6 million, or 5.1%. The majority of the increase is related to a \$0.5 million, or 4.6%, increase in property taxes.

*Property management fees.* Property management fees were \$2.8 million for the year ended December 31, 2018 compared to \$2.7 million for the year ended December 31, 2017, which was an increase of approximately \$0.1 million, or 4.4%. The majority of the increase is related to an increase in total revenues, which the fee is primarily based on.

*Property general and administrative expenses.* Property general and administrative expenses were \$3.2 million for the year ended December 31, 2018 compared to \$3.1 million for the year ended December 31, 2017, which was an increase of approximately \$0.1 million, or 1.4%.

**NOI and 2018-2019 Same Store NOI for the Years Ended December 31, 2019 and 2018**

The following table, which has not been adjusted for the effects of noncontrolling interests, reconciles our NOI and our 2018-2019 Same Store NOI for the years ended December 31, 2019 and 2018 to net income (loss), the most directly comparable GAAP financial measure (in thousands):

	For the Year Ended December 31,	
	2019	2018
Net income (loss)	\$ 99,438	\$ (1,614)
Adjustments to reconcile net income (loss) to NOI:		
Advisory and administrative fees	7,500	7,474
Corporate general and administrative expenses	9,613	7,808
Casualty-related recoveries	(1) (34)	(663)
Casualty losses	3,488	—
Miscellaneous income	(587)	—
Property general and administrative expenses	(2) 1,517	1,294
Depreciation and amortization	69,086	47,470
Interest expense	37,385	28,572
Loss on extinguishment of debt and modification costs	2,869	3,576
Gain on sales of real estate	(127,684)	(13,742)
<b>NOI</b>	<b>\$ 102,591</b>	<b>\$ 80,175</b>
Less Non-Same Store		
Revenues	(62,429)	(32,871)
Operating expenses	25,799	14,491
<b>Same Store NOI</b>	<b>\$ 65,961</b>	<b>\$ 61,795</b>

- (1) Adjustment to net income (loss) to exclude certain property operating expenses that are casualty-related expenses/(recoveries).  
(2) Adjustment to net income (loss) to exclude certain property general and administrative expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees.

**NOI and 2017-2019 Same Store NOI for the Years Ended December 31, 2019, 2018 and 2017**

The following table, which has not been adjusted for the effects of noncontrolling interests, reconciles our NOI and our 2017-2019 Same Store NOI for the years ended December 31, 2019, 2018 and 2017 to net income (loss), the most directly comparable GAAP financial measure (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Net income (loss)	\$ 99,438	\$ (1,614)	\$ 56,359
Adjustments to reconcile net income (loss) to NOI:			
Advisory and administrative fees	7,500	7,474	7,419
Corporate general and administrative expenses	9,613	7,808	6,275
Casualty-related recoveries	(1) (34)	(663)	(287)
Casualty losses	3,488	—	—
Miscellaneous income	(587)	—	—
Property general and administrative expenses	(2) 1,517	1,294	1,130
Depreciation and amortization	69,086	47,470	48,752
Interest expense	37,385	28,572	29,576
Loss on extinguishment of debt and modification costs	2,869	3,576	5,719
Gain on sales of real estate	(127,684)	(13,742)	(78,365)
<b>NOI</b>	<b>\$ 102,591</b>	<b>\$ 80,175</b>	<b>\$ 76,578</b>
Less Non-Same Store			
Revenues	(82,360)	(51,987)	(53,811)
Operating expenses	34,756	23,702	25,437
<b>Same Store NOI</b>	<b>\$ 54,987</b>	<b>\$ 51,890</b>	<b>\$ 48,204</b>

- (1) Adjustment to net income (loss) to exclude certain property operating expenses that are casualty-related expenses/(recoveries).



- (2) Adjustment to net income (loss) to exclude certain property general and administrative expenses that are not reflective of the continuing operations of the properties or are incurred on our behalf at the property for expenses such as legal, professional and franchise tax fees.

### ***FFO, Core FFO and AFFO***

We believe that net income, as defined by GAAP, is the most appropriate earnings measure. We also believe that funds from operations (“FFO”), as defined by the National Association of Real Estate Investment Trusts (“NAREIT”), core funds from operations (“Core FFO”) and adjusted funds from operations (“AFFO”) are important non-GAAP supplemental measures of operating performance for a REIT.

Since the historical cost accounting convention used for real estate assets requires depreciation except on land, such accounting presentation implies that the value of real estate assets diminishes predictably over time. However, since real estate values have historically risen or fallen with market and other conditions, presentations of operating results for a REIT that use historical cost accounting for depreciation could be less informative. Thus, NAREIT created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. FFO is defined by NAREIT as net income computed in accordance with GAAP, excluding gains or losses from real estate dispositions, plus real estate depreciation and amortization and impairment charges. We compute FFO attributable to common stockholders in accordance with NAREIT’s definition. Our presentation differs slightly in that we begin with net income (loss) before adjusting for amounts attributable to redeemable noncontrolling interests in the OP and we show the combined amounts attributable to such noncontrolling interests as an adjustment to arrive at FFO attributable to common stockholders.

Core FFO makes certain adjustments to FFO, which are either not likely to occur on a regular basis or are otherwise not representative of the ongoing operating performance of our portfolio. Core FFO adjusts FFO to remove items such as losses on extinguishment of debt and modification costs (including prepayment penalties and defeasance costs incurred on the early repayment of debt, the write-off of unamortized deferred financing costs and fair market value adjustments of assumed debt related to the early repayment of debt, costs incurred in a debt modification that are not capitalized as deferred financing costs and other costs incurred in a debt extinguishment), casualty-related expenses and recoveries, casualty losses, changes in fair value on derivative instruments-ineffective portion, the amortization of deferred financing costs incurred in connection with obtaining short-term debt financing, and the noncontrolling interests (as described above) related to these items. We believe Core FFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other REITs that are not as involved in the aforementioned activities.

AFFO makes certain adjustments to Core FFO in order to arrive at a more refined measure of the operating performance of our portfolio. There is no industry standard definition of AFFO and practice is divergent across the industry. AFFO adjusts Core FFO to remove items such as equity-based compensation expense and the amortization of deferred financing costs incurred in connection with obtaining long-term debt financing, and the noncontrolling interests (as described above) related to these items. We believe AFFO is useful to investors as a supplemental gauge of our operating performance and is useful in comparing our operating performance with other REITs that are not as involved in the aforementioned activities.

The effect of the conversion of OP Units held by noncontrolling limited partners is not reflected in the computation of basic and diluted FFO, Core FFO and AFFO per share, as they are exchangeable for common stock on a one-for-one basis. The FFO, Core FFO and AFFO allocable to such units is allocated on this same basis and reflected in the adjustments for noncontrolling interests in the table below. As such, the assumed conversion of these units would have no net impact on the determination of diluted FFO, Core FFO and AFFO per share. See Note 9 to our consolidated financial statements for additional information.

We believe that the use of FFO, Core FFO and AFFO, combined with the required GAAP presentations, improves the understanding of operating results of REITs among investors and makes comparisons of operating results among such companies more meaningful. While FFO, Core FFO and AFFO are relevant and widely used measures of operating performance of REITs, they do not represent cash flows from operations or net income (loss) as defined by GAAP and should not be considered as an alternative or substitute to those measures in evaluating our liquidity or operating performance. FFO, Core FFO and AFFO do not purport to be indicative of cash available to fund our future cash requirements. Further, our computation of FFO, Core FFO and AFFO may not be comparable to FFO, Core FFO and AFFO reported by other REITs that do not define FFO in accordance with the current NAREIT definition or that interpret the current NAREIT definition or define Core FFO or AFFO differently than we do.

The following table reconciles our calculations of FFO, Core FFO and AFFO to net income (loss), the most directly comparable GAAP financial measure, for the years ended December 31, 2019, 2018 and 2017 (in thousands, except per share amounts):

	For the Year Ended December 31,		
	2019	2018	2017
Net income (loss)	\$ 99,438	\$ (1,614)	\$ 56,359
Depreciation and amortization	69,086	47,470	48,752
Gain on sales of real estate	(127,684)	(13,742)	(78,365)
Adjustment for noncontrolling interests	(122)	(96)	(1,695)
<b>FFO attributable to common stockholders</b>	<b>40,718</b>	<b>32,018</b>	<b>25,051</b>
<b>FFO per share - basic</b>	<b>\$ 1.69</b>	<b>\$ 1.51</b>	<b>\$ 1.19</b>
<b>FFO per share - diluted</b>	<b>\$ 1.66</b>	<b>\$ 1.48</b>	<b>\$ 1.17</b>
Loss on extinguishment of debt and modification costs	2,869	3,576	5,719
Casualty-related recoveries	(34)	(663)	(287)
Casualty losses	3,488	—	—
Change in fair value on derivative instruments - ineffective portion	—	—	(309)
Amortization of deferred financing costs - acquisition term notes	553	159	403
Adjustment for noncontrolling interests	(21)	(9)	(430)
<b>Core FFO attributable to common stockholders</b>	<b>47,573</b>	<b>35,081</b>	<b>30,147</b>
<b>Core FFO per share - basic</b>	<b>\$ 1.97</b>	<b>\$ 1.66</b>	<b>\$ 1.43</b>
<b>Core FFO per share - diluted</b>	<b>\$ 1.93</b>	<b>\$ 1.62</b>	<b>\$ 1.41</b>
Amortization of deferred financing costs - long term debt	1,530	1,491	1,592
Equity-based compensation expense	5,130	4,198	3,109
Adjustment for noncontrolling interests	(20)	(17)	(76)
<b>AFFO attributable to common stockholders</b>	<b>54,213</b>	<b>40,753</b>	<b>34,772</b>
<b>AFFO per share - basic</b>	<b>\$ 2.25</b>	<b>\$ 1.92</b>	<b>\$ 1.65</b>
<b>AFFO per share - diluted</b>	<b>\$ 2.20</b>	<b>\$ 1.88</b>	<b>\$ 1.62</b>
<b>Weighted average common shares outstanding - basic</b>	<b>24,116</b>	<b>21,189</b>	<b>21,057</b>
<b>Weighted average common shares outstanding - diluted</b>	<b>24,593</b>	<b>21,667</b>	<b>21,399</b>
<b>Dividends declared per common share</b>	<b>\$ 1.138</b>	<b>\$ 1.025</b>	<b>\$ 0.910</b>
<b>FFO Coverage - diluted</b>	(1) 1.46x	1.44x	1.29x
<b>Core FFO Coverage - diluted</b>	(1) 1.70x	1.58x	1.55x
<b>AFFO Coverage - diluted</b>	(1) 1.94x	1.84x	1.79x

(1) Indicates coverage ratio of FFO/Core FFO/AFFO per common share (diluted) over dividends declared per common share during the period.

*The year ended December 31, 2019 as compared to the year ended December 31, 2018*

FFO was \$40.7 million for the year ended December 31, 2019 compared to \$32.0 million for the year ended December 31, 2018, which was an increase of approximately \$8.7 million. The change in our FFO between the periods primarily relates to an increase in total revenues of \$34.5 million, partially offset by an increase in total property operating expenses of \$12.9 million, interest expense of \$8.8 million and corporate general and administrative expenses of \$1.8 million and adjustments for amounts attributable to noncontrolling interests.

Core FFO was \$47.6 million for the year ended December 31, 2019 compared to \$35.1 million for the year ended December 31, 2018, which was an increase of approximately \$12.5 million. The change in our Core FFO between the periods primarily relates to an increase in FFO and an increase in casualty losses of \$3.5 million, partially offset by a decrease in loss on extinguishment of debt and modification costs of \$0.7 million and adjustments for amounts attributable to noncontrolling interests.

AFFO was \$54.2 million for the year ended December 31, 2019 compared to \$40.8 million for the year ended December 31, 2018, which was an increase of approximately \$13.4 million. The change in our AFFO between the periods primarily relates to increases in Core FFO and equity-based compensation expense of \$0.9 million.

*The year ended December 31, 2018 as compared to the year ended December 31, 2017*

FFO was \$32.0 million for the year ended December 31, 2018 compared to \$25.1 million for the year ended December 31, 2017, which was an increase of approximately \$6.9 million. The change in our FFO between the periods primarily relates to an increase in total revenues of \$2.4 million and decreases in total property operating expenses of \$1.4 million, interest expense of \$1.0 million and loss on extinguishment of debt and modification costs of \$2.1 million, partially offset by an increase in corporate general and administrative expenses of \$1.5 million and adjustments for amounts attributable to noncontrolling interests.

Core FFO was \$35.1 million for the year ended December 31, 2018 compared to \$30.1 million for the year ended December 31, 2017, which was an increase of approximately \$5.0 million. The change in our Core FFO between the periods primarily relates to an increase in FFO, partially offset by a decrease in loss on extinguishment of debt and modification costs of \$2.1 million and adjustments for amounts attributable to noncontrolling interests.

AFFO was \$40.8 million for the year ended December 31, 2018 compared to \$34.8 million for the year ended December 31, 2017, which was an increase of approximately \$6.0 million. The change in our AFFO between the periods primarily relates to increases in Core FFO and equity-based compensation expense of \$1.1 million.

## **Liquidity and Capital Resources**

Our short-term liquidity requirements consist primarily of funds necessary to pay for debt maturities, operating expenses and other expenditures directly associated with our multifamily properties, including:

- capital expenditures to continue our value-add program and to improve the quality and performance of our multifamily properties;
- interest expense and scheduled principal payments on outstanding indebtedness (see “—Obligations and Commitments” below);
- recurring maintenance necessary to maintain our multifamily properties;
- distributions necessary to qualify for taxation as a REIT;
- advisory and administrative fees payable to our Adviser;
- general and administrative expenses;
- reimbursements to our Adviser; and
- property management fees payable to BH.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and existing cash balances. As of December 31, 2019, we had approximately \$21.9 million of renovation value-add reserves for our planned capital expenditures to implement our value-add program. Renovation value-add reserves are not required to be held in escrow by a third party. We may reallocate these funds, at our discretion, to pursue other investment opportunities or meet our short-term liquidity requirements. Additionally, we had \$7.0 million of unused capacity on the Corporate Credit Facility as of December 31, 2019

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional multifamily properties, renovations and other capital expenditures to improve our multifamily properties and scheduled debt payments and distributions. We expect to meet our long-term liquidity requirements through various sources of capital, which may include a revolving credit facility and future debt or equity issuances, existing working capital, net cash provided by operations, long-term mortgage indebtedness and other secured and unsecured borrowings, and property dispositions. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the state of overall equity and credit markets, our degree of leverage, our unencumbered asset base and borrowing restrictions imposed by lenders (including as a result of any failure to comply with financial covenants in our existing and future indebtedness), general market conditions for REITs, our operating performance and liquidity, market perceptions about us and restrictions on sales of properties under the Code. The success of our business strategy will depend, in part, on our ability to access these various capital sources.

In addition to our value-add program, our multifamily properties will require periodic capital expenditures and renovation to remain competitive. Also, acquisitions, redevelopments, or expansions of our multifamily properties will require significant capital outlays. Long-term, we may not be able to fund such capital improvements solely from net cash provided by operations because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to qualify and maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions, or redevelopment through retained earnings long-term is limited. Consequently, we expect to rely heavily upon the availability of debt or equity capital for these purposes. If we are unable to obtain the necessary capital on favorable terms, or at all, our financial condition, liquidity, results of operations, and prospects could be materially and adversely affected.

We believe that our available cash, expected operating cash flows, and potential debt or equity financings will provide sufficient funds for our operations, anticipated scheduled debt service payments and dividend requirements for the twelve-month period following December 31, 2019.

### **Cash Flows**

The following table presents selected data from our consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
Net cash provided by operating activities	\$ 51,366	\$ 41,743	\$ 37,506
Net cash provided by (used in) investing activities	(553,129)	(135,248)	5,025
Net cash provided by (used in) financing activities	529,816	93,386	(54,544)
Net increase (decrease) in cash, cash equivalents and restricted cash	28,053	(119)	(12,013)
Cash, cash equivalents and restricted cash, beginning of period	43,129	43,248	55,261
Cash, cash equivalents and restricted cash, end of period	<u>\$ 71,182</u>	<u>\$ 43,129</u>	<u>\$ 43,248</u>

#### *The year ended December 31, 2019 as compared to the year ended December 31, 2018*

*Cash flows from operating activities.* During the year ended December 31, 2019, net cash provided by operating activities was \$51.4 million compared to net cash provided by operating activities of \$41.7 million for the year ended December 31, 2018. The change in cash flows from operating activities was mainly due to an increase in total revenues, partially offset by an increase in total property operating expenses.

*Cash flows from investing activities.* During the year ended December 31, 2019, net cash used in investing activities was \$553.1 million compared to net cash used in investing activities of \$135.2 million for the year ended December 31, 2018. The change in cash flows from investing activities was mainly due to an increase in acquisitions, partially offset by an increase in dispositions. We sold six properties for net proceeds of approximately \$286.5 million and acquired 11 properties for a combined purchase price of approximately \$876.7 million during the period in 2019; we sold one property for net proceeds of approximately \$29.6 million and acquired three properties for a combined purchase price of approximately \$131.0 million during 2018.

*Cash flows from financing activities.* During the year ended December 31, 2019, net cash provided by financing activities was \$529.8 million compared to net cash provided by financing activities of \$93.4 million for the year ended December 31, 2018. The change in cash flows from financing activities was mainly due to a net increase in debt of approximately \$450.6 million between the periods.

