

Bluerock Residential Growth REIT
First Quarter 2016 Earnings
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CORPORATE PARTICIPANTS

Christopher Vohs – *Chief Accounting Officer*

Ramin Kamfar - *Chairman and CEO*

Ryan MacDonald – *Managing Director - Investments*

James Babb – *Chief Investment Officer*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Bluerock Residential Growth REIT's First Quarter 2016 Earnings Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to introduce your host for today's call, Christopher Vohs, Chief Accounting Officer of Bluerock Residential Growth REIT. Mr. Vohs, please go ahead.

Christopher Vohs

Thank you and welcome to Bluerock Residential Growth REIT's First Quarter 2016 Earnings Conference Call.

This morning, prior to market open, we issued our earnings press release and supplement. The press release can be found on our website at bluerockresidential.com under the Investor Relations tab. In addition, we anticipate filing our 10-Q later today.

Following the conclusion of our prepared remarks, we'll be pleased to answer any questions you may have. Before we begin, note that this call may contain forward-looking statements as they are defined under the Private Securities Litigation Reform Act of 1995. There are a variety of risks and uncertainties associated with forward-looking statements and actual results may differ from those set forth in such statements. For a discussion of these risks and uncertainties, you should review the forward-looking statements disclosure in the earnings press release we issued this morning as well as our SEC filings. With respect to non-GAAP measures we use in this call, including pro forma measures, please refer to our earnings supplement for a reconciliation to GAAP, the reasons management uses these non-GAAP measures and the assumptions used with respect to any pro forma measures and their inherent limitations.

And with that, I'll turn the call over to Ramin Kamfar, Chairman and CEO of Bluerock Residential Growth REIT, for his remarks.

Ramin Kamfar

Thank you, Chris. And thank you all for joining us for BRG's first quarter earnings call.

With me today are several key members of our Executive team. We have Jordan Ruddy, our President; Jim Babb, our Chief Investment Officer; and Ryan MacDonald, our managing Director of Investments.

I will open my remarks with some key financial highlights from the quarter and close with some capital markets commentary. Following my remarks, I will ask Ryan to give you additional operational and transactional detail.

So, let me start with the financial highlights.

For the quarter, our Adjusted Funds from Operations, or AFFO, grew 211% to \$5.3 million from \$1.7 million in the prior-year quarter. On a per share basis, AFFO came in at \$0.26 per share, which exceeds our guidance of \$0.16 to \$0.18 a share significantly.

On a pro forma basis, our AFFO per share was \$0.34, which exceeds the high end of guidance range of \$0.26 to \$0.28, again. Pro forma AFFO simply assumes that our planned investment of \$17 million in our Domain and Flagler Village deals happened as of the start of the first quarter, and that the four deals that we closed in the quarter, Citation Club, Summerwind, West Morehead, and Henderson Beach, also closed as of January 1.

Our dividend is \$0.29 per share quarterly, so our AFFO is now within \$0.03 of covering the dividend and obviously on a pro forma basis our AFFO already covers our dividend by \$0.05.

On the revenue front, we achieved significant growth also as a result of our investment activity. Our top line revenue for the first quarter was \$16.6 million, which is an 84% increase from \$9 million in the prior-year quarter.

In terms of NOI margin, we showed significant improvement, with margins increasing 320 basis points to 60.4% from 57.2% in the prior-year quarter. Property NOI dollars grew to \$10 million in the first quarter, which is a 92% increase from \$5.2 million in the prior-year quarter.

Same-store NOI grew substantially by 10.1% for the quarter versus the prior-year quarter and Ryan is going to have additional detail on this for you later.

For the fourth consecutive quarter, BRG's Board determined to pay the full amount of the management fee in LTIPs in lieu of cash, which favorably impacted both actual and pro forma AFFO by \$0.06. Part of our goal here is obviously to signal the confidence of the Board and Management in executing our business plan and the underlying value of our shares.

Net loss attributable to common shareholders for the quarter ended March 31 was \$4.1 million versus income of \$3.3 million for the prior-year quarter. This net loss was caused primarily by non-cash items of \$8.5 million in the first quarter versus \$3.8 million in the prior-year quarter.

Our asset base continues to grow significantly on a quarterly basis. Consolidated real estate asset costs are up 25% to \$697 million at the end of the quarter versus the year-end 2015.

On the acquisition front, we closed on four investments during the quarter consisting of three operating properties totaling 1,028 units for a combined total cost of \$140 million and one development deal totaling 283 properties. Now shifting to, I'm sorry, 283 units.

Shifting to the capital markets front, in March we launched an At-The-Market or ATM program for our Series A preferred stock, which was very well-received and raised approximately \$3.7 million within a week. Based on the strong reception on the ATM, we commenced an underwritten add-on offering for this Series A preferred stock in April and raised gross proceeds of \$57.5 million with significant orders from large REIT dedicated investors. We're also continuing to launch our efforts on our 6% Series B nontraded Preferred Offering, and continue to expect it to be well received. Our goal for these offerings is to raise accretive capital inside our common dividends to execute on a robust pipeline of accretive transactions that we are continuing to see.

Finally, we're looking forward to the remaining quarters in 2016 and building off the momentum of a strong first quarter. Our pro forma AFFO guidance for the second quarter is \$0.27 to \$0.29 a share.

And at this point I would like to hand it over to Ryan MacDonald, Managing Director for Investments to give you additional commentary on operational metrics and an overview of our transactions for the quarter. Ryan?

Ryan MacDonald

Thank you, Ramin, and good morning everyone.

I'd like to start off by noting that our operating portfolio continues to perform exceptionally well, generally meeting or exceeding our budgets across the board.

Portfolio wide, across all of BRG's assets, average occupancy for the first quarter of 2016 was 95%.

Same-store NOI increased 10.1% compared to the first quarter of last year. The improvement in NOI was primarily driven by a 5.4% increase in property revenues of which the majority came from a 4.6% increase in average effective rent per occupied unit over the same period last year, and we're well-positioned to continue the revenue growth into the second quarter. On the expense side, same-store expenses decreased by 1.6% versus prior-year quarter primarily due to lower utility expenses from a milder winter in the Company's markets.

On the development front, our 296-unit development project in Orlando, Florida called EOS is approximately 77% leased. Rents are in line with projections, which means we would be looking at a return on cost for the project north of 7% versus market cap rates of 4.75% to 5.25%. To date, we've been trending close to 20 leases per month and look forward to a continued strong lease-up at the property and reporting on the progress next quarter.

Shifting to the transaction side of the business, the first three months of 2016 proved to be another active quarter for the investment team.

During the quarter we closed 4 investments totaling 1,311 units across four markets. Together the transaction volume totaled \$197 million with BRG investing approximately \$50 million in equity. We also have two additional investments pending for a total cost of \$92 million.

Our first investment, in early January, was an off-market portfolio purchase of a 95% interest in two well-located apartment communities totaling 688 units in Sarasota and Naples, Florida for a total purchase price of \$86.3 million. Our operating partner was already serving as property manager for the properties, which gave us tremendous insight into the operational upside that we believe exists organically in both assets. We plan to upgrade the exteriors, interior units, and amenities at both properties. The acquisitions are projected to yield a pro forma stabilized cap rate of approximately 6.6%, which we believe compares favorably to cap rates of 5% to 5.5% for assets of similar quality in the market. BRG invested 95% of the venture's equity requirement equating to approximately \$29.5 million, with our joint venture partner funding the balance for a 5%

stake in the venture. The joint venture capitalized the investment with acquisition loans from Freddie Mac totaling \$59.6 million. I am pleased to report, through the first four months of ownership, both investments are exceeding pro forma both on an occupancy and rental rate metrics.

The second investment is a to-be-built 283-unit Class A luxury mid-rise apartment community in an emerging downtown Charlotte neighborhood called Wesley Heights. We believe the neighborhood has similar path-of-growth characteristics to the Berry Hill neighborhood at the time of our successful investment in the 23Hundred @ Berry Hill development in Nashville. The site was purchased off-market and required a comprehensive rezoning by our development partner to allow for residential use, which again, allows for an attractive basis. BRG's underwriting projects a return-on-cost of 7% to 7.5% at stabilization for value creation of 225 to 250 basis points versus sales of comparable communities in the Charlotte urban core at 4.75% to 5%. BRG has funded approximately \$3.5 million to date through a convertible preferred equity investment.