#### *The year ended December 31, 2018 as compared to the year ended December 31, 2017*

*Cash flows from operating activities.* During the year ended December 31, 2018, net cash provided by operating activities was \$41.7 million compared to net cash provided by operating activities of \$37.5 million for the year ended December 31, 2017. The change in cash flows from operating activities was mainly due to an increase in total revenues, decreases in total property operating expenses and changes in operating assets and liabilities.

*Cash flows from investing activities.* During the year ended December 31, 2018, net cash used in investing activities was \$135.2 million compared to net cash provided by investing activities of \$5.0 million for the year ended December 31, 2017. The change in cash flows from investing activities was mainly due to a decrease in net proceeds from sales of real estate. We sold one property for net proceeds of approximately \$29.6 million during the period in 2018; we sold nine properties for net proceeds of approximately \$224.4 million during the period in 2017. The change in cash flows from investing activities was partially offset by the acquisition of three properties for a combined purchase price of approximately \$131.0 million during the period in 2018 compared to the acquisition of three properties for a combined purchase price of approximately \$197.2 million during the period in 2017.

*Cash flows from financing activities.* During the year ended December 31, 2018, net cash provided by financing activities was \$93.4 million compared to net cash used in financing activities of \$54.5 million for the year ended December 31, 2017. The change in cash flows from financing activities was mainly due to receiving net proceeds of approximately \$84.8 million from our common stock offering in 2018 and a net increase in debt of approximately \$14.1 million between the periods, partially offset by increases in common stock repurchases of approximately \$7.2 million and common stock dividends paid of approximately \$3.0 million between the periods and the purchase of 100% of the joint venture interests in our Portfolio owned by BH Equities, LLC and its affiliates (collectively, “BH Equity”) (the “BH Buyout”) for \$51.7 million during the period in 2017 (see Note 10 to our consolidated financial statements).

## **Debt, Derivatives and Hedging Activity**

### ***Mortgage Debt***

As of December 31, 2019, our subsidiaries had aggregate mortgage debt outstanding to third parties of approximately \$1.2 billion at a weighted average interest rate of 3.34% and an adjusted weighted average interest rate of 3.06%. For purposes of calculating the adjusted weighted average interest rate of our mortgage debt outstanding, we have included the weighted average fixed rate of 1.4147% for one-month LIBOR on our combined \$975.0 million notional amount of interest rate swap agreements, which effectively fix the interest rate on \$975.0 million of our floating rate mortgage debt. See Notes 6 and 7 to our consolidated financial statements for additional information.

We have entered into and expect to continue to enter into interest rate swap and cap agreements with various third parties to fix or cap the floating interest rates on a majority of our floating rate mortgage debt outstanding. The interest rate swap agreements generally have a term of four to five years and effectively establish a fixed interest rate on debt on the underlying notional amounts. The interest rate swap agreements involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of December 31, 2019, interest rate swap agreements effectively covered \$975.0 million, or 87%, of our \$1.1 billion of floating rate mortgage debt outstanding.

The interest rate cap agreements generally have a term of three to four years, cover the outstanding principal amount of the underlying debt and are generally required by our lenders. Under the interest rate cap agreements, we pay a fixed fee in exchange for the counterparty to pay any interest above a maximum rate. As of December 31, 2019, interest rate cap agreements covered \$346.5 million of our \$1.1 billion of floating rate mortgage debt outstanding. These interest rate cap agreements effectively cap one-month LIBOR on \$346.5 million of our floating rate mortgage debt at a weighted average rate of 5.74%.

We intend to invest in additional multifamily properties as suitable opportunities arise and adequate sources of equity and debt financing are available. We expect that future investments in properties, including any improvements or renovations of current or newly acquired properties, will depend on and will be financed by, in whole or in part, our existing cash, future borrowings and the proceeds from additional issuances of common stock or other securities or property dispositions.

Although we expect to be subject to restrictions on our ability to incur indebtedness, we expect that we will be able to refinance existing indebtedness or incur additional indebtedness for acquisitions or other purposes, if needed. However, there can be no assurance that we will be able to refinance our indebtedness, incur additional indebtedness or access additional sources of capital, such as by issuing common stock or other debt or equity securities, on terms that are acceptable to us or at all.

Furthermore, following the completion of our value-add and capital expenditures programs and depending on the interest rate environment at the applicable time, we may seek to refinance our floating rate debt into longer-term fixed rate debt at lower leverage levels.

### ***Corporate Credit Facility***

On January 28, 2019, the Company, through the OP, entered into a \$75.0 million credit facility (the “Corporate Credit Facility”) with SunTrust Bank, as administrative agent and the lenders party thereto, and immediately drew \$52.5 million to fund a portion of the purchase price of Bella Vista, The Enclave, and The Heritage. The Corporate Credit Facility is a full-term, interest-only facility with an initial 24-month term, has one 12-month extension at the option of the Company, and the Company has the right to request an increase in the facility amount up to \$150 million (the “Accordion Feature”). The facility bears interest at a rate of one-month LIBOR plus a range from 2.00% to 2.50%, depending on the Company’s leverage level as determined under the Corporate Credit Facility agreement, and is guaranteed by the Company. On June 29, 2019, the Company, through the OP, exercised its option under the Accordion Feature of the Corporate Credit Facility and increased the amount of the facility from \$75 million to \$125 million. In conjunction with the increase in the facility, the Company incurred costs of \$0.5 million in obtaining the additional financing through the Accordion Feature (see “Deferred Financing Costs” below). On August 23, 2019, the Company, through the OP, increased the amount of the Corporate Credit Facility by \$25 million, resulting in aggregate commitments of \$150 million as of September 30,

2019. In conjunction with the increase in the facility, the Company incurred costs of \$0.2 million of deferred financing costs. On November 20, 2019, the Company, through the OP, increased the amount of the Corporate Credit Facility by \$75 million, resulting in aggregate commitments of \$225 million as of December 31, 2019. In conjunction with the increase in the facility, the Company incurred costs of \$0.8 million of deferred financing costs. As of December 31, 2019, there was \$218.0 million in aggregate principal outstanding on the Corporate Credit Facility.

The Corporate Credit Facility is a non-recourse obligation and contains customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the document evidencing the loan, defaults in payments under any other security instrument, and bankruptcy or other insolvency events. As of December 31, 2019, the Company believes it is compliant with all provisions.

### **Interest Rate Swap Agreements**

In order to fix a portion of, and mitigate the risk associated with, our floating rate indebtedness (without incurring substantial prepayment penalties or defeasance costs typically associated with fixed rate indebtedness when repaid early or refinanced), we, through the OP, have entered into 10 interest rate swap transactions with KeyBank and one with SunTrust (the “Counterparties”) with a combined notional amount of \$975.0 million. As of December 31, 2019, the interest rate swaps we have entered into effectively replace the floating interest rate (one-month LIBOR) with respect to \$975.0 million of our floating rate mortgage debt outstanding with a weighted average fixed rate of 1.4147%. During the term of these interest rate swap agreements, we are required to make monthly fixed rate payments of 1.4147%, on a weighted average basis, on the notional amounts, while the Counterparties are obligated to make monthly floating rate payments based on one-month LIBOR to us referencing the same notional amounts. For purposes of hedge accounting under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815, *Derivatives and Hedging*, we have designated these interest rate swaps as cash flow hedges of interest rate risk. See Notes 6 and 7 to our consolidated financial statements for additional information.

The following table contains summary information regarding our outstanding interest rate swaps (dollars in thousands):

<b>Effective Date</b>	<b>Termination Date</b>	<b>Counterparty</b>	<b>Notional</b>	<b>Fixed Rate (1)</b>
July 1, 2016	June 1, 2021	KeyBank	\$ 100,000	1.1055%
July 1, 2016	June 1, 2021	KeyBank	100,000	1.0210%
July 1, 2016	June 1, 2021	KeyBank	100,000	0.9000%
September 1, 2016	June 1, 2021	KeyBank	100,000	0.9560%
April 1, 2017	April 1, 2022	KeyBank	100,000	1.9570%
May 1, 2017	April 1, 2022	KeyBank	50,000	1.9610%
July 1, 2017	July 1, 2022	KeyBank	100,000	1.7820%
June 1, 2019	June 1, 2024	KeyBank	50,000	2.0020%
June 1, 2019	June 1, 2024	SunTrust	50,000	2.0020%
September 1, 2019	September 1, 2026	KeyBank	100,000	1.4620%
September 1, 2019	September 1, 2026	KeyBank	125,000	1.3020%
			<u>\$ 975,000</u>	<u>1.4147%(2)</u>

- (1) The floating rate option for the interest rate swaps is one-month LIBOR. As of December 31, 2019, one-month LIBOR was 1.7625%.
- (2) Represents the weighted average fixed rate of the interest rate swaps.

## Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2019 for the next five calendar years subsequent to December 31, 2019. We used one-month LIBOR as of December 31, 2019 to calculate interest expense due by period on our floating rate debt and net interest expense due by period on our interest rate swaps.

	Payments Due by Period (in thousands)						
	Total	2020	2021	2022	2023	2024	Thereafter
<b>Operating Properties Mortgage Debt</b>							
Principal payments	\$ 1,151,867	\$ 744	\$ 872	\$ 1,367	\$ 21,155	\$ 424,558	\$ 703,171
Interest expense	(1) 209,545	35,561	37,244	38,249	37,392	30,154	30,945
Total	\$ 1,361,412	\$ 36,305	\$ 38,116	\$ 39,616	\$ 58,547	\$ 454,712	\$ 734,116
<b>Held For Sale Property Mortgage Debt</b>							
Principal payments	\$ 41,661	\$ 262	\$ 281	\$ 12,622	\$ —	\$ 28,496	\$ —
Interest expense	5,619	1,539	1,524	1,023	1,023	510	—
Total	\$ 47,280	\$ 1,801	\$ 1,805	\$ 13,645	\$ 1,023	\$ 29,006	\$ —
<b>Credit Facility</b>							
Principal payments	\$ 218,000	\$ —	\$ 218,000	\$ —	\$ —	\$ —	\$ —
Interest expense	9,570	8,913	657	—	—	—	—
Total	\$ 227,570	\$ 8,913	\$ 218,657	\$ —	\$ —	\$ —	\$ —
<b>Total contractual obligations and commitments</b>	<u>\$ 1,636,262</u>	<u>\$ 47,019</u>	<u>\$ 258,578</u>	<u>\$ 53,261</u>	<u>\$ 59,570</u>	<u>\$ 483,718</u>	<u>\$ 734,116</u>

- (1) Interest expense obligations includes the impact of expected settlements on interest rate swaps which have been entered into in order to fix the interest rate on the hedged portion of our floating rate debt obligations. As of December 31, 2019, we had entered into 11 interest rate swap transactions with a combined notional amount of \$975.0 million. We have allocated the total impact of expected settlements on the \$975.0 million notional amount of interest rate swaps to 'Operating Properties Mortgage Debt.' We used one-month LIBOR as of December 31, 2019 to determine our expected settlements through the terms of the interest rate swaps.

## Capital Expenditures and Value-Add Program

We anticipate incurring average annual repairs and maintenance expense of \$575 to \$725 per apartment unit in connection with the ongoing operations of our business. These expenditures are expensed as incurred. In addition, we reserve, on average, approximately \$250 to \$350 per apartment unit for non-recurring capital expenditures and/or lender required replacement reserves. When incurred, these expenditures are either capitalized or expensed, in accordance with GAAP, depending on the type of the expenditure. Although we will continuously monitor the adequacy of this average, we believe these figures to be sufficient to maintain the properties at a high level in the markets in which we operate. A majority of the properties in our Portfolio were underwritten and acquired with the premise that we would invest \$4,000 to \$10,000 per unit in the first 36 months of ownership, in an effort to add value to the asset's exterior and interiors. In most cases, we reserved cash at closing to fund these planned capital expenditures and value-add improvements. As of December 31, 2019, we had approximately \$21.9 million of renovation value-add reserves for our planned capital expenditures and other expenses to implement our value-add program, which will complete approximately 3,607 planned interior rehabs. The following table sets forth a summary of our capital expenditures related to our value-add program for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Rehab Expenditures	For the Year Ended December 31,		
	2019	2018	2017
Interior	(1) \$ 12,044	\$ 8,559	\$ 8,393
Exterior and common area	11,242	9,133	7,621
Total rehab expenditures	<u>\$ 23,286</u>	<u>\$ 17,692</u>	<u>\$ 16,014</u>

- (1) Includes total capital expenditures during the period on completed and in-progress interior rehabs. For the years ended December 31, 2019, 2018 and 2017, we completed full and partial interior rehabs on 2,516, 1,432 and 1,588 units, respectively.

### ***Freddie Mac Multifamily Green Advantage***

In order to obtain more favorable pricing on our mortgage debt financing with Freddie Mac, we have decided to participate in Freddie Mac's new Multifamily Green Advantage program (the "Green Program"). In the second quarter of 2017, we escrowed approximately \$4.2 million to finance smarter, greener property improvements at 18 of our properties. In connection with the three acquisitions and seven refinancings we completed in 2018, we escrowed approximately \$1.2 million related to the Green Program. Since the start of the Green Program, we have spent approximately \$6.2 million on green improvements and completed 34 Green Programs. As of December 31, 2019, the Company has completed its Green Program improvements on all but two properties. We will complete the green improvements on these properties during 2020. We expect to reduce water/sewer costs at each property where the Green Program is implemented by at least 15% through the replacement of showerheads, plumbing fixtures and toilets with modern energy efficient upgrades. Due to changes in Freddie Mac's requirements to participate in the Green Program, we are not implementing this on acquisitions going forward.

### **Income Taxes**

We anticipate that we will continue to qualify to be taxed as a REIT for U.S. federal income tax purposes, and we intend to continue to be organized and to operate in a manner that will permit us to qualify as a REIT. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to stockholders. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. 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. We had no significant taxes associated with our TRS for the years ended December 31, 2019, 2018 and 2017.

If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate income tax rates, and dividends paid to our stockholders would not be deductible by us in computing taxable income. Any resulting corporate liability could be substantial and could materially and adversely affect our net income and net cash available for distribution to stockholders. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify to be taxed as a REIT.

We evaluate the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our 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. Our 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. We have no examinations in progress and none are expected at this time.

We recognize our tax positions and evaluate them using a two-step process. First, we determine 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, we will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.

We had no material unrecognized tax benefit or expense, accrued interest or penalties as of December 31, 2019. We and our subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The 2018, 2017 and 2016 tax years remain open to examination by tax jurisdictions to which our subsidiaries and we are subject. When applicable, we recognize interest and/or penalties related to uncertain tax positions on our consolidated statements of operations and comprehensive income.

### **Dividends**

We intend to make regular quarterly dividend payments to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains. As a REIT, we will be subject to federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. We intend to make regular quarterly dividend payments of all or substantially all of our taxable income to holders of our common stock out of assets legally available for this purpose, if and to the extent authorized by our Board. Before we make any dividend payments, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our debt payable. If our cash available for distribution is less than our taxable income, we could be required to sell assets, borrow funds or raise additional capital to make cash dividends or we may make a portion of the required dividend in the form of a taxable distribution of stock or debt securities.



We will make dividend payments based on our estimate of taxable earnings per share of common stock, but not earnings calculated pursuant to GAAP. Our dividends and taxable income and GAAP earnings will typically differ due to items such as depreciation and amortization, fair value adjustments, differences in premium amortization and discount accretion, and non-deductible general and administrative expenses. Our quarterly dividends per share may be substantially different than our quarterly taxable earnings and GAAP earnings per share. Our Board declared our fourth quarterly dividend of 2019 of \$0.3125 per share on October 28, 2019, which was paid on December 31, 2019 and funded out of cash flows from operations.

### **Off-Balance Sheet Arrangements**

As of December 31, 2019 and 2018, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these judgments, assumptions and estimates for changes that would affect the reported amounts. These estimates are based on management's historical industry experience and on various other judgments and assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these judgments, assumptions and estimates. Below is a discussion of the accounting policies that we consider critical to understanding our financial condition or results of operations where there is uncertainty or where significant judgment is required. A discussion of recent accounting pronouncements and our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2 "Summary of Significant Accounting Policies" to our consolidated financial statements included in this annual report.

#### *Purchase Price Allocation*

Upon acquisition of a property considered to be an asset acquisition, the purchase price and related acquisition costs ("total consideration") are allocated to land, buildings, improvements, furniture, fixtures, and equipment, and intangible lease assets based on relative fair value in accordance with FASB ASC 805, *Business Combinations*. Acquisition costs are capitalized in accordance with FASB ASC 805.

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 to our consolidated financial statements), 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. 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.

#### *Impairment*

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. The key inputs into our impairment analysis include, but are not limited to, the holding period, net operating income, and capitalization rates. In such cases, we 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's impairment analysis identifies and evaluates events or changes in circumstances that indicate the carrying amount of a real estate investment may not be recoverable, including determining the period the Company will hold the rental property, net operating income, and the estimated capitalization rate for each respective real estate investment.

## Recent Accounting Pronouncements

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. We 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, we eliminated the separate measurement of ineffectiveness by means of a cumulative-effect adjustment to accumulated 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 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. We will implement the provisions of ASU 2016-01 as of January 1, 2019. The adoption of ASU 2016-01 did not have a material impact on our consolidated financial statements as we do not, nor do we expect to, have a material amount of financial assets or financial liabilities that would be subject to the provisions of ASU 2016-01.

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. 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. As lessors, substantially all of the Company’s agreements have a term of 12 months or less. For lessors, accounting for leases under the new standard is substantially the same as existing guidance for sales-type leases, direct financing leases, and operating leases, but eliminates current real estate specific provisions and changes the treatment of initial direct costs.

In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* (“ASU 2018-11”), which provides entities with relief from the costs of implementing certain aspects of ASU 2016-02. ASU 2018-11 provides a practical expedient that allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Company elected the practical expedient to account for lease and non-lease components as a single component in lease contracts where the Company is the lessor. The Company implemented the provisions of ASU 2018-11 and 2016-02, collectively Topic 842 Leases (“ASC 842”), effective January 1, 2019, and elected the transition option that the ASU provides which permits entities to not recast the comparative periods presented when transitioning to the standard.

In May 2014, the FASB issued ASC 606 as ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”). ASC 606 was originally effective for public entities for annual reporting periods beginning after December 15, 2016; however, in August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASC 606. As a result, ASC 606 is effective for annual periods beginning after December 15, 2018. ASC 606 is required to be adopted retrospectively by (1) restating prior periods or (2) by recognizing the cumulative effect of applying ASC 606 at the date of initial application (the “modified retrospective method”). The Company implemented the provisions of ASU 2014-09 as of January 1, 2019, using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company’s 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 August 2018, the SEC adopted SEC Release No. 33-10532, *Disclosure Update and Simplification* (the “SEC Release”), which amends certain disclosure requirements that were redundant, duplicative, overlapping or superseded by other SEC disclosure requirements or GAAP. The amendments generally eliminated or otherwise reduced certain disclosure requirements of various SEC rules and regulations. However, in some cases, the amendments require additional information to be disclosed, including changes in stockholders’ equity in interim periods. Under the SEC Release, registrants will be required to disclose in interim periods on Form 10-Q the changes in each caption of stockholders’ equity and noncontrolling interests for the current and comparative year-to-date periods, with subtotals for each interim period and the amount of dividends per share for each class of shares. The amendments require registrants,

including smaller reporting companies, to provide information as prescribed by Rule 3-04 of Regulation S-X. Therefore, the interim disclosures of changes in stockholders' equity, including dividends per share amounts, may be given in a note to the financial statements or in a separate financial statement. Under Rule 3-04, the interim disclosures of the changes in stockholders' equity should be in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed, with all significant reconciling items described by appropriate captions. The reconciliation should also reflect any adjustments to the balance at the beginning of the earliest period presented for items retroactively applied to periods prior to that period. We adopted the provisions of the SEC Release on September 30, 2018, on a retrospective basis.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (Topic 230) ("ASU 2016-15") which amends classification of cash payments for debt prepayment or debt extinguishment costs. Amendments to Topic 230 made by ASU 2016-15 require that any debt prepayment or debt extinguishment costs are classified as cash flows from financing activities. Debt extinguishment costs include third-party costs, premiums paid and other fees paid to creditors that are directly related to the debt prepayment or extinguishment. The Company adopted the provisions of ASU 2016-15 as of January 1, 2019 on a retrospective basis.

## **Inflation**

The real estate market has not been affected significantly by inflation in the past several years due to a relatively low inflation rate. The majority of our lease terms are for a period of one year or less and reset to market if renewed. The majority of our leases also contain protection provisions applicable to reimbursement billings for utilities. Should inflation return, due to the short-term nature of our leases, we do not believe our results will be materially affected.

Inflation may also affect the overall cost of debt, as the implied cost of capital increases. Currently, interest rates are less than historical averages. However, the Federal Reserve, in response to or in anticipation of continued inflation concerns, could continue to raise interest rates. We intend to mitigate these risks through long-term fixed interest rate loans and interest rate hedges, which to date have included interest rate cap and interest rate swap agreements.

## **REIT Tax Election**

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code and expect to continue to qualify as a REIT. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our "REIT taxable income," as defined by the Code, to our stockholders. 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. We had no significant taxes associated with our TRS for the years ended December 31, 2019, 2018 and 2017. We believe we qualify for taxation as a REIT under the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify as a REIT.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the adverse effect on the value of assets and liabilities that results from a change in market conditions. Our primary market risk exposure is interest rate risk with respect to our indebtedness and counterparty credit risk with respect to our interest rate derivatives. In order to minimize counterparty credit risk, we enter into and expect to enter into hedging arrangements only with major financial institutions that have high credit ratings. As of December 31, 2019, we had total indebtedness of \$1.4 billion at a weighted average interest rate of 3.41%, of which \$1.3 billion was debt with a floating interest rate. The interest rate swap agreements we have entered into effectively fix the interest rate on \$975.0 million, or 87%, of our \$1.1 billion of floating rate mortgage debt outstanding (see below). As of December 31, 2019, the adjusted weighted average interest rate of our total indebtedness was 3.15%. For purposes of calculating the adjusted weighted average interest rate of the total indebtedness, we have included the weighted average fixed rate of 1.4147% for one-month LIBOR on the \$975.0 million notional amount of interest rate swap agreements that we have entered into as of December 31, 2019, which effectively fix the interest rate on \$975.0 million of our floating rate mortgage debt outstanding.

An increase in interest rates could make the financing of any acquisition by us costlier. Rising interest rates could also limit our ability to refinance our debt when it matures or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. We may manage, or hedge, interest rate risks related to our borrowings by means of interest rate cap and interest rate swap agreements. As of December 31, 2019, the interest rate cap agreements we have entered into effectively cap one-month LIBOR on \$346.5 million of our floating rate mortgage debt at a weighted average rate of 5.74% for the term of the agreements, which is generally 3 to 4 years. We also expect to manage our exposure to interest rate risk by maintaining a mix of fixed and floating rates for our indebtedness.

In order to fix a portion of, and mitigate the risk associated with, our floating rate indebtedness (without incurring substantial prepayment penalties or defeasance costs typically associated with fixed rate indebtedness when repaid early or refinanced), we, through the OP, have entered into 11 interest rate swap transactions with the Counterparties with a combined notional amount of \$975.0 million. The interest rate swaps we have entered into effectively replace the floating interest rate (one-month LIBOR) with respect to that amount with a weighted average fixed rate of 1.4147%. During the term of these interest rate swap agreements, we are required to make monthly fixed rate payments of 1.4147%, on a weighted average basis, on the notional amounts, while the Counterparties are obligated to make monthly floating rate payments based on one-month LIBOR to us referencing the same notional amounts. We have designated these interest rate swaps as cash flow hedges of interest rate risk.

Until our interest rates reach the caps provided by our interest rate cap agreements, each quarter point change in LIBOR would result in an approximate increase to annual interest expense costs on our floating rate indebtedness, reduced by any payments due from the Counterparties under the terms of the interest rate swap agreements we had entered into as of December 31, 2019, of the amounts illustrated in the table below for our indebtedness as of December 31, 2019 (dollars in thousands):

<b>Change in Interest Rates</b>	<b>Annual Increase to Interest Expense</b>
0.25%	\$ 910
0.50%	1,820
0.75%	2,730
1.00%	3,640

There is no assurance that we would realize such expense as such changes in interest rates could alter our liability positions or strategies in response to such changes.

We may also be exposed to credit risk in the derivative financial instruments we use. Credit risk is the failure of the counterparty to perform under the terms of the derivative financial instruments. If the fair value of a derivative financial instrument is positive, the counterparty will owe us, which creates credit risk for us. If the fair value of a derivative financial instrument is negative, we will owe the counterparty and, therefore, do not have credit risk. We seek to minimize the credit risk in derivative financial instruments by entering into transactions with major financial institutions that have high credit ratings.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The ARRC has proposed that SOFR is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. We have material contracts that are indexed to USD-LIBOR and are monitoring this activity and evaluating the related risks.

## **Item 8. Financial Statements and Supplementary Data**

The information required by this Item 8 is included in our consolidated financial statements and the notes thereto beginning on page F-1 in this Annual Report on Form 10-K.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act, our management, including our President and Chief Financial Officer, evaluated, as of December 31, 2019, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019, to provide reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to management, including the President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls systems are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

## **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and for our assessment of the effectiveness of internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our President and our Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our President and Chief Financial Officer, has conducted an assessment regarding the effectiveness of our internal control over financial reporting as of December 31, 2019, based on the framework established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under the criteria described above, management has concluded that our internal control over financial reporting was effective as of December 31, 2019.

## **Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Attestation Report of the Independent Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

## **Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required in response to this Item 10 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **Item 11. Executive Compensation**

The information required in response to this Item 11 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required in response to this Item 12 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required in response to this Item 13 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **Item 14. Principal Accountant Fees and Services**

The information required in response to this Item 14 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Report:

1. *Financial Statements*. See Index to Consolidated Financial Statements and Schedules of NexPoint Residential Trust, Inc. on page F-1 of this Report.

2. *Financial Statement Schedules*. See Index to Consolidated Financial Statements and Schedules of NexPoint Residential Trust, Inc. on page S-1 of this Report. All other schedules are omitted because they are not required, are inapplicable, or the required information is included in the financial statements or notes thereto.

3. *Exhibits*. The exhibits filed with this Report are set forth in the Exhibit Index.

## EXHIBIT INDEX

Exhibit Number	Description
1.1	Form of Equity Distribution Agreement (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on February 20, 2019)
1.2	Form of Master Forward Sale Agreement (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed with the SEC on February 20, 2019)
2.1	Separation and Distribution Agreement (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10 filed with the SEC on March 12, 2015)
3.1	Articles of Amendment and Restatement of NexPoint Residential Trust, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on 8-K filed with the SEC on June 15, 2016)
3.2	Amended and Restated Bylaws of NexPoint Residential Trust, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10 filed with the SEC on March 12, 2015)
4.1*	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
10.1	Amended and Restated Limited Partnership Agreement of NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the SEC on August 1, 2017)
10.2	First Amendment to Amended and Restated Limited Partnership Agreement of NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 19, 2019)
10.3	Advisory Agreement by and among NexPoint Residential Trust, Inc., NexPoint Residential Trust Operating Partnership, L.P. and NexPoint Real Estate Advisors, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 15, 2015)
10.4	Amendment to Advisory Agreement, dated June 15, 2016, by and among the Company, NexPoint Residential Trust Operating Partnership, L.P. and NexPoint Real Estate Advisors, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K filed with the SEC on June 15, 2016)
10.5	Registration Rights Agreement by and between NexPoint Residential Trust, Inc. and NexPoint Real Estate Advisors, L.P. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on May 15, 2015)
10.6	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10 filed with the SEC on January 9, 2015)
10.7	NexPoint Residential Trust, Inc. 2016 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on 8-K filed with the SEC on June 15, 2016)
10.8	Confirmation of swap transaction, dated May 18, 2016, from KeyBank National Association to NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K filed with the SEC on May 19, 2016)
10.9	Confirmation of swap transaction, dated June 13, 2016, from KeyBank National Association to NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K filed with the SEC on June 17, 2016)
10.10	Confirmation of swap transaction, dated June 30, 2016, from KeyBank National Association to NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K filed with the SEC on July 1, 2016)
10.11	Confirmation of swap transaction, dated August 12, 2016, from KeyBank National Association to NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K filed with the SEC on August 16, 2016)
10.12	Confirmation of swap transaction, dated March 27, 2017, from KeyBank National Association to NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 28, 2017)



10.13	Confirmation of swap transaction, dated June 14, 2017, from KeyBank National Association to NexPoint Residential Trust Operating Partnership, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 15, 2017)
10.14	Form of Restricted Stock Units Agreement (Officers) (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 15, 2017)
10.15	Form of Restricted Stock Units Agreement (Directors) (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 15, 2017)
10.16*	Revolving Credit Agreement by and among NexPoint Residential Trust Operating Partnership, L.P., as Borrower, the Lenders from time to time party thereto, and SunTrust Bank, a Georgia banking corporation, as Administrative Agent, dated as of January 28, 2019, as amended
21.1*	List of Subsidiaries of NexPoint Residential Trust, Inc.
23.1*	Consent of KPMG LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 <sup>+</sup>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

---

\* Filed herewith.

+ Furnished herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### NEXPOINT RESIDENTIAL TRUST, INC.

February 21, 2020

/s/ Jim Dondero

Jim Dondero

President and Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Jim Dondero</u> Jim Dondero	President and Director (Principal Executive Officer)	February 21, 2020
<u>/s/ Brian Mitts</u> Brian Mitts	Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)	February 21, 2020
<u>/s/ Edward Constantino</u> Edward Constantino	Director	February 21, 2020
<u>/s/ Dr. Arthur Laffer</u> Dr. Arthur Laffer	Director	February 21, 2020
<u>/s/ Scott Kavanaugh</u> Scott Kavanaugh	Director	February 21, 2020

## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
<b>Financial Statements</b>	
<b>NexPoint Residential Trust, Inc.—Consolidated Financial Statements</b>	
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-5
Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017	F-6
Consolidated Statements of Equity for the Years Ended December 31, 2019, 2018 and 2017	F-7
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017	F-8
Notes to Consolidated Financial Statements	F-10
<b>Financial Statements Schedules</b>	
Schedule III—Real Estate and Accumulated Depreciation	S-1

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
NexPoint Residential Trust, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of NexPoint Residential Trust, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement Schedule III Real Estate and Accumulated Depreciation (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Update 2016-02, *Leases* and Accounting Standards Update 2018-11, *Leases – Targeted Improvements*.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Assessment of the relative fair value allocation in an asset acquisition*

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company acquired real estate properties recorded as asset acquisitions during the year ended December 31, 2019. The purchase price in an asset acquisition is allocated to the assets acquired and liabilities assumed using their relative fair values.

We identified the assessment of the relative fair value allocation in an asset acquisition, specifically the land, building, improvements, and furniture, fixtures, and equipment as a critical audit matter. There is a high degree of subjective auditor judgment in evaluating the results of procedures over the relevance of comparable land sales and replacement cost of the building, improvements, and furniture, fixtures, and equipment used by the Company to determine the fair value of these assets.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's asset acquisition allocation process, including controls to identify and select publicly available and comparable land sales and replacement costs of the building, improvements, and furniture, fixtures, and equipment. We involved valuation professionals with specialized skills and knowledge, who assisted in the following procedures for the Company's asset acquisitions:

- compared the consideration paid by the Company to acquire the property to comparable market transactions based on the price per apartment unit acquired;
- compared the Company's estimated fair value of land to independently developed estimates based on publicly available and comparable land sales; and
- compared the cost inputs used in the Company's replacement cost analysis of building and improvements and furniture, fixtures, and equipment to market data, such as data included in the industry recognized guides used for developing replacement, reproduction, and insurable value costs.

*Evaluation of real estate investments for impairment*

As discussed in Notes 2 and 5 to the consolidated financial statements, the Company had \$1.8 billion in real estate investments as of December 31, 2019. The Company tests the recoverability of its real estate investments whenever events or changes in circumstances indicate that the carrying amount of a property may not be recoverable. The Company evaluates the recoverability of such real estate investments based on estimated future cash flows and the estimated liquidation value of such real estate investments, and provide for impairment if such estimated undiscounted cash flows are insufficient to recover the carrying amount of the real estate investment.