Finally, in mid-March we closed the purchase of 100% interest in a Class A 2009-built 340-unit apartment community in the supply-constrained Emerald Coast of Florida. The asset was purchased off-market for \$54 million. It's projected to yield a pro forma cap rate of approximately 6.4%, which compares favorably to cap rates in the market for similar quality assets in the 5.5% to 6% range. BRG believes there is additional upside through a business plan that includes minor enhancements to the clubhouse and amenities, as well as modest in-unit upgrades. BRG invested approximately \$17 million of equity for 100% ownership in the property. BRG capitalized the transaction with a life company loan assumption yielding proceeds of approximately \$37.5 million and a fixed interest rate of 4.65%.

In addition to the three closed investments, I'd like to point out that year-to-date, we've purchased 15 units at Lansbrook, of which 7 were in the first quarter. The average cap rate for the purchases was 10.6%.

In terms of pending acquisitions, we have two additional investments totaling 366 units and total projected costs of approximately \$92 million.

The first pending investment, expected to close in the second half of 2016, is a to-be-built 90-unit Class A luxury townhome apartment community in the well-established submarket of Boca Raton, Florida. The off-market land purchase provides us enough density to build a unique townhome product in a market where new construction is dominated by expensive-to-build midrise product. This competitive advantage allows us to target a specific void in the submarket for older renters by choice looking for direct access to their apartment. BRG's underwriting projects a return on cost of 6.5% to 7% at stabilization, for value creation of 200 to 250 basis points of comparable Class A apartment communities in the greater Boca Raton submarket. BRG is projected to fund approximately \$9 million through a convertible mezzanine structure at vertical construction commencement, estimated to be in the second half of the year.

The second investment is a to-be-built 276-unit Class A midrise apartment community in the mature neighborhood of San Marco in Jacksonville, Florida. The unique project, part of a mixed use development with Regency Centers, was 10-plus years in the making and includes ground floor retail anchored by a Publix grocer. BRG's underwriting projects a return on cost of 6.6% to 7.1% at stabilization for value creation of 175 to 200

basis points versus comparable Class A urban infill apartment communities in the Jacksonville MSA. BRG is projected to fund its investment in the latter half of 2016 through a convertible mezzanine structure upon vertical construction commencement.

Shifting to the dispositions front, we have targeted four initial dispositions for 2016 and project them to yield approximately \$25 million to \$50 million in equity to BRG in the third and fourth quarter of the year. Two of the assets are currently being marketed for sale and we look forward to reporting back on the progress in future quarters.

Moving to the capital markets front, I would like to point out that our access to senior financing on the acquisition side remains robust from a variety of lenders, including the Agencies, Banks and Life Companies. In fact, on May 4th, the FHFA announced that it increased the 2016 multifamily lending caps for Fannie Mae and Freddie Mac from \$31 billion to \$35 billion, effective immediately. Today, fixed rate spreads generally range from 175 to 200 basis points for all-in rates of 3.35% to 3.85% with term ranging from 5 to 10 years. In terms of senior construction financing, we are seeing a broad-based tightening in leverage levels across most of the markets we operate. This is partially a result of bank regulations making construction lending less profitable due to increased reserve requirements. We believe this could be a net positive for the multifamily space over the coming years as both permitting and new deliveries are tempered.

Finally, our pipeline remains very robust. We are currently evaluating north of \$670 million worth of investments, totaling in excess of 3,800 units and 14 properties. The majority of these pipeline transactions are off-market and in many cases, we've been working on them for extended periods of time. We continue to believe there are attractive opportunities in our current footprint of growth markets from the Carolinas down through Florida and Texas, with a particular emphasis recently on the Florida markets, as we continue to see operational expansion in our underlying Florida portfolio and a favorable supply/demand picture. Obviously our execution on these opportunities will depend on our progress in executing the capital-raising initiatives touched on by Ramin earlier.

And with that, I will now return the call to Ramin to conclude.

Ramin Kamfar

Thank you, Ryan. We continue to see significant upside to our strategy, which is building a high-quality Class A portfolio in the high-growth primary markets throughout the United States, and targeting the high disposable income renter by choice. We have assembled one of the youngest portfolios in the market with one of the highest average rents and are generating significant value creation at the deal level and in our portfolio. Thank you all for your support, and I look forward to sharing news of our continued progress as we execute our business plan.