We identified the evaluation of real estate investments for impairment as a critical audit matter. Identifying events or changes in circumstances that indicate the carrying value of a real estate investment may not be recoverable involves a high degree of subjective auditor judgment. In addition, evaluating how identified events or changes in circumstances impact the expected period the Company will hold the rental property, net operating income, and estimated capitalization rate for each respective property requires subjective auditor judgment.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's process to identify and evaluate events or changes in circumstances that indicate the carrying amount of a real estate investment may not be recoverable, including controls over determining the period the Company will hold the rental property, net operating income, and the estimated capitalization rate for each respective real estate investment. We compared the estimated undiscounted cash flows of each real estate investment to its carrying value to assess the sensitivity to changes in assumptions on the recoverability of each property. We performed independent evaluations considering third-party market reports for (1) indications of a decrease in the fair value of similar real estate investments and (2) decreases in current and projected operating performance of the real estate investments of the Company. We inquired of Company officials and inspected documents, such as meeting minutes of the board directors, to identify Company strategies that might indicate it was more-likely-than not that a property will be sold before the end of the expected period the Company planned to hold the property.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Dallas, Texas  
February 21, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
NexPoint Residential Trust, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited NexPoint Residential Trust, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and related financial statement Schedule III Real Estate and Accumulated Depreciation (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas  
February 21, 2020

**NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts)

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
Operating Real Estate Investments		
Land	\$ 317,886	\$ 202,347
Buildings and improvements	1,472,319	935,604
Intangible lease assets	12,414	3,049
Construction in progress	4,375	1,881
Furniture, fixtures, and equipment	81,038	61,456
Total Gross Operating Real Estate Investments	1,888,032	1,204,337
Accumulated depreciation and amortization	(152,552)	(134,124)
Total Net Operating Real Estate Investments	1,735,480	1,070,213
Real estate held for sale, net of accumulated depreciation of \$7,859 and \$897, respectively	46,330	17,329
Total Net Real Estate Investments	1,781,810	1,087,542
Cash and cash equivalents	25,671	19,864
Restricted cash	45,511	23,265
Accounts receivable	6,285	3,340
Prepaid and other assets	2,336	9,058
Fair market value of interest rate swaps	4,376	18,141
<b>TOTAL ASSETS</b>	<b>\$ 1,865,989</b>	<b>\$ 1,161,210</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Mortgages payable, net	\$ 1,145,371	\$ 824,702
Mortgages payable held for sale, net	41,176	13,318
Credit facility, net	216,501	—
Accounts payable and other accrued liabilities	11,971	5,765
Accrued real estate taxes payable	12,206	12,607
Accrued interest payable	3,691	2,852
Security deposit liability	2,977	1,889
Prepaid rents	1,658	1,482
Fair market value of interest rate swaps	902	—
<b>Total Liabilities</b>	<b>1,436,453</b>	<b>862,615</b>
Redeemable noncontrolling interests in the Operating Partnership	3,295	2,567
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; 25,245,740 and 23,499,635 shares issued and outstanding, respectively	251	234
Additional paid-in capital	359,748	285,511
Accumulated earnings (loss) less dividends	63,776	(6,764)
Accumulated other comprehensive income	2,466	17,047
<b>Total Stockholders' Equity</b>	<b>426,241</b>	<b>296,028</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,865,989</b>	<b>\$ 1,161,210</b>

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)

	For the Year Ended December 31,		
	2019	2018	2017
<b>Revenues</b>			
Rental income	\$ 177,162	\$ 143,158	\$ 140,882
Other income	3,904	3,439	3,353
Total revenues	<u>181,066</u>	<u>146,597</u>	<u>144,235</u>
<b>Expenses</b>			
Property operating expenses	42,692	35,824	38,850
Real estate taxes and insurance	25,113	20,713	19,161
Property management fees (1)	5,388	4,382	4,330
Advisory and administrative fees (2)	7,500	7,474	7,419
Corporate general and administrative expenses	9,613	7,808	6,275
Property general and administrative expenses	6,765	6,134	6,159
Depreciation and amortization	69,086	47,470	48,752
Total expenses	<u>166,157</u>	<u>129,805</u>	<u>130,946</u>
<b>Operating income before gain on sales of real estate</b>	14,909	16,792	13,289
Gain on sales of real estate	127,684	13,742	78,365
<b>Operating income</b>	142,593	30,534	91,654
Interest expense	(37,385)	(28,572)	(29,576)
Loss on extinguishment of debt and modification costs	(2,869)	(3,576)	(5,719)
Casualty losses (3)	(3,488)	—	—
Miscellaneous income	587	—	—
<b>Net income (loss)</b>	99,438	(1,614)	56,359
<b>Net income attributable to noncontrolling interests</b>	—	—	2,836
<b>Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership</b>	298	(5)	149
<b>Net income (loss) attributable to common stockholders</b>	<u>\$ 99,140</u>	<u>\$ (1,609)</u>	<u>\$ 53,374</u>
<b>Other comprehensive income (loss)</b>			
Unrealized gains (losses) on interest rate derivatives	(14,625)	1,931	4,568
<b>Total comprehensive income</b>	84,813	317	60,927
<b>Comprehensive income attributable to noncontrolling interests</b>	—	—	2,720
<b>Comprehensive income attributable to redeemable noncontrolling interests in the Operating Partnership</b>	254	1	166
<b>Comprehensive income attributable to common stockholders</b>	<u>\$ 84,559</u>	<u>\$ 316</u>	<u>\$ 58,041</u>
<b>Weighted average common shares outstanding - basic</b>	<u>24,116</u>	<u>21,189</u>	<u>21,057</u>
<b>Weighted average common shares outstanding - diluted</b>	<u>24,593</u>	<u>21,667</u>	<u>21,399</u>
<b>Earnings (loss) per share - basic</b>	<u>\$ 4.11</u>	<u>\$ (0.08)</u>	<u>\$ 2.53</u>
<b>Earnings (loss) per share - diluted</b>	<u>\$ 4.03</u>	<u>\$ (0.08)</u>	<u>\$ 2.49</u>

- (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).
- (3) Casualty losses for the year ended December 31, 2019 are related to tornado damage incurred at Cutter's Point (see Note 5).

See Notes to Consolidated Financial Statements



**NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Earnings (Loss)		Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury at Cost	Noncontrolling Interests	Total
	Number of Shares	Par Value	Number of Shares	Par Value		Less Dividends					
<b>Balances, January 1, 2017</b>	—	\$ —	21,293,825	\$ 213	\$ 241,450	\$ (14,584)	\$ 9,052	\$ (4,587)	\$ 24,558	\$ 256,102	
Net income attributable to common stockholders	—	—	—	—	—	53,374	—	—	—	53,374	
Net income attributable to noncontrolling interests	—	—	—	—	—	—	—	—	2,836	2,836	
Contributions by noncontrolling interests	—	—	—	—	—	—	—	—	38	38	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(4,789)	(4,789)	
Purchase of noncontrolling interests	—	—	—	—	(31,313)	—	—	—	(22,527)	(53,840)	
Repurchase of common stock	—	—	—	—	—	—	—	(2,435)	—	(2,435)	
Retirement of common stock held in treasury	—	—	(354,517)	(4)	(7,018)	—	—	7,022	—	—	
Vesting of stock-based compensation	—	—	110,257	1	3,108	—	—	—	—	3,109	
Common stock dividends declared	—	—	—	—	—	(19,502)	—	—	—	(19,502)	
Other comprehensive income (loss)	—	—	—	—	—	—	4,667	—	(116)	4,551	
<b>Balances, December 31, 2017</b>	—	\$ —	21,049,565	\$ 210	\$ 206,227	\$ 19,288	\$ 13,719	\$ —	\$ —	\$ 239,444	
Cumulative effect upon adoption of ASU 2017-12 (see Note 2)	—	—	—	—	—	(1,403)	1,403	—	—	—	
Net loss attributable to common stockholders	—	—	—	—	—	(1,609)	—	—	—	(1,609)	
Issuance of common shares through public offering	—	—	2,702,500	27	84,755	—	—	—	—	84,782	
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	—	—	130,511	1	4,197	—	—	—	—	4,198	
Common stock dividends declared	—	—	—	—	—	(22,601)	—	—	—	(22,601)	
Other comprehensive income	—	—	—	—	—	—	1,925	—	—	1,925	
Adjustment to reflect redemption value of redeemable noncontrolling interests in the Operating Partnership	—	—	—	—	—	(439)	—	—	—	(439)	
<b>Balances, December 31, 2018</b>	—	\$ —	23,499,635	\$ 234	\$ 285,511	\$ (6,764)	\$ 17,047	\$ —	\$ —	\$ 296,028	
Net income attributable to common stockholders	—	—	—	—	—	99,140	—	—	—	99,140	
Vesting of stock-based compensation	—	—	180,783	1	4,379	—	—	—	—	4,380	
Issuance of common shares through at-the-market offering	—	—	1,565,322	16	69,858	—	—	—	—	69,874	
Common stock dividends declared	—	—	—	—	—	(28,219)	—	—	—	(28,219)	
Other comprehensive loss	—	—	—	—	—	—	(14,581)	—	—	(14,581)	
Adjustment to reflect redemption value of redeemable noncontrolling interests in the Operating Partnership	—	—	—	—	—	(381)	—	—	—	(381)	
<b>Balances, December 31, 2019</b>	—	\$ —	25,245,740	\$ 251	\$ 359,748	\$ 63,776	\$ 2,466	\$ —	\$ —	\$ 426,241	

See Notes to Consolidated Financial Statements

**NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net income (loss)	\$ 99,438	\$ (1,614)	\$ 56,359
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sales of real estate	(127,684)	(13,742)	(78,365)
Depreciation and amortization	69,086	47,470	48,752
Amortization/write-off of deferred financing costs	3,502	3,062	2,998
Change in fair value on derivative instruments included in interest expense	(6,442)	(3,948)	1,311
Net cash received (paid) on derivative settlements	6,842	3,832	(921)
Amortization/write-off of fair market value adjustment of assumed debt	(148)	(169)	(206)
Vesting of stock-based compensation	5,130	4,198	3,109
Casualty losses	3,488	—	—
Changes in operating assets and liabilities, net of effects of acquisitions:			
Operating assets	(350)	209	1,150
Operating liabilities	(1,496)	2,445	3,319
Net cash provided by operating activities	<u>51,366</u>	<u>41,743</u>	<u>37,506</u>
<b>Cash flows from investing activities</b>			
Net proceeds from sales of real estate	286,479	29,553	224,416
Prepaid acquisition costs	—	(7,653)	—
Insurance premiums paid for casualty losses	(600)	—	—
Insurance proceeds from casualty losses	2,500	—	—
Additions to real estate investments	(44,159)	(26,775)	(21,742)
Acquisitions of real estate investments	(797,349)	(130,373)	(197,649)
Net cash provided by (used in) investing activities	<u>(553,129)</u>	<u>(135,248)</u>	<u>5,025</u>
<b>Cash flows from financing activities</b>			
Mortgage proceeds received	423,149	232,252	613,213
Mortgage payments	(145,821)	(148,942)	(276,235)
Credit facilities proceeds received	255,000	55,000	25,000
Credit facilities payments	(37,000)	(85,000)	(310,000)
Bridge facility proceeds received	—	30,000	65,875
Bridge facility payments	—	(38,597)	(87,278)
Deferred financing costs paid	(5,120)	(2,410)	(4,047)
Interest rate cap fees paid	(20)	(56)	(18)
Prepayment penalties on extinguished debt	(1,449)	(1,706)	(2,701)
Proceeds from the issuance of common shares through public offering, net of offering costs	—	84,782	—
Proceeds from the issuance of common shares through at-the-market offering, net of offering costs	69,874	—	—
Payments for taxes related to net share settlement of stock-based compensation	(751)	—	—
Repurchase of common stock	—	(9,672)	(2,435)
Dividends paid to common stockholders	(28,046)	(22,265)	(19,258)
Distributions to redeemable noncontrolling interests in the Operating Partnership	—	—	(69)
Contributions from noncontrolling interests	—	—	38
Distributions to noncontrolling interests	—	—	(4,789)
Purchase of noncontrolling interests	—	—	(51,840)
Net cash provided by (used in) financing activities	<u>529,816</u>	<u>93,386</u>	<u>(54,544)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	28,053	(119)	(12,013)
Cash, cash equivalents and restricted cash, beginning of period	43,129	43,248	55,261
Cash, cash equivalents and restricted cash, end of period	<u>\$ 71,182</u>	<u>\$ 43,129</u>	<u>\$ 43,248</u>

See Notes to Consolidated Financial Statements

**NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

**Supplemental Disclosure of Cash Flow Information**

Interest paid	\$	41,053	\$	30,261	\$	25,467
<b>Supplemental Disclosure of Noncash Activities</b>						
Issuance of operating partnership units for purchase of noncontrolling interests		—		—		2,000
Capitalized construction costs included in accounts payable and other accrued liabilities		3,776		1,715		2,263
Change in fair value on derivative instruments designated as hedges		(14,625)		1,931		4,568
Other assets acquired from acquisitions		758		76		325
Liabilities assumed from acquisitions		6,608		1,382		849
Fair market value adjustment of assumed debt		980		—		—
Assumed debt on acquisitions		70,486		—		—
Write-off of assets due to casualty losses		7,838		—		—
Write-off of fully amortized in-place leases		8,181		1,340		9,093
Write-off of deferred financing costs		1,419		1,412		1,003
Increase in dividends payable upon vesting of restricted stock units		173		336		244

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 December 31, 2019, there were 23,819,402 common units in the OP (“OP Units”) outstanding, of which 23,746,169, 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 17, 2020 for a one-year term (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 NexPoint Advisors, L.P.

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 30% 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

#### *Basis of Accounting*

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (“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 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 year ended December 31, 2019.

## 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 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. In May 2014, the FASB issued ASC 606 as ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”). ASC 606 was originally effective for public entities for annual reporting periods beginning after December 15, 2016; however, in August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASC 606. As a result, ASC 606 is effective for annual periods beginning after December 15, 2018. ASC 606 is required to be adopted retrospectively by (1) restating prior periods or (2) by recognizing the cumulative effect of applying ASC 606 at the date of initial application (the “modified retrospective method”). The Company implemented the provisions of ASU 2014-09 as of January 1, 2019, using the modified retrospective approach. The adoption of ASU 2014-09 did not have a material impact on the Company’s 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 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. 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. As lessors, substantially all of the Company’s agreements have a term of 12 months or less. For lessors, accounting for leases under the new standard is substantially the same as existing guidance for sales-type leases, direct financing leases, and operating leases, but eliminates current real estate specific provisions and changes the treatment of initial direct costs.

In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* (“ASU 2018-11”), which provides entities with relief from the costs of implementing certain aspects of ASU 2016-02. ASU 2018-11 provides a practical expedient that allows lessors to not separate lease and non-lease components in a contract and allocate the consideration in the contract to the separate components if both (i) the timing and pattern of revenue recognition for the non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease. The Company elected the practical expedient to account for lease and non-lease components as a single component in lease contracts where the Company is the lessor. The Company implemented the provisions of ASU 2018-11 and 2016-02, collectively Topic 842 Leases (“ASC 842”), effective January 1, 2019, and elected the transition option that the ASU provides which permits entities to not recast the comparative periods presented when transitioning to the standard. The Company implemented changes to its business processes and controls related to accounting for and the presentation and disclosure of leases in the consolidated statements of operations and began presenting all rentals and reimbursements from tenants as a single line item within rental income on the consolidated statements of operations and comprehensive income. The table below outlines the components of rental income and its other components which were previously classified as other income for the years ended December 31, 2019, 2018 and 2017:

Lease Income Type	For the Year Ended December 31,		
	2019	2018	2017
Rental income	\$ 158,167	\$ 127,964	\$ 125,024
Utility reimbursements (1)	10,906	9,835	10,514
Late fees (1)	1,622	1,443	1,597
Pet fees (1)	816	618	582
Other fees (1)	5,651	3,298	3,165
Total rental income	<u>\$ 177,162</u>	<u>\$ 143,158</u>	<u>\$ 140,882</u>

(1) Previously classified as other income prior to December 31, 2019.

The table below quantifies the effects on rental and other income for the years ended December 31, 2019, 2018 and 2017 from the adoption ASC 842:

	For the Year Ended December 31,		
	2019	2018	2017
<b>Prior to adoption of ASC 842</b>			
Rental income	\$ 158,167	\$ 127,964	\$ 125,023
Other income	22,899	18,633	19,212
<b>Total revenue</b>	<b>\$ 181,066</b>	<b>\$ 146,597</b>	<b>\$ 144,235</b>
<b>Post adoption of ASC 842</b>			
Rental income	\$ 177,162	\$ 143,158	\$ 140,882
Other income	3,904	3,439	3,353
<b>Total revenue</b>	<b>\$ 181,066</b>	<b>\$ 146,597</b>	<b>\$ 144,235</b>
<b>Differences resulting in ASC 842 adoption</b>			
Rental income difference	\$ 18,995	\$ 15,194	\$ 15,859
Other income difference	(18,995)	(15,194)	(15,859)
<b>Total revenue difference</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

Certain revenue streams such as service provider income and damage recoveries did not qualify for the practical expedient and therefore remained in other income and were subjected to ASU 2014-09.

#### *Purchase Price Allocation*

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 (“ASC 805”)*. Acquisition costs are capitalized in accordance with FASB ASC 805.

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 (“ASC 820”)* (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 assets, 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.

#### *Impairment*

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. The key inputs into our impairment analysis include, but are not limited to, the holding period, net operating income, and capitalization rates. 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’s impairment analysis identifies and evaluates events or changes in circumstances that indicate the carrying amount of a real estate investment may not be recoverable, including determining the period

the Company will hold the rental property, net operating income, and the estimated capitalization rate for each respective real estate investment.

#### *Held for Sale*

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. As of December 31, 2019, there are three properties that are classified as held for sale. Approximately \$0.2 million of other assets and approximately \$1.0 million of other liabilities related to the held for sale assets are included on the consolidated balance sheet.

#### *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 years ended December 31, 2019, 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 December 31, 2019, 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 December 31, 2019. The Company and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The 2018, 2017 and 2016 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.

## *Accounting Pronouncements Adopted in the Current Year*

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 implemented the provisions of ASU 2016-01 as of January 1, 2019, and it did not have a material impact on the Company’s consolidated financial statements as the Company does not, nor does it expect to, have a material amount of financial assets or financial liabilities that would be subject to the provisions of ASU 2016-01.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (Topic 230) (“ASU 2016-15”) which amends classification of cash payments for debt prepayment or debt extinguishment costs. Amendments to Topic 230 made by ASU 2016-15 require that any debt prepayment or debt extinguishment costs are classified as cash flows from financing activities. Debt extinguishment costs include third-party costs, premiums paid and other fees paid to creditors that are directly related to the debt prepayment or extinguishment. The Company adopted the provisions of ASU 2016-15 as of January 1, 2019 on a retrospective basis.

## *Recent Accounting Pronouncements*

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 August 2018, the SEC adopted SEC Release No. 33-10532, *Disclosure Update and Simplification* (the “SEC Release”), which amends certain disclosure requirements that were redundant, duplicative, overlapping or superseded by other SEC disclosure requirements or GAAP. The amendments generally eliminated or otherwise reduced certain disclosure requirements of various SEC rules and regulations. However, in some cases, the amendments require additional information to be disclosed, including changes in stockholders’ equity in interim periods. Under the SEC Release, registrants will be required to disclose in interim periods on Form 10-Q the changes in each caption of stockholders’ equity and noncontrolling interests for the current and comparative year-to-date periods, with subtotals for each interim period and the amount of dividends per share for each class of shares. The amendments require registrants, including smaller reporting companies, to provide information as prescribed by Rule 3-04 of Regulation S-X. Therefore, the interim disclosures of changes in stockholders’ equity, including dividends per share amounts, may be given in a note to the financial statements or in a separate financial statement. Under Rule 3-04, the interim disclosures of the changes in stockholders’ equity should be in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed, with all significant reconciling items described by appropriate captions. The reconciliation should also reflect any adjustments to the balance at the beginning of the earliest period presented for items retroactively applied to periods prior to that period. The Company adopted the provisions of the SEC Release on September 30, 2018, on a retrospective basis.