With that, Austin, I'm happy to answer any questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your

question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. And our first question comes from Venkat Kommineni of Janney Montgomery Scott. Please go ahead.

Venkat Kommineni

Good morning. For the Flagler Villages development, it looks like the number of expected units dropped quarter-over-quarter by about 58 units, the cost dropped by about \$19 million, and the completion date was pushed out nearly a year. Can you provide some color on that and how we should be thinking about that asset, and also how much of this project do you expect to own at the end of the day?

Jim Babb

Hi, Venkat, this is Jim Babb. So a couple things have happened, and the project is still coming together. We took a little bit more conservative posture on the both the density and the delivery. This is a land assemblage and as a result, a number of the pieces that are required come together at different points in the, of the year, so we pushed back the start probably to try and make sure that we had enough runway to fully execute on the total design. The unit count reduction reflects the current view that we may not acquire one of the parcels. It's an entire city block made up of numerous lots, and so we're still in discussions with that party, so that happens to reflect what the new model would look like. And that could change over time.

Venkat Kommineni

Okay. Thank you. And also the same-store results included 14 additional units at Lansbrook. Without those additional units or even excluding Lansbrook, how those same-store results have differed?

Ramin Kamfar

Without the additional units you go from 10.1 to 9.4 so it's only 70 basis points. That's not really the driver of our same-store sales.

Venkat Kommineni

Thank you.

Ramin Kamfar

Thank you, Venkat.

Venkat Kommineni

Thank you.

Operator

Our next question is from Craig Kucera with Wunderlich. Please go ahead.

Craig Kucera

Hey, good morning guys. Can you give us an update on how far away you think you are from originating some Series B preferred?

Ramin Kamfar

Hey Craig, how are you? The nontraded offerings take a long time to get into the queue operationally, because we have to go through, it's really three sales, you have to go through a due diligence process with third parties, get reports done, then you have to go

to the BDs and get on their platform, it's called getting a selling agreement, and then the sales force has to go out and get the reps sold on the product and then the reps, the reps at the BD, the brokers have to sell to their clients, so it's really a four-step process and we're in various stages with various broker dealers.

I think you'll see some of it trickle in in this quarter, Q2, but you'll see it really ramp up in Q3 and mostly in Q4. It has to do with getting selling agreements, we've gotten a few. I think we've got maybe about 2,000 desktops today, and by 2,000 desktops I mean 2,000 brokers at the, it's a broker account at the firms that we call on, and to get to robust offering here you need to get to at least 20,000 desktops. So let's say were 10% of the way there.

Craig Kucera

Got it. No, I appreciate that. You raised \$55 million in the preferred offering and I think your pending investments are at \$32 million. Can you talk about what you think you're going to do with the incremental capital? Is that going to be more likely to be funding convertible equity or are you likely to maybe buy some property out of your pipeline?

Ryan MacDonald

Hi Craig, it's Ryan. As you can see in our pro forma, we broke it out about two-thirds acquisition, one-third development. I think you'll see us probably be on the high side of the acquisitions with a little bit less development for this capital, but we're still aiming for that two-thirds/one-third mix going forward.

Craig Kucera

Okay. So obviously everything you guys have done year-to-date has been in sort of secondary markets in Florida. Did you, can you talk about, and I know you said you saw sort of favorable supply/demand fundamentals, but are you transitioning at all and sort of focusing on maybe the renter by choice who is a retiree or kind of what are you seeing down there that makes Florida at this moment in time so much more attractive than elsewhere?

Ryan MacDonald

Craig, it's Ryan. I think it was a couple different things. I think it was a little bit late to recover relative to the other markets that we're seeing, so supply-demand. We're not necessarily focusing on the renter, the older renter by choice. I think that product in that location was very, very specific to fill a void that we see. But I think it's, one, Florida is a good environment for business. I think we've seen robust in migration that has supported demand side and again, I think it was a little bit late to recover.

Ramin Kamfar

Yeah, I think the Florida that you're thinking about is not the target market we're going for. I think our target markets in Florida are still the same millennial, highly educated, high disposable income renter by choice that we're targeting in Nashville and Atlanta and in Austin and in Dallas, and so on and so forth.