## *Reclassifications*

Certain reclassifications have been made to conform the prior period consolidated financial statements and notes to the current period presentation due to the adoption of the new accounting standards.

## **3. Investments in Subsidiaries**

The Company conducts its operations through the OP, which owns the properties through single asset limited liability companies that are special purpose entities (“SPEs”). The Company consolidates the SPEs 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 SPEs that directly own the properties. All of the properties the SPEs own are consolidated in the Company’s consolidated 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 the 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 December 31, 2019, the Company, through the OP and the wholly owned TRS, owned 40 properties through single-asset LLCs. The following table represents the Company's ownership in each property by virtue of its 100% ownership of the single-asset LLCs that directly own the title to each property as of December 31, 2019 and 2018:

Property Name	Location	Year Acquired	Effective Ownership Percentage at December 31,	
			2019	2018
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%
Edgewater at Sandy Springs	Atlanta, Georgia	2014	— (1)	100%
Beechwood Terrace	Antioch, Tennessee	2014	100%	100%
Willow Grove	(2) Nashville, Tennessee	2014	100%	100%
Woodbridge	(2) Nashville, Tennessee	2014	100%	100%
Abbingtion Heights	Antioch, Tennessee	2014	— (1)	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	— (1)	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 Ashlar	Dallas, Texas	2015	— (1)	100%
Heatherstone	Dallas, Texas	2015	— (1)	100%
The Preserve at Terrell Mill	Marietta, Georgia	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	— (1)	100%
Venue at 8651	Fort Worth, Texas	2015	100%	100%
Parc500	West Palm Beach, Florida	2016	100%	100%
The Venue on Camelback	(3) 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	Dallas, Texas	2017	100%	100%
Cedar Pointe	(4) Antioch, Tennessee	2018	100%	100%
Crestmont Reserve	Dallas, Texas	2018	100%	100%
Brandywine I & II	Nashville, Tennessee	2018	100%	100%
Bella Vista	(5) Phoenix, Arizona	2019	100%	— (8)
The Enclave	(5) Tempe, Arizona	2019	100%	— (8)
The Heritage	(5) Phoenix, Arizona	2019	100%	— (8)
Summers Landing	Fort Worth, Texas	2019	100%	— (8)
Residences at Glenview Reserve	(6) Nashville, Tennessee	2019	100%	— (8)
Residences at West Place	(6) Orlando, Florida	2019	100%	— (8)
Avant at Pembroke Pines	Pembroke Pines, Florida	2019	100%	— (8)
Arbors of Brentwood	Nashville, Tennessee	2019	100%	— (8)
Torreyana Apartments	(7) Las Vegas, Nevada	2019	100%	— (8)
Bloom	(7) Las Vegas, Nevada	2019	100%	— (8)
Bella Solara	(7) Las Vegas, Nevada	2019	100%	— (8)

(1) Property was sold in 2019.

(2) Property was classified as held for sale as of December 31, 2019.

- (3) Formerly known as The Colonnade.
- (4) The EAT that directly owned Cedar Pointe was consolidated as a VIE at December 31, 2018. The master lease agreement with the EAT that directly owned Cedar Pointe terminated on February 20, 2019, at which time legal title to Cedar Pointe transferred to the Company. Upon the transfer of title, the entity that directly owned Cedar Pointe was no longer considered a VIE.
- (5) The EAT that directly owned Bella Vista, The Enclave and The Heritage was consolidated as a VIE at March 31, 2019. The master lease agreement with the EAT that directly owned these properties terminated on July 27, 2019, at which time legal title transferred to the Company. Upon the transfer of title, the EAT that directly owned these properties was no longer considered a VIE.
- (6) NXRT acquired two multifamily properties, Residences at Glenview Reserve and Residences at West Place on July 17, 2019. The master lease agreement with the EAT that directly owned these properties terminated on September 3, 2019, at which time legal title transferred to the Company. Upon the transfer of title, the EAT that directly owned these properties was no longer considered a VIE.
- (7) The EAT that directly owned Torreyana, Bloom and Bella Solara was consolidated as a VIE at December 31, 2019 giving the Company an effective 100% ownership interest. Legal title will transfer to the Company upon completion of the reverse 1031 Exchange or May 21, 2020, whichever comes first. Upon the transfer of title, the EAT that directly owned these properties will no longer be considered a VIE.
- (8) Properties were acquired in 2019; therefore, no ownership as of December 31, 2018.

#### 4. Real Estate Investments Statistics

As of December 31, 2019, the Company was invested in a total of 40 multifamily properties, as listed below:

Property Name	Rentable Square Footage (in thousands)*	Number of Units*	Date Acquired	Average Effective Monthly Rent Per Unit as of December 31,*(1)		% Occupied as of December 31,*(2)	
				2019	2018	2019	2018
				Arbors on Forest Ridge	155	210	1/31/2014
Cutter's Point	(3) 198	196	1/31/2014	—	1,109	—	95.4%
Eagle Crest	396	447	1/31/2014	969	922	96.6%	94.9%
Silverbrook	526	642	1/31/2014	870	835	95.5%	94.9%
Beechwood Terrace	272	300	7/21/2014	937	933	91.3%	93.7%
Willow Grove	(4) 229	244	7/21/2014	1,002	960	97.5%	95.1%
Woodbridge	(4) 247	220	7/21/2014	1,061	1,028	91.8%	94.1%
The Summit at Sabal Park	205	252	8/20/2014	1,010	955	97.2%	94.4%
Courtney Cove	225	324	8/20/2014	927	895	94.8%	95.7%
Radbourne Lake	247	225	9/30/2014	1,118	1,082	90.7%	96.0%
Timber Creek	248	352	9/30/2014	916	847	94.9%	92.6%
Sabal Palm at Lake Buena Vista	371	400	11/5/2014	1,270	1,255	93.8%	96.5%
Southpoint Reserve at Stoney Creek(4)	116	156	12/18/2014	1,152	1,093	92.3%	98.1%
Cornerstone	318	430	1/15/2015	1,053	1,007	95.6%	94.2%
The Preserve at Terrell Mill	692	752	2/6/2015	969	921	94.9%	94.8%
Versailles	301	388	2/26/2015	923	884	93.0%	96.4%
Seasons 704 Apartments	217	222	4/15/2015	1,155	1,130	94.6%	96.8%
Madera Point	193	256	8/5/2015	924	866	96.1%	94.5%
Venue at 8651	289	333	10/30/2015	924	875	96.1%	92.8%
Parc500	266	217	7/27/2016	1,304	1,254	93.1%	94.9%
The Venue on Camelback	256	415	10/11/2016	777	719	94.2%	93.3%
Old Farm	697	734	12/29/2016	1,162	1,176	92.8%	92.9%
Stone Creek at Old Farm	186	190	12/29/2016	1,194	1,173	95.8%	96.8%
Hollister Place	246	260	2/1/2017	995	984	93.1%	93.5%
Rockledge Apartments	802	708	6/30/2017	1,260	1,186	95.3%	94.6%
Atera Apartments	334	380	10/25/2017	1,256	1,232	93.4%	97.4%
Cedar Pointe	224	210	8/24/2018	1,066	1,051	91.4%	95.7%
Crestmont Reserve	199	242	9/26/2018	902	914	94.2%	94.6%
Brandywine I & II	414	632	9/26/2018	978	957	93.7%	93.8%
Bella Vista	243	248	1/28/2019	1,265	—(5)	97.2%	— (5)
The Enclave	194	204	1/28/2019	1,295	—(5)	93.6%	— (5)
The Heritage	199	204	1/28/2019	1,265	—(5)	96.6%	— (5)
Summers Landing	139	196	6/7/2019	920	—(5)	91.8%	— (5)
Residences at Glenview Reserve	344	360	7/17/2019	977	—(5)	94.4%	— (5)
Residences at West Place	345	342	7/17/2019	1,211	—(5)	92.7%	— (5)
Avant at Pembroke Pines	1,442	1520	8/30/2019	1,498	—(5)	93.7%	— (5)
Arbors of Brentwood	325	346	9/10/2019	1,192	—(5)	96.2%	— (5)
Torreyana Apartments	309	315	11/22/2019	1,171	—(5)	95.6%	— (5)
Bloom	498	528	11/22/2019	1,105	—(5)	90.9%	— (5)
Bella Solara	271	320	11/22/2019	1,136	—(5)	91.9%	— (5)
	<u>13,378</u>	<u>14,920 (6)</u>					

\* Information is unaudited.

- (1) Average effective monthly rent per unit is equal to the average of the contractual rent for commenced leases as of December 31, 2019 and December 31, 2018, respectively, minus any tenant concessions over the term of the lease, divided by the number of units under commenced leases as of December 31, 2019 and December 31, 2018, respectively.
- (2) Percent occupied is calculated as the number of units occupied as of December 31, 2019 and 2018, divided by the total number of units, expressed as a percentage.

- (3) Cutter's Point incurred significant tornado damage on October 20, 2019 which resulted in the property ceasing operations in order to start reconstruction (see Note 5).
- (4) Property was classified as held for sale as of December 31, 2019.
- (5) Properties were acquired in 2019.
- (6) Represents total units owned by the Company as of December 31, 2019 inclusive of Cutter's Point. Cutter's Point is currently undergoing repairs after being struck by a tornado as discussed in Note 5, and as such, has been excluded from all other portfolio metrics such as occupancy percentage and weighted average rent per unit, etc. Total units exclusive of Cutter's Point are 14,724 as of December 31, 2019.

## 5. Real Estate Investments

As of December 31, 2019, 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	\$ 11,585	\$ —	\$ —	\$ 1,520	\$ 15,435
Cutter's Point	3,330	2,563	—	2,648	1,878	10,419
Eagle Crest	5,450	23,830	—	—	1,832	31,112
Silverbrook	4,860	27,091	—	—	4,630	36,581
Beechwood Terrace	1,390	22,000	—	70	2,535	25,995
The Summit at Sabal Park	5,770	13,600	—	—	1,598	20,968
Courtney Cove	5,880	13,413	—	2	1,982	21,277
Radbourne Lake	2,440	22,465	—	—	1,997	26,902
Timber Creek	11,260	13,993	—	—	2,939	28,192
Sabal Palm at Lake Buena Vista	7,580	41,841	—	492	2,108	52,021
Cornerstone	1,500	30,653	—	—	2,977	35,130
The Preserve at Terrell Mill	10,170	49,216	—	8	6,183	65,577
Versailles	6,720	21,688	—	8	3,736	32,152
Seasons 704 Apartments	7,480	14,336	—	—	1,482	23,298
Madera Point	4,920	17,615	—	—	2,042	24,577
Venue at 8651	2,350	18,192	—	21	3,330	23,893
Parc500	3,860	20,821	—	193	3,202	28,076
The Venue on Camelback	8,340	37,992	—	—	2,086	48,418
Old Farm	11,078	70,670	—	40	2,950	84,738
Stone Creek at Old Farm	3,493	19,436	—	1	716	23,646
Hollister Place	2,782	21,788	—	—	2,159	26,729
Rockledge Apartments	17,451	96,108	—	134	4,759	118,452
Atera Apartments	22,371	37,442	—	8	2,044	61,865
Cedar Pointe	2,372	24,193	—	24	1,268	27,857
Crestmont Reserve	4,124	20,613	—	—	1,272	26,009
Brandywine I & II	6,237	73,004	—	58	3,148	82,447
Bella Vista	10,942	36,690	—	—	1,500	49,132
The Enclave	11,046	30,224	—	24	1,176	42,470
The Heritage	6,835	34,580	—	—	1,246	42,661
Summers Landing	1,798	16,958	—	35	528	19,319
Residences at Glenview Reserve	3,367	40,202	—	11	837	44,417
Residences at West Place	3,345	50,884	—	244	810	55,283
Avant at Pembroke Pines	48,436	266,103	6,989	217	5,376	327,121
Arbors of Brentwood	6,346	54,995	1,215	137	779	63,472
Torreyana Apartments	23,823	42,721	1,201	—	655	68,400
Bloom	23,805	80,365	1,851	—	1,095	107,116
Bella Solara	12,605	52,449	1,158	—	663	66,875
	317,886	1,472,319	12,414	4,375	81,038	1,888,032
Accumulated depreciation and amortization	—	(105,335)	(6,171)	—	(41,046)	(152,552)
<b>Total Operating Properties</b>	<b>\$ 317,886</b>	<b>\$ 1,366,984</b>	<b>\$ 6,243</b>	<b>\$ 4,375</b>	<b>\$ 39,992</b>	<b>\$ 1,735,480</b>
<b>Held For Sale Property</b>						
Southpoint Reserve at Stoney Creek	6,120	11,502	—	1	968	18,591
Woodbridge	3,650	13,296	—	—	1,934	18,880
Willow Grove	3,940	10,946	—	—	1,832	16,718
Accumulated depreciation and amortization	—	(5,390)	—	—	(2,469)	(7,859)
<b>Total Held For Sale Property</b>	<b>\$ 13,710</b>	<b>\$ 30,354</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ 2,265</b>	<b>\$ 46,330</b>
<b>Total</b>	<b>\$ 331,596</b>	<b>\$ 1,397,338</b>	<b>\$ 6,243</b>	<b>\$ 4,376</b>	<b>\$ 42,257</b>	<b>\$ 1,781,810</b>

As of December 31, 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	\$ 11,319	\$ —	\$ —	\$ 1,047	\$ 14,696
Cutter's Point	3,330	13,347	—	—	1,320	17,997
Eagle Crest	5,450	22,969	—	—	1,563	29,982
Silverbrook	4,860	26,485	—	60	3,230	34,635
Edgewater at Sandy Springs	14,290	44,186	—	349	5,083	63,908
Beechwood Terrace	1,390	21,123	—	31	1,670	24,214
Willow Grove	3,940	10,829	—	—	1,231	16,000
Woodbridge	3,650	13,125	—	—	1,536	18,311
Abbingtion Heights	1,770	17,140	—	—	1,539	20,449
The Summit at Sabal Park	5,770	13,447	—	43	1,347	20,607
Courtney Cove	5,880	13,170	—	—	1,268	20,318
Radbourne Lake	2,440	22,138	—	72	1,536	26,186
Timber Creek	11,260	13,582	—	—	1,556	26,398
Belmont at Duck Creek	1,910	17,397	—	—	1,471	20,778
Sabal Palm at Lake Buena Vista	7,580	41,336	—	—	1,280	50,196
Cornerstone	1,500	30,513	—	—	1,885	33,898
The Preserve at Terrell Mill	10,170	49,091	—	57	4,843	64,161
The Ashlar	4,090	12,845	—	—	2,017	18,952
Heatherstone	2,320	8,132	—	—	1,199	11,651
Versailles	6,720	21,513	—	—	3,033	31,266
Seasons 704 Apartments	7,480	14,223	—	—	1,288	22,991
Madera Point	4,920	17,570	—	—	1,431	23,921
The Pointe at the Foothills	4,840	46,998	—	—	2,078	53,916
Venue at 8651	2,350	18,084	—	—	2,499	22,933
Parc500	3,860	20,692	—	37	2,600	27,189
The Colonnade	8,340	37,086	—	567	1,604	47,597
Old Farm	11,078	70,471	—	—	1,800	83,349
Stone Creek at Old Farm	3,493	19,394	—	—	467	23,354
Hollister Place	2,782	21,389	—	135	1,410	25,716
Rockledge Apartments	17,451	95,484	—	428	3,314	116,677
Atera Apartments	22,371	36,563	—	86	1,151	60,171
Cedar Pointe (1)	2,371	23,458	600	16	441	26,886
Crestmont Reserve	4,124	19,544	687	—	504	24,859
Brandywine I & II	6,237	70,961	1,762	—	1,215	80,175
	202,347	935,604	3,049	1,881	61,456	1,204,337
Accumulated depreciation and amortization	—	(95,364)	(1,625)	—	(37,135)	(134,124)
<b>Total Operating Properties</b>	<b>\$ 202,347</b>	<b>\$ 840,240</b>	<b>\$ 1,424</b>	<b>\$ 1,881</b>	<b>\$ 24,321</b>	<b>\$ 1,070,213</b>
<b>Held For Sale Properties</b>						
Southpoint Reserve at Stoney Creek	6,120	11,319	—	—	787	18,226
Accumulated depreciation and amortization	—	(736)	—	—	(161)	(897)
<b>Total Held For Sale Properties</b>	<b>\$ 6,120</b>	<b>\$ 10,583</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 626</b>	<b>\$ 17,329</b>
<b>Total</b>	<b>\$ 208,467</b>	<b>\$ 850,823</b>	<b>\$ 1,424</b>	<b>\$ 1,881</b>	<b>\$ 24,947</b>	<b>\$ 1,087,542</b>

(1) The EAT that directly owned Cedar Pointe was consolidated as a VIE at December 31, 2018. The master lease agreement with the EAT that directly owned Cedar Pointe terminated on February 20, 2019, at which time legal title to Cedar Pointe transferred to the Company. Upon the transfer of title, the entity that directly owned Cedar Pointe was no longer considered a VIE.

Depreciation expense was \$56.4 million, \$45.0 million and \$39.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Amortization expense related to the Company's intangible lease assets was \$12.7 million, \$2.5 million and \$8.9 for the years ended December 31, 2019, 2018 and 2017, respectively. Amortization expense related to the Company's intangible lease assets for all acquisitions completed through December 31, 2019 is expected to be \$6.2 million in 2020. Due to the six-month useful life attributable to intangible lease assets, the value of intangible lease assets on any acquisition prior to June 30, 2019 has been fully amortized and the assets and related accumulated amortization have been written off as of December 31, 2019.

### Acquisitions

The Company acquired 11 properties during the year ended December 31, 2019, as detailed in the table below (dollars in thousands). The Company acquired three properties for a combined purchase price of approximately \$131.0 million during the year ended December 31, 2018. See Notes 3, 4 and 6 for additional information.

Property Name	Location	Date of Acquisition	Purchase Price	Mortgage Debt (1)	# Units	Effective Ownership
Bella Vista	Phoenix, Arizona	January 28, 2019	\$ 48,400	\$ 29,040	248	100%
The Enclave	Tempe, Arizona	January 28, 2019	41,800	25,322	204	100%
The Heritage	Phoenix, Arizona	January 28, 2019	41,900	24,625	204	100%
Summers Landing	Fort Worth, Texas	June 7, 2019	19,396	10,109	196	100%
Residences at Glenview Reserve	Nashville, Tennessee	July 17, 2019	45,000	26,560	360	100%
Residences at West Place	Orlando, Florida	July 17, 2019	55,000	33,817	342	100%
Avant at Pembroke Pines	Pembroke Pines, Florida	August 30, 2019	322,000	177,100	1,520	100%
Arbors of Brentwood	Nashville, Tennessee	September 10, 2019	62,250	34,237	346	100%
Torreyana Apartments	Las Vegas, Nevada	November 22, 2019	68,000	37,400	315	100%
Bloom	Las Vegas, Nevada	November 22, 2019	106,500	58,850	528	100%
Bella Solara	Las Vegas, Nevada	November 22, 2019	66,500	36,575	320	100%
			<u>\$ 876,746</u>	<u>\$ 493,635</u>	<u>4,583</u>	

(1) For additional information regarding the Company's debt, see Note 6.

### Dispositions

The Company sold six properties during the year ended December 31, 2019, as detailed in the table below (in thousands). The Company sold one property for approximately \$30.0 million during the year ended December 31, 2018.

Property Name	Location	Date of Sale	Sales Price	Net Cash Proceeds (1)	Gain on Sale of Real Estate
Edgewater at Sandy Springs	Atlanta, Georgia	August 28, 2019	\$ 101,250	\$ 100,120	\$ 47,332
Abbingtion Heights	Antioch, Tennessee	August 30, 2019	28,050	27,605	10,887
Belmont at Duck Creek	Garland, Texas	August 28, 2019	29,500	29,102	11,993
The Ashlar	Dallas, Texas	August 28, 2019	29,400	29,029	13,205
Heatherstone	Dallas, Texas	August 28, 2019	16,275	16,032	6,366
The Pointe at the Foothills	Mesa, Arizona	August 28, 2019	85,400	84,591	37,901
			<u>\$ 289,875</u>	<u>\$ 286,479</u>	<u>\$ 127,684</u>

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

## Cutter's Point Casualty Losses

On October 20, 2019, as a result of a tornado, the Cutter's Point property suffered significant property damage. The damage incurred rendered the Property inoperable; therefore, the Company has ceased operations at the property as it is under reconstruction. In relation to this event, the Company wrote down the carrying value of Cutter's Point by approximately \$7.8 million, and, in accordance with ASC 610 *Other Income*, the Company recognized approximately \$3.5 million in casualty losses on the consolidated statement of operations and comprehensive income during the year ended December 31, 2019. Also, the Company filed a business interruption insurance claim and recognized approximately \$0.6 million for the lost rent, which is included in miscellaneous income on the consolidated statement of operations and comprehensive income for the year ended December 31, 2019. Lost rental income is insured and the Company expects any operating losses resulting from the damage to be immaterial while the property undergoes reconstruction. Starting November 1, 2019, the Company began capitalizing insurance expense, real estate taxes, interest expense and debt issuance costs to construction in progress and stopped depreciation due to Cutter's Point being under development. As of December 31, 2019, approximately \$0.2 million of these costs have been capitalized. As of December 31, 2019, Cutter's Point was excluded from the portfolio's total unit count and all same store pools due to the property temporarily ceasing operations while it under goes reconstruction which is estimated to be completed in 2021.

## 6. Debt

### Mortgage Debt

The following table contains summary information concerning the mortgage debt of the Company as of December 31, 2019 (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	3.44%	7/1/2024
Cutter's Point	(3)	Floating	84	16,640	3.44%	7/1/2024
Eagle Crest	(3)	Floating	84	29,510	3.44%	7/1/2024
Silverbrook	(3)	Floating	84	30,590	3.44%	7/1/2024
Beechwood Terrace	(3)	Floating	84	23,365	3.20%	9/1/2025
The Summit at Sabal Park	(3)	Floating	84	13,560	3.38%	7/1/2024
Courtney Cove	(3)	Floating	84	13,680	3.38%	7/1/2024
The Preserve at Terrell Mill	(3)	Floating	84	42,480	3.38%	7/1/2024
Versailles	(3)	Floating	84	23,880	3.38%	7/1/2024
Seasons 704 Apartments	(3)	Floating	84	17,460	3.38%	7/1/2024
Madera Point	(3)	Floating	84	15,150	3.38%	7/1/2024
Venue at 8651	(3)	Floating	84	13,734	3.54%	7/1/2024
The Venue on Camelback	(3)	Floating	84	28,093	3.44%	7/1/2024
Old Farm	(3)	Floating	84	52,886	3.44%	7/1/2024
Stone Creek at Old Farm	(3)	Floating	84	15,274	3.44%	7/1/2024
Timber Creek	(3)	Floating	84	24,100	3.02%	10/1/2025
Radbourne Lake	(3)	Floating	84	20,000	3.05%	10/1/2025
Sabal Palm at Lake Buena Vista	(3)	Floating	84	42,100	3.06%	9/1/2025
Cornerstone	(4)	Fixed	120	21,772	4.24%	3/1/2023
Parc500	(5)	Fixed	120	15,221	4.49%	8/1/2025
Hollister Place	(3)	Floating	84	14,811	3.10%	10/1/2025
Rockledge Apartments	(3)	Floating	84	68,100	3.33%	7/1/2024
Atera Apartments	(3)	Floating	84	29,500	3.24%	11/1/2024
Cedar Pointe	(6)	Floating	84	17,300	3.11%	9/1/2025
Crestmont Reserve	(3)	Floating	84	12,061	2.94%	10/1/2025
Brandywine I & II	(3)	Floating	84	43,835	2.94%	10/1/2025
Bella Vista	(7)	Floating	84	29,040	3.08%	2/1/2026
The Enclave	(7)	Floating	84	25,322	3.08%	2/1/2026
The Heritage	(7)	Floating	84	24,625	3.08%	2/1/2026
Summers Landing	(8)	Floating	84	10,109	2.94%	10/1/2025
Residences at Glenview Reserve	(9)	Floating	84	26,560	3.20%	10/1/2025
Residences at West Place	(9)	Fixed	120	33,817	4.24%	10/1/2028
Avant at Pembroke Pines	(3)	Floating	84	177,100	3.19%	9/1/2026
Arbors of Brentwood	(3)	Floating	84	34,237	3.19%	10/1/2026
Torreyana Apartments	(10)	Floating	84	37,400	3.46%	12/1/2026
Bloom	(10)	Floating	84	58,850	3.46%	12/1/2026
Bella Solara	(10)	Floating	84	36,575	3.46%	12/1/2026
				\$ 1,151,867		
Fair market value adjustment					1,463 (11)	
Deferred financing costs, net of accumulated amortization of \$2,494					(7,959)	
				\$ 1,145,371		



<b>Held For Sale Properties</b>							
Southpoint Reserve at Stoney Creek	(3)	Floating	84	\$	13,166	3.87%	1/1/2022
Woodbridge	(3)	Floating	84		13,677	3.54%	7/1/2024
Willow Grove	(3)	Floating	84		14,818	3.54%	7/1/2024
					\$	41,661	
Deferred financing costs, net of accumulated amortization of \$362						(485)	
					\$	<u>41,176</u>	

- (1) Mortgage debt that is non-recourse to the Company and encumbers the multifamily properties.
- (2) Interest rate is based on one-month LIBOR plus an applicable margin, except for fixed rate mortgage debt. One-month LIBOR as of December 31, 2019 was 1.7625%.
- (3) Loan can be pre-paid in the first 12 months of the term in certain circumstances at par plus 5.00%. Starting in the 13<sup>th</sup> month of the term through the 81<sup>st</sup> 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) 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 13<sup>th</sup> 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 December 31, 2019, the total indebtedness secured by the property had a blended interest rate of 4.24%.
- (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 four months of the term.
- (6) Loan can be pre-paid in the first 12 months of the term in certain circumstances at par plus 5.00%. Starting in the 13<sup>th</sup> month of the term through the 81<sup>st</sup> 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) Loan can be pre-paid in the first 12 months of the term in certain circumstances at par plus 5.00%. Starting in the 13<sup>th</sup> month of the term through the 81<sup>st</sup> 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.
- (8) Debt was assumed upon acquisition of this property and recorded at approximated fair value. It can be pre-paid in the first 12 months of the term in certain circumstances at par plus 5.00%. Starting in the 13<sup>th</sup> month of the term through the 81<sup>st</sup> 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.
- (9) Debt was assumed upon acquisition of this property and recorded at approximated fair value. The loan can be prepaid at the greater of par plus 1.00% of the unpaid principal balance or the product obtained by multiplying the present value of the principal being prepaid by the excess of the monthly fixed interest rate of the loan over a daily discount rate. The loan is open to pre-payment in the last three months of the term.
- (10) Loan can be pre-paid in the first 12 months of the term in certain circumstances at par plus 5.00%. Starting in the 13<sup>th</sup> month of the term through the 81<sup>st</sup> 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.
- (11) The Company reflected a valuation adjustment on its fixed rate debt for Parc500 and Residences at West Place to adjust it to fair market value on their respective dates 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 terms of the mortgages.

During the year ended December 31, 2019, the Company sold six properties and repaid the related mortgage loans that encumbered the properties, as detailed in the table below (in thousands):

<b>Property Name</b>	<b>Date of Sale</b>	<b>Type</b>	<b>Outstanding Principal (1)</b>
Edgewater at Sandy Springs	August 28, 2019	Floating	\$ 52,000
Abbingtion Heights	August 30, 2019	Floating	16,920
Belmont at Duck Creek	August 28, 2019	Floating	17,760
The Ashlar	August 28, 2019	Floating	14,520
Heatherstone	August 28, 2019	Floating	8,880
The Pointe at the Foothills	August 28, 2019	Floating	34,800
			\$ <u>144,880</u>

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

The weighted average interest rate of the Company's mortgage indebtedness was 3.34% as of December 31, 2019 and 4.07% as of December 31, 2018. The decrease between the periods is primarily related to a decrease in one-month LIBOR of approximately 74 basis points to 1.7625% as of December 31, 2019 from 2.5027% as of December 31, 2018. As of December 31, 2019, the adjusted weighted average interest rate of the Company's mortgage indebtedness was 3.06%. 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 1.4147% for one-month LIBOR on its combined \$975.0 million notional amount of interest rate swap agreements, which effectively fix the interest rate on \$975.0 million of the Company's floating rate mortgage indebtedness (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 December 31, 2019, 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 (the "Green 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. In connection with the three acquisitions and seven refinancings the Company completed in 2018, the Company escrowed approximately \$1.2 million related to the Green Program. As of December 31, 2019, the Company has completed its Green Program improvements on all but two properties. Due to changes in Freddie Mac's requirements to participate in the Green Program, we are not implementing this on acquisitions going forward.

#### *Credit Facility*

The following table contains summary information concerning the Company's credit facility as of December 31, 2019 (dollars in thousands):

	Type	Term (months)	Outstanding Principal	Interest Rate (1)	Maturity Date
Corporate Credit Facility	Floating	24	\$ 41,700	3.69%	1/28/2021
Corporate Credit Facility	Floating	24	19,000	3.74%	1/28/2021
Corporate Credit Facility	Floating	24	111,000	3.76%	1/28/2021
Corporate Credit Facility	Floating	24	46,300	3.80%	1/28/2021
Deferred financing costs, net of accumulated amortization of \$553			(1,499)		
			<u>\$ 216,501</u>		

(1) Interest rate is based on one-month LIBOR plus an applicable margin. One-month LIBOR as of December 31, 2019 was 1.7625%.

*Corporate Credit Facility.* On January 28, 2019, the Company, through the OP, entered into a \$75.0 million credit facility (the "Corporate Credit Facility") with SunTrust Bank, as administrative agent and the lenders party thereto, and immediately drew \$52.5 million to fund a portion of the purchase price of Bella Vista, The Enclave, and The Heritage. The Corporate Credit Facility is a full-term, interest-only facility with an initial 24-month term, that can be extended 12-months at the option of the Company for a minimal fee provided that the Company is not in default. The Company meets the conditions and expects to meet them going forward. The Company has the right to request an increase in the facility amount up to \$150 million (the "Accordion Feature"). The facility bears interest at a rate of one-month LIBOR plus a range from 2.00% to 2.50%, depending on the Company's leverage level as determined under the Corporate Credit Facility agreement, and is guaranteed by the Company. On June 29, 2019, the Company, through the OP, exercised its option under the Accordion Feature of the Corporate Credit Facility and increased the amount of the facility from \$75 million to \$125 million. In conjunction with the increase in the facility, the Company incurred costs of \$0.5 million in obtaining the additional financing through the Accordion Feature (see "Deferred Financing Costs" below). On August 28, 2019, the Company, through the OP, increased the amount of the Corporate Credit Facility by \$25 million, resulting in incurred costs of \$0.2 million of deferred financing costs. On November 20, 2019, the Company, through the OP, increased the amount of the Corporate Credit Facility by \$75 million, resulting in aggregate commitments of \$225 million as of December 31, 2019. In conjunction with the increase in the facility, the Company incurred costs of \$0.8 million of deferred financing costs.

*\$60 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 repaid in full on July 25, 2018. 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.

On September 26, 2018, the Company, through the OP, repaid the \$30.0 million outstanding under the \$30 Million Credit Facility and amended the loan agreement, extending the maturity date to September 26, 2020 and increasing the loan commitment to \$60.0 million (the “\$60 Million Credit Facility”). The Company accounted for the refinancing as an extinguishment of a debt instrument. The Company, through the OP, immediately drew \$50.0 million to fund a portion of the purchase price of Brandywine I & II and Crestmont Reserve.

The \$60 Million Credit Facility was a full-term, interest-only facility with a 24-month term and was guaranteed by the Company. Interest accrued on the \$60 Million Credit Facility at an interest rate of one-month LIBOR plus 2.00%. In November 2018, the Company, through the OP, used net proceeds from the 2018 Offering (as defined below) (see Note 8) to repay the \$50.0 million outstanding under the \$60 Million Credit Facility, which retired the credit facility. In connection with the repayment, the Company, through the OP, received a commitment fee rebate of approximately \$0.8 million from KeyBank, which was previously capitalized as a deferred financing cost on the Company’s consolidated balance sheet as of September 30, 2018.

*\$30 Million Bridge Facility.* On September 26, 2018, the Company, through the OP, entered into a \$30.0 million bridge facility (the “\$30 Million Bridge Facility”) with KeyBank and immediately drew \$30.0 million to fund a portion of the purchase price of Brandywine I & II and Crestmont Reserve. The \$30 Million Bridge Facility was a full-term, interest-only facility with a six-month term and was guaranteed by the Company. Interest accrued on the \$30 Million Bridge Facility at an interest rate of one-month LIBOR plus 2.00%. In November 2018, the Company, through the OP, used net proceeds from the 2018 Offering to repay the \$30.0 million outstanding under the \$30 Million Bridge Facility, which retired the bridge facility. In connection with the repayment, the Company, through the OP, received a commitment fee rebate of approximately \$0.3 million from KeyBank, which was previously capitalized as a deferred financing cost on the Company’s consolidated balance sheet as of September 30, 2018.

*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 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 years ended December 31, 2019, 2018 and 2017, the Company wrote-off deferred financing costs of approximately \$1.4 million, \$1.4 million and \$1.0 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 years ended December 31, 2019, 2018 and 2017, amortization of deferred financing costs of approximately \$2.1 million, \$1.7 million and \$2.0 million, respectively, is included in interest expense on the consolidated statements of operations and comprehensive income.

#### *Loss on Extinguishment of Debt and Modification Costs*

Loss on extinguishment of debt and modification costs includes prepayment penalties and defeasance costs incurred on the early repayment of debt, costs incurred in a debt modification that are not capitalized as deferred financing costs and other costs incurred in a debt extinguishment.

### *Schedule of Debt Maturities*

The aggregate scheduled maturities, including amortizing principal payments, of total debt for the next five calendar years subsequent to December 31, 2019 are as follows (in thousands):

	<b>Operating Properties</b>	<b>Held For Sale Property</b>	<b>Credit Facility</b>	<b>Total</b>
2020	\$ 744	\$ 262	\$ —	\$ 1,006
2021	872	281	218,000	219,153
2022	1,367	12,622	—	13,989
2023	21,155	—	—	21,155
2024	424,558	28,496	—	453,054
Thereafter	703,171	—	—	703,171
Total	<u>\$ 1,151,867</u>	<u>\$ 41,661</u>	<u>\$ 218,000</u>	<u>\$ 1,411,528</u>

### **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, ASC 820 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 December 31, 2019, 2018 and 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 years ended December 31, 2019, 2018 and 2017, interest rate cap derivatives were used to hedge the variable cash flows associated with a portion of the Company's floating rate debt. The interest rate cap agreements the Company has entered into effectively cap one-month LIBOR on \$346.5 million of the Company's floating rate mortgage indebtedness at a weighted average rate of 5.74%.

The changes in the 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 years ended December 31, 2019 and 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 year ended December 31, 2017, the Company recorded approximately \$0.3 million 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 10 interest rate swap transactions with KeyBank and one with SunTrust (the "Counterparties") with a combined notional amount of \$975.0 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 1.4147%. The Company has designated these interest rate swaps as cash flow hedges of interest rate risk.

As of December 31, 2019, 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	Counterparty	Notional	Fixed Rate (1)
July 1, 2016	June 1, 2021	KeyBank	\$ 100,000	1.1055%
July 1, 2016	June 1, 2021	KeyBank	100,000	1.0210%
July 1, 2016	June 1, 2021	KeyBank	100,000	0.9000%
September 1, 2016	June 1, 2021	KeyBank	100,000	0.9560%
April 1, 2017	April 1, 2022	KeyBank	100,000	1.9570%
May 1, 2017	April 1, 2022	KeyBank	50,000	1.9610%
July 1, 2017	July 1, 2022	KeyBank	100,000	1.7820%
June 1, 2019	June 1, 2024	KeyBank	50,000	2.0020%
June 1, 2019	June 1, 2024	SunTrust	50,000	2.0020%
September 1, 2019	September 1, 2026	KeyBank	100,000	1.4620%
September 1, 2019	September 1, 2026	KeyBank	125,000	1.3020%
			<u>\$ 975,000</u>	<u>1.4147%(2)</u>

- (1) The floating rate option for the interest rate swaps is one-month LIBOR. As of December 31, 2019, one-month LIBOR was 1.7625%.
- (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 as hedges. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in net income (loss) as interest expense.

As of December 31, 2019, 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	15	\$ 346,542

As of December 31, 2018, the Company had 12 interest rate cap derivatives, with a notional amount of \$255.2 million, which were not designated as hedges in qualifying hedging relationships. As of December 31, 2017, the Company had 16 interest rate cap derivatives, with a notional amount of \$273.5 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 December 31, 2019 and 2018 (in thousands):

Balance Sheet Location	Asset Derivatives		Liability Derivatives	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Derivatives designated as hedging instruments:				
Interest rate swaps	\$ 7,298	\$ 18,141	\$ 3,824	\$ —
Derivatives not designated as hedging instruments:				
Interest rate caps	—	10	—	—
Total	<u>\$ 7,298</u>	<u>\$ 18,151</u>	<u>\$ 3,824</u>	<u>\$ —</u>

The tables below present the effect of the Company's derivative financial instruments on the consolidated statements of operations and comprehensive income for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Amount of gain (loss) recognized in OCI			Location of gain (loss) reclassified from accumulated OCI into income	Amount of gain (loss) reclassified from OCI into income			Location of gain (loss) recognized in income	Amount of gain (loss) recognized in income		
	2019	2018 (1)	2017 (1)		2019	2018 (1)	2017 (1)		2019	2018 *(2)	2017 *(2)(3)
Derivatives designated as hedging instruments:											
For the year ended December 31,											
Interest rate products	\$(8,153)	\$5,928	\$ 2,967	Interest expense	\$ 6,472	\$ 3,997	\$(1,416)	Interest expense	\$ —	\$ —	\$ 124

\* 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 \$185,000 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		
		2019	2018	2017
Derivatives not designated as hedging instruments:				
For the year ended December 31,				
Interest rate products	Interest expense	\$ (30)	\$ (49)	\$ (19)

#### 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 December 31, 2019 and 2018, 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 year ended December 31, 2019, the Company noted there was no impairment, but incurred a casualty loss that resulted in a net write down of approximately \$7.8 million.

on Cutter's Point (see Note 5). The Company did not record any write downs related to real estate assets for the years ended December 31, 2018 and 2017.

## **8. Stockholders' Equity**

### *Common Stock*

On March 15, 2017, the Company filed a registration statement on Form S-3 (the "Registration Statement"), registering an indeterminate aggregate principal amount and number of securities of each identified class of securities therein up to a proposed aggregate offering price of \$200,000,000, which may be offered from time to time in unspecified numbers and at indeterminate prices, as may be issued upon conversion, redemption, repurchase, exchange or exercise of any securities registered thereunder, including under any applicable anti-dilution provisions. The Registration Statement also covers an indeterminate number of securities that may become issuable as a result of stock splits, stock dividends or similar transactions relating to the securities registered thereunder.

On November 14, 2018, the Company issued 2,702,500 shares of common stock, par value \$0.01 per share, at a public offering price of \$33.00 per share (before underwriters' discounts and offering costs) for gross proceeds of approximately \$89.2 million (the "2018 Offering"). The common stock was offered and sold pursuant to a prospectus supplement, dated November 14, 2018, and a base prospectus, dated April 24, 2017, relating to the Registration Statement. The Company contributed the net proceeds from the 2018 Offering to the OP in exchange for 2,702,500 OP Units, and the OP in turn used a majority of the net proceeds to repay the \$50.0 million outstanding under the \$60 Million Credit Facility and the \$30.0 million outstanding under the \$30 Million Bridge Facility.

During the year ended December 31, 2019, the Company issued 180,783 shares of common stock pursuant to its long-term incentive plan (see "Long Term Incentive Plan" below) and 1,565,322 pursuant to its at-the-market offering (see "At-the-Market Offering" below).

As of December 31, 2019, the Company had 25,245,740 shares of common stock, par value \$0.01 per share, issued and outstanding.

### *Share Repurchase Program*

On June 15, 2016, the Board authorized the Company to repurchase up to \$30.0 million of its common stock, par value \$0.01 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 increased the Share Repurchase Program to up to \$40.0 million and extended 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.

### *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 years ended December 31, 2019 and 2018, the Company retired no shares of its common stock held in treasury. As of December 31, 2019 and 2018, 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, par value \$0.01 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 five-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. On February 21, 2019, pursuant to the 2016 LTIP, the Company granted 186,662 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 December 31, 2019:

	2019	
	Number of Units	Weighted Average Grant Date Fair Value
Outstanding January 1,	464,626	\$ 22.80
Granted	186,662	37.50
Vested	(197,863) (1)	23.10
Forfeited	(6,386)	—
Outstanding December 31,	<u>447,039</u> (2)	<u>\$ 29.13</u>

- (1) Certain key employees of the Adviser elected to net the taxes owed upon vesting against the shares issued resulting in 180,783 shares being issued as shown on the Consolidated Statement of Stockholders’ Equity.
- (2) 108,613 restricted stock units vest in February 2020, 69,530 vest in March 2020, 99,564 vest in February 2021, 99,563 vest in February 2022, 34,883 vest in February 2023 and 34,886 vest in February 2024.

As of December 31, 2019, the Company had issued 421,551 shares of common stock under the 2016 LTIP. For the years ended December 31, 2019, 2018 and 2017, the Company recognized approximately \$5.1 million, \$4.2 million and \$3.1 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. As of December 31, 2019, the Company had recognized a liability of approximately \$0.8 million related to dividends earned on restricted stock units that are payable in cash upon vesting.

#### *At-the-Market Offering*

On February 20, 2019, the Company, the OP and the Adviser entered into separate equity distribution agreements with each of Jefferies LLC (“Jefferies”), Raymond James & Associates, Inc. (“Raymond James”) and SunTrust Robinson Humphrey, Inc. (together with Raymond James and Jefferies, the “Sales Agents”), pursuant to which the Company may issue and sell from time to time shares of the Company’s common stock, par value \$0.01 per share, having an aggregate sales price of up to \$100,000,000 (the “ATM Program”). Sales of shares of common stock, if any, may be made in transactions that are deemed to be “at the market” offerings, as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), including, without limitation, sales made by means of ordinary brokers’ transactions on the New York Stock Exchange, to or through a market maker at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices based on prevailing market prices. In addition to the issuance and sale of shares of common stock, the Company may enter into forward sale agreements with each of Jefferies and Raymond James, or their respective affiliates, through the ATM Program. During the year ended December 31, 2019, the Company issued 1,565,322 shares of common stock at an average price of \$45.98 per share for gross proceeds of approximately \$72.0 million. The Company paid approximately \$1.1 million in fees to the Sales Agents with respect to such sales and incurred other issuance costs of approximately \$1.0 million, both of which were netted against the gross proceeds and recorded in additional paid in capital. The ATM Program may be terminated by the Company at any time and expires automatically once aggregate sales under the ATM Program reach \$100,000,000. The following table contains summary information of the ATM Program:

Gross proceeds	\$ 71,973,433
Common shares sold	1,565,322
Gross average sale price per share	<u>\$ 45.98</u>
Sales commissions	\$ 1,079,601
Offering costs	1,019,778
Net proceeds	69,874,054
Average price per share, net	<u>\$ 44.64</u>

## 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 Year Ended December 31,		
	2019	2018	2017
<b>Numerator for earnings (loss) per share:</b>			
Net income (loss)	\$ 99,438	\$ (1,614)	\$ 56,359
Net income attributable to noncontrolling interests	—	—	2,836
Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	298	(5)	149
<b>Net income (loss) attributable to common stockholders</b>	<b>\$ 99,140</b>	<b>\$ (1,609)</b>	<b>\$ 53,374</b>
<b>Denominator for earnings (loss) per share:</b>			
Weighted average common shares outstanding	24,116	21,189	21,057
Denominator for basic earnings (loss) per share	24,116	21,189	21,057
Weighted average unvested restricted stock units	477	478	342
Denominator for diluted earnings (loss) per share	24,593	21,667	21,399
<b>Earnings (loss) per weighted average common share:</b>			
Basic	\$ 4.11	\$ (0.08)	\$ 2.53
Diluted	\$ 4.03	\$ (0.08)	\$ 2.49

## 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 year ended December 31, 2019 (in thousands):

<b>Redeemable noncontrolling interests in the OP, December 31, 2018</b>	<b>\$</b>	<b>2,567</b>
Net income attributable to redeemable noncontrolling interests in the OP		298
Other comprehensive loss attributable to redeemable noncontrolling interests in the OP		(44)
Contributions from redeemable noncontrolling interests in the OP		140
Distributions to redeemable noncontrolling interests in the OP		(47)
Adjustment to reflect redemption value of redeemable noncontrolling interests in the OP		381
<b>Redeemable noncontrolling interests in the OP, December 31, 2019</b>	<b>\$</b>	<b>3,295</b>

#### *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.

### *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 years ended December 31, 2019, 2018 and 2017 (in thousands):

		For the Year Ended December 31,		
		2019	2018	2017
<b>Fees incurred</b>				
Property management fees	(1)	\$ 5,363	\$ 4,382	\$ 4,330
Construction supervision fees	(2)	1,549	974	869
Design fees	(2)	255	102	—
Acquisition fees	(3)	1,465	348	675
<b>Reimbursements</b>				
Payroll and benefits	(4)	18,148	14,100	15,344
Other reimbursements	(5)	3,286	2,200	1,982

- (1) Included in property management fees on the consolidated statements of operations and comprehensive income.
- (2) Capitalized on the consolidated balance sheets and reflected in buildings and improvements.
- (3) Includes due diligence costs. Acquisition fees are capitalized to real estate assets on the consolidated balance sheets.
- (4) Included in property operating expenses on the consolidated statements of operations and comprehensive income.
- (5) Includes property operating expenses such as repairs and maintenance costs and certain property general and administrative expenses, which are included on the consolidated statements of operations and comprehensive income.

## **11. Related Party Transactions**

### *Asset Management Fee*

Until the BH Buyout on June 30, 2017, in accordance with the operating agreement of each entity that owns the properties, the Company earned an asset management fee for services provided in connection with monitoring the operations of the properties. The asset management fee was equal to 0.5% per annum of the aggregate effective gross income of the properties, as defined in each of the operating agreements. For the year ended December 31, 2017, the properties incurred asset management fees to the Company of approximately \$0.4 million. Since the fees were paid to the Company (and not the Adviser) by consolidated properties, they have been eliminated in consolidation. However, because the Company’s previous joint venture partners owned a portion of each of a majority of the properties in the Portfolio, prior to the Company’s purchase of 100% of their joint venture interests, they absorbed their pro rata share of the asset management fee. This amount is reflected on the consolidated statements of operations and comprehensive income in the net income attributable to noncontrolling interests.

### *Advisory and Administrative Fee*

In accordance with the Advisory Agreement, the Company pays the Adviser an advisory fee equal to 1.00% of the Average Real Estate Assets (as defined below). The duties performed by the Company’s Adviser under the terms of the Advisory Agreement include, but are not limited to: providing daily management for the Company, selecting and working with third party service providers, managing the Company’s properties or overseeing the third party property manager, formulating an investment strategy for the Company and selecting suitable properties and investments, managing the Company’s outstanding debt and its interest rate exposure through derivative instruments, determining when to sell assets, and managing the value-add program or overseeing a third party vendor that implements the value-add program. “Average Real Estate Assets” means the average of the aggregate book value of Real Estate Assets before reserves for depreciation or other non-cash reserves, computed by taking the average of the book value of real estate assets at the end of each month (1) for which any fee under the Advisory Agreement is calculated or (2) during the year for which any expense reimbursement under the Advisory Agreement is calculated. “Real Estate Assets” is defined broadly in the Advisory Agreement to include, among other things, investments in real estate-related securities and mortgages and reserves for

capital expenditures (the value-add program). The advisory fee is payable monthly in arrears in cash, unless the Adviser elects, in its sole discretion, to receive all or a portion of the advisory fee in shares of common stock, subject to certain limitations.

In accordance with the Advisory Agreement, the Company also pays the Adviser an administrative fee equal to 0.20% of the Average Real Estate Assets. The administrative fee is payable monthly in arrears in cash, unless the Adviser elects, in its sole discretion, to receive all or a portion of the administrative fee in shares of common stock, subject to certain limitations.

The advisory and administrative fees paid to the Adviser on the Contributed Assets (as defined below) are subject to an annual cap of approximately \$5.4 million (the “Contributed Assets Cap”) (see “Expense Cap” below).

Pursuant to the terms of the Advisory Agreement, the Company will reimburse the Adviser for all documented Operating Expenses and Offering Expenses it incurs on behalf of the Company. “Operating Expenses” include legal, accounting, financial and due diligence services performed by the Adviser that outside professionals or outside consultants would otherwise perform, the Company’s pro rata share of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of the Adviser required for the Company’s operations, and compensation expenses under the 2016 LTIP. Operating Expenses do not include expenses for the advisory and administrative services described in the Advisory Agreement. Certain Operating Expenses, such as the Company’s ratable share of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses incurred by the Adviser or its affiliates that relate to the operations of the Company, may be billed monthly to the Company under a shared services agreement. “Offering Expenses” include all expenses (other than underwriters’ discounts) in connection with an offering, including, without limitation, legal, accounting, printing, mailing and filing fees and other documented offering expenses. For the years ended December 31, 2019, 2018 and 2017, the Adviser did not bill any Operating Expenses or Offering Expenses to the Company and any such expenses the Adviser incurred during the periods are considered to be permanently waived.

#### *Expense Cap*

Pursuant to the terms of the Advisory Agreement, expenses paid or incurred by the Company for advisory and administrative fees payable to the Adviser and Operating Expenses will not exceed 1.5% of Average Real Estate Assets per calendar year (or part thereof that the Advisory Agreement is in effect) (the “Expense Cap”). The Expense Cap does not limit the reimbursement of expenses related to Offering Expenses. The Expense Cap also does not apply to legal, accounting, financial, due diligence and other service fees incurred in connection with mergers and acquisitions, extraordinary litigation or other events outside the Company’s ordinary course of business or any out-of-pocket acquisitions or due diligence expenses incurred in connection with the acquisition or disposition of real estate assets. Also, advisory and administrative fees are further limited on Contributed Assets to approximately \$5.4 million in any calendar year. Contributed Assets refers to all Real Estate Assets contributed to the Company as part of the Spin-Off. The Contributed Assets Cap is not reduced for dispositions of such assets subsequent to the Spin-Off. Advisory and administrative fees on New Assets are not subject to the above limitation and are based on an annual rate of 1.2% on Average Real Estate Assets, but are subject to the Expense Cap. New Assets are all Real Estate Assets that are not Contributed Assets.

For the years ended December 31, 2019, 2018 and 2017, the Company incurred advisory and administrative fees of \$7.5 million, \$7.5 million and \$7.4 million, respectively. The amount paid for the years ended December 31, 2019, 2018 and 2017 represents the maximum fee allowed on Contributed Assets under the Advisory Agreement plus approximately \$2.1 million, \$2.1 million and \$2.0 million, respectively, of advisory and administrative fees incurred on New Assets.

For the year ended December 31, 2019, the Adviser elected to voluntarily waive the advisory and administrative fees incurred on properties acquired subsequent to October 2016 (19 properties waived from January through August and 17 properties waived from September through December), which totaled approximately \$9.1 million. For the year ended December 31, 2018, the Adviser elected to voluntarily waive the advisory and administrative fees incurred on the eight properties acquired subsequent to October 2016, which totaled approximately \$4.1 million. For the year ended December 31, 2017, the Adviser elected to voluntarily waive the advisory and administrative fees incurred on the five properties acquired subsequent to October 2016, which totaled approximately \$2.4 million. The advisory and administrative fees waived by the Adviser for the years ended December 31, 2019, 2018 and 2017 are considered to be permanently waived for the periods. The Adviser is not contractually obligated to waive fees on New Assets in the future and may cease waiving fees on New Assets at its discretion.

### Other Related Party Transactions

The Company has in the past, and may in the future, utilize the services of affiliated parties. For the years ended December 31, 2019, 2018 and 2017, the Company paid approximately \$0.3 million, \$0.3 million and \$1.2 million, respectively, to NexBank Title, Inc. (“NexBank Title”). NexBank Title is an affiliate of the Adviser through common beneficial ownership. NexBank Title provides title insurance and work related to providing title insurance on properties related to acquisitions, dispositions and refinancing transactions. These amounts are either capitalized as real estate assets or deferred financing costs, expensed as loss on extinguishment of debt and modification costs, or expensed as selling costs when determining gain (loss) on sales of real estate, depending on the appropriate accounting as determined for each specific transaction.

In the normal course of business, the Company may purchase properties from affiliates of the Adviser. During the year ended December 31, 2019, the Company purchased Residences at Glenview Reserve and Residences at West Place from an affiliate of the Adviser for approximately \$100.0 million (see Note 5 to our consolidated financial statements for additional details related to acquisitions during the period). The Company’s Audit Committee authorized, approved and ratified the acquisition of these properties.

On November 14, 2018, as part of the 2018 Offering, affiliates of the Adviser purchased 207,971 shares from the underwriters. The shares were purchased on the same terms as other investors at a public offering price of \$33.00 per share. However, no underwriters’ discount applied to the purchase of such shares.

## 12. Commitments and Contingencies

### Commitments

In the normal course of business, the Company enters into various rehabilitation construction related purchase commitments with parties that provide these goods and services. In the event the Company were to terminate rehabilitation construction services prior to the completion of projects, the Company could potentially be committed to satisfy outstanding or uncompleted purchase orders with such parties. As of December 31, 2019, management does not anticipate any material deviations from schedule or budget related to rehabilitation projects currently in process.

### Contingencies

In the normal course of business, the Company is subject to claims, lawsuits, and legal proceedings. While it is not possible to ascertain the ultimate outcome of all such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated balance sheets or consolidated statements of operations and comprehensive income of the Company. The Company is not involved in any material litigation nor, to management’s knowledge, is any material litigation currently threatened against the Company or its properties or subsidiaries.

The Company is not aware of any material environmental liability with respect to the properties that could have a material adverse effect on the Company’s business, assets, or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on the Company’s results of operations and cash flows.

## 13. Subsequent Events

### Dividends Declared

On February 17, 2020, the Company’s board of directors declared a quarterly dividend of \$0.3125 per share, payable on March 31, 2020 to stockholders of record on March 16, 2020.

### Dispositions

On January 23, 2020 the Company, through the OP, entered into a purchase and sale agreement with a large real estate investment firm (the “Buyer”) for the sale of the following properties. Closing of the disposition is subject to Buyer due diligence and customary closing conditions. The sales of the properties are expected to close on or before March 31, 2020.

Property Name (1)	Location	Sales Price	Debt Outstanding (2)	Real Estate Carrying Value, net (2)
Woodbridge	Nashville, Tennessee	\$ 31,700	\$ 13,677	\$ 15,183
Willow Grove	Nashville, Tennessee	31,300	14,818	13,453
		<u>\$ 63,000</u>	<u>\$ 28,495</u>	<u>\$ 28,636</u>

(1) Properties were classified as held for sale as of December 31, 2019.

(2) As of December 31, 2019.

### \$92.5 Million Swap

On January 16, 2020, NexPoint Residential Trust, Inc. (the “Company”), through its operating partnership, NexPoint Residential Trust Operating Partnership, L.P., entered into an interest rate swap transaction with KeyBank National Association (the “Swap”). The Company entered into the Swap 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). The Swap has an effective date of January 16, 2020 and a termination date of January 1, 2027. Beginning on February 1, 2020, the Company will be required to make monthly fixed rate payments of 1.798% calculated on a notional amount of \$92.5 million, while the counterparty will be obligated to make monthly floating rate payments based on one-month LIBOR to the Company referencing the same notional amount.

#### 14. Quarterly Results (unaudited)

Presented below is a summary of the unaudited quarterly consolidated financial information for the years ended December 31, 2019, 2018 and 2017 (in thousands, except per share amounts):

	2019 Quarters Ended			
	March 31	June 30	September 30	December 31
Total revenues	\$ 41,491	\$ 43,066	\$ 46,833	\$ 49,676
Net income (loss)	(4,373)	(1,987)	119,104	(13,306)
Net income (loss) attributable to common stockholders	(4,360)	(1,981)	118,747	(13,266)
Earnings (loss) per share - basic	(1)	(0.19)	4.93	(0.53)
Earnings (loss) per share - diluted	(1)	(0.19)	4.84	(0.53)

- (1) Quarterly earnings (loss) per share amounts are based on the weighted average common shares outstanding during the respective quarter and, therefore, may not agree in total with the loss per share amount calculated for the year ended December 31, 2019.

	2018 Quarters Ended			
	March 31	June 30	September 30	December 31
Total revenues	\$ 35,057	\$ 35,655	\$ 36,495	\$ 39,390
Net income (loss)	10,094	(1,666)	(5,260)	(4,782)
Net income (loss) attributable to common stockholders	10,064	(1,661)	(5,245)	(4,767)
Earnings (loss) per share - basic	(1)	0.48	(0.25)	(0.21)
Earnings (loss) per share - diluted	(1)	0.47	(0.25)	(0.21)

- (1) Quarterly earnings (loss) per share amounts are based on the weighted average common shares outstanding during the respective quarter and, therefore, may not agree in total with the earnings per share amount calculated for the year ended December 31, 2018.

	2017 Quarters Ended			
	March 31	June 30	September 30	December 31
Total revenues	\$ 36,991	\$ 35,234	\$ 37,097	\$ 34,913
Net income	(3,304)	9,930	54,076	(4,343)
Net income (loss) attributable to common stockholders	(3,616)	7,406	53,914	(4,330)
Earnings (loss) per share - basic	(1)	(0.17)	2.56	(0.21)
Earnings (loss) per share - diluted	(1)	(0.17)	2.53	(0.21)

- (1) Quarterly earnings (loss) per share amounts are based on the weighted average common shares outstanding during the respective quarter and, therefore, may not agree in total with the earnings per share amount calculated for the year ended December 31, 2017.

**NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES**  
**SCHEDULE III**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2019**  
**(in thousands)**

Property Name	Location	Initial Cost to Company				Costs Capitalized				Gross Amount Carried at December 31, 2019				Accumulated Depreciation and Amortization (5) (6)	Date Acquired
		Encumbrances (1)		Buildings and Improvements (2)		Subsequent to Acquisition		Buildings and Improvements (3)		Total (4)		Total (4)	Total (4)		
		Land		Land		Land		Land		Land					
Arbors on Forest Ridge	Bedford, Texas	\$ 13,130	\$ 2,330	\$ 10,475	\$ 12,805	\$ 2,942	\$ 2,330	\$ 13,105	\$ 15,435	\$ (3,472)		\$ 15,435	\$ (3,472)	1/31/2014	
Cutter's Point	Richardson, Texas	16,640	3,330	12,515	15,845	(5,074)	3,330	7,089	10,419	(1,086)		10,419	(1,086)	1/31/2014	
Eagle Crest	Irving, Texas	29,510	5,450	21,875	27,325	4,441	5,450	25,662	31,112	(6,031)		31,112	(6,031)	1/31/2014	
Silverbrook	Grand Prairie, Texas	30,590	4,860	25,540	30,400	6,974	4,860	31,721	36,581	(8,507)		36,581	(8,507)	1/31/2014	
Beechwood Terrace	Antioch, Tennessee	23,365	1,390	20,010	21,400	5,004	1,390	24,605	25,995	(5,620)		25,995	(5,620)	7/21/2014	
Willow Grove	Nashville, Tennessee	14,818	3,940	9,810	13,750	3,266	3,940	12,778	16,718	(3,265)		16,718	(3,265)	7/21/2014	
Woodbridge	Nashville, Tennessee	13,677	3,650	12,350	16,000	3,214	3,650	15,230	18,880	(3,697)		18,880	(3,697)	7/21/2014	
The Summit at Sabal Park	Tampa, Florida	13,560	5,770	13,280	19,050	2,322	5,770	15,198	20,968	(3,941)		20,968	(3,941)	8/20/2014	
Courtney Cove	Tampa, Florida	13,680	5,880	13,070	18,950	2,758	5,880	15,397	21,277	(3,777)		21,277	(3,777)	8/20/2014	
Radbourne Lake	Charlotte, North Carolina	20,000	2,440	21,810	24,250	3,304	2,440	24,462	26,902	(5,578)		26,902	(5,578)	9/30/2014	
Timber Creek	Charlotte, North Carolina	24,100	11,260	11,490	22,750	6,241	11,260	16,932	28,192	(4,428)		28,192	(4,428)	9/30/2014	
Sabal Palm at Lake Buena Vista	Orlando, Florida	42,100	7,580	41,920	49,500	3,908	7,580	44,441	52,021	(8,606)		52,021	(8,606)	11/5/2014	
Southpoint Reserve at Stoney Creek	Fredericksburg, Virginia	13,166	6,120	10,880	17,000	2,083	6,120	12,471	18,591	(897)		18,591	(897)	12/18/2014	
Cornerstone	Orlando, Florida	21,772	1,500	30,050	31,550	4,474	1,500	33,630	35,130	(7,086)		35,130	(7,086)	1/15/2015	
The Preserve at Terrell Mill	Marietta, Georgia	42,480	10,170	47,830	58,000	9,391	10,170	55,407	65,577	(13,129)		65,577	(13,129)	2/6/2015	
Versailles	Dallas, Texas	23,880	6,720	19,445	26,165	6,568	6,720	25,432	32,152	(6,152)		32,152	(6,152)	2/26/2015	
Seasons 704 Apartments	West Palm Beach, Florida	17,460	7,480	13,520	21,000	2,699	7,480	15,818	23,298	(3,636)		23,298	(3,636)	4/15/2015	
Madera Point	Mesa, Arizona	15,150	4,920	17,605	22,525	2,681	4,920	19,657	24,577	(4,077)		24,577	(4,077)	8/5/2015	
Venue at 8651	Fort Worth, Texas	13,734	2,350	16,900	19,250	5,154	2,350	21,543	23,893	(4,811)		23,893	(4,811)	10/30/2015	
Parc500	West Palm Beach, Florida	15,221	3,860	19,424	23,284	5,283	3,860	24,216	28,076	(4,375)		28,076	(4,375)	7/27/2016	
The Venue on Camelback	Phoenix, Arizona	28,093	8,340	36,520	44,860	4,281	8,340	40,078	48,418	(5,532)		48,418	(5,532)	10/11/2016	
Old Farm	Houston, Texas	52,886	11,078	73,986	85,064	3,028	11,078	73,660	84,738	(9,002)		84,738	(9,002)	12/29/2016	
Stone Creek at Old Farm	Houston, Texas	15,274	3,493	19,937	23,430	788	3,493	20,153	23,646	(2,444)		23,646	(2,444)	12/29/2016	
Hollister Place	Houston, Texas	14,811	2,782	21,902	24,684	2,977	2,782	23,947	26,729	(3,217)		26,729	(3,217)	2/1/2017	
Rockledge Apartments	Marietta, Georgia	68,100	17,451	96,577	114,028	7,445	17,451	101,001	118,452	(10,798)		118,452	(10,798)	6/30/2017	
Atera Apartments	Dallas, Texas	29,500	22,371	37,090	59,461	3,744	22,371	39,494	61,865	(3,682)		61,865	(3,682)	10/25/2017	
Cedar Point	Antioch, Tennessee	17,300	2,371	24,410	26,781	1,075	2,371	25,485	27,856	(1,415)		27,856	(1,415)	8/24/2018	
Crestmont Reserve	Dallas, Texas	12,061	4,124	20,667	24,791	1,218	4,124	21,885	26,009	(1,171)		26,009	(1,171)	9/26/2018	
Brandywine I & II	Nashville, Tennessee	43,835	6,237	73,870	80,107	2,340	6,237	76,210	82,447	(3,867)		82,447	(3,867)	9/26/2018	



Bella Vista	Phoenix, Arizona	29,040	10,942	37,661	48,603	529	10,942	38,190	49,132	(1,477)	1/28/2019
The Enclave	Tempe, Arizona	25,322	11,046	30,933	41,979	491	11,046	31,424	42,470	(1,209)	1/28/2019
The Heritage	Phoenix, Arizona	24,625	6,835	35,244	42,079	582	6,835	35,826	42,661	(1,338)	1/28/2019
Summers Landing	Fort Worth, Texas	10,109	1,798	17,628	19,426	(107)	1,798	17,521	19,319	(423)	6/7/2019
	Nashville, Tennessee	26,560	3,367	41,652	45,019	(602)	3,367	41,050	44,417	(824)	7/17/2019
Residences at Glenview Reserve	Orlando, Florida	33,817	3,345	52,657	56,002	(719)	3,345	51,938	55,283	(967)	7/17/2019
Residences at West Place	Pembroke Pines, Florida	177,100	48,436	275,671	324,107	3,015	48,437	278,685	327,122	(8,076)	8/30/2019
Avant at Pembroke Pines	Nashville, Tennessee	34,237	6,346	56,409	62,755	717	6,346	57,126	63,472	(1,523)	9/10/2019
Arbors of Brentwood	Tennessee	37,400	23,823	44,560	68,383	17	23,823	44,577	68,400	(342)	11/22/2019
Torreyana Apartments	Las Vegas, Nevada	58,850	23,805	83,288	107,093	23	23,805	83,311	107,116	(571)	11/22/2019
Bloom	Las Vegas, Nevada	36,575	12,605	54,262	66,867	8	12,605	54,270	66,875	(362)	11/22/2019
Bella Solara	Las Vegas, Nevada	<u>\$ 1,193,528</u>	<u>\$ 331,595</u>	<u>\$ 1,524,723</u>	<u>\$ 1,856,318</u>	<u>\$ 108,483</u>	<u>\$ 331,596</u>	<u>\$ 1,610,625</u>	<u>\$ 1,942,221</u>	<u>\$ (160,411)</u>	

(1) Encumbrances includes mortgage debt.

(2) Includes gross intangible lease assets of approximately \$29.6 million and buildings, improvements and furniture, fixtures and equipment of approximately \$1.5 billion, which includes total acquisition costs of approximately \$7.0 million incurred on the acquisitions of The Colonnade, Old Farm, Stone Creek at Old Farm, Hollister Place, Rockledge Apartments, Atera Apartments, Cedar Pointe, Crestmont Reserve, Brandywine I & II, Bella Vista, The Enclave, The Heritage, Summers Landing, Residences at Glenview Reserve, Residences at West Place, Avant at Pembroke Pines, Arbors of Brentwood, Torreyana, Bloom, and Bella Solara and a fair market value adjustment, a premium of approximately \$0.9 million, related to the assumption of debt in connection with the acquisition of Parc500.

(3) Includes gross intangible lease assets of approximately \$12.4 million, construction in progress of approximately \$4.4 million, and furniture, fixtures and equipment of approximately \$85.8 million.

(4) The aggregate cost, net of accumulated depreciation, for Federal income tax purposes as of December 31, 2019 was approximately \$1.8 billion (unaudited).

(5) Includes accumulated amortization of intangible lease assets of approximately \$6.2 million.

(6) Depreciation and amortization are computed on a straight-line basis over the estimated useful lives. The estimated useful life to compute depreciation for buildings is 30 years, for improvements is 15 years, and for furniture, fixtures and equipment is three years. The estimated useful life to compute amortization for intangible lease assets is six months.

**NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES**  
**SCHEDULE III**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**DECEMBER 31, 2019**

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2019, 2018 and 2017 is as follows (in thousands):

	For the Year Ended December 31,		
	2019	2018	2017
<b>Real Estate:</b>			
Balance, beginning of year	\$ 1,222,563	\$ 1,082,805	\$ 1,029,349
Additions:			
Real estate acquired	882,313	131,679	198,173
Improvements	47,739	28,809	25,748
Deductions:			
Real estate sold	(191,203)	(18,311)	(160,250)
Write-off of fully amortized assets and other	(19,191)	(2,419)	(10,215)
Balance, end of year	<u>\$ 1,942,221</u>	<u>\$ 1,222,563</u>	<u>\$ 1,082,805</u>
<b>Accumulated Depreciation and Amortization:</b>			
Balance, beginning of year	\$ 135,021	\$ 91,649	\$ 66,312
Depreciation expense	56,360	45,002	39,812
Amortization expense	12,726	2,468	8,940
Accumulated depreciation on sales	(32,408)	(2,500)	(14,199)
Write-off of fully amortized assets and other	(11,288)	(1,598)	(9,216)
Balance, end of year	<u>\$ 160,411</u>	<u>\$ 135,021</u>	<u>\$ 91,649</u>