Jim Babb

I think that's right, Craig, you have to remember, Florida is now the third most populous state in the country. There's tremendous inflow of migration, people seeking jobs, a better environment, better cost of living and quality of living, and so yeah, I don't think that there's a change in our demographic targeting.

Craig Kucera

Okay. Thanks guys.

Ramin Kamfar

Thank you, Craig.

Operator

Our next question is from Patrick Kealey with FBR. Please go ahead.

Patrick Kealey

Good morning everyone. Thanks for taking my question.

Ryan MacDonald

Good morning, Patrick.

Patrick Kealey

So when we're thinking about your pipeline, I think you've mentioned that obviously Florida is a focus. Any particular submarkets in Florida you think that are probably ripe for the most opportunity right now or as you kind of move through that should we expect it to be relatively broad-based throughout the state?

Jim Babb

Hey Patrick, it's Jim. The, if you noticed, the markets, Tampa, Orlando, Jacksonville are all doing extremely well. You'll probably see that amongst our peer group as well. But Southwest Florida and Central Florida and Southeast Florida are markets we want a little bit more penetration. I think I would probably say that we're probably not looking at Dade County. I think I would pull that out of the focus. But Broward, Palm Beach County are very attractive markets for us.

Ryan MacDonald

And again, it's very opportunity specific as well.

Patrick Kealey

Okay, great. No, that's helpful. And as I'm thinking again, going back to the pipeline and looking outside of Florida obviously looking within your core markets, are there any markets you'd like, again, thinking about deeper penetration and maybe opportunity set. Any of those again kind of stick out or should we be thinking is it more opportunistic and we'll be kind of almost deal the flow as kind of the cost of capital meets the right price?

Jim Babb

Well we think we have some good positions in the markets we're in. We think Atlanta still is attractive, in certain submarkets. We still continue to evaluate markets that we've been in in the past and that we're currently in.

Ryan MacDonald

Yeah, again, it's very submarket specific, so as Jim pointed out, Atlanta's an attractive market for us and I think we'll want some deeper penetration.

Patrick Kealey

Okay, thank you. Appreciate the time.

Operator

The next question is from Jim Lykins with DA Davidson. Please go ahead.

Jim Lykins

Good morning everyone. I just want to first make sure I've got the numbers right for the dispositions that were mentioned. I think you said there were going to be four, two of which were being actively marketed at \$25 million to \$50 million in the second half. Is that for the two that are being marketed or for all four?

Ryan MacDonald

Hi Jim, it's Ryan. Ah, those are for all four.

Jim Lykins

Okay. And...

Ramin Kamfar

And I will note that, Jim, it's Ramin. I'll note that we don't own some of the deals that we're selling or the deals that we don't own significant portions of and as a part of our strategy to concentrate on deals where we have 90% type of ownership, so that results in lower net proceeds.

Jim Lykins

Okay. And also the \$3.7 million on the ATM, I assume it's a quarter-end number, have you raised additional capital in Q2 on your ATM?

Ramin Kamfar

No, because we shut down the ATM...

Ryan MacDonald

Q2...

Ramin Kamfar

Yeah, I'm sorry. It was a Q2 number, yeah.

Ryan MacDonald

We launched it on the 30th.

Ramin Kamfar

We launched it, that was a, sorry, I stand corrected. That was all in Q2, and we shut it down to pursue the follow-on offering, and the follow-on offering that has a restriction on our ability to do the ATM for a period of time, so we haven't raised any since then.

Jim Lykins

Okay. Thanks, everyone.

Operator

Our next question is from Steve Shaw with Compass Point. Please go ahead.

Steve Shaw

Hey, guys. Ramin, I think on the last call you said that due to the capital deployment

coming to fruition that we might see the gap between AFFO guidance and pro forma guidance narrow a little bit. It looks like it actually widened since 1Q's guidance, so I was just wondering if maybe pro forma has started to outpace what you guys originally thought for 2Q?

Ramin Kamfar

Well I think I said that, okay. What I had meant to say was that you're going to see the gap close between our actual AFFO and our dividends, maybe, because there's, as long as we have additional capital to invest, there is going to be this gap between our existing and pro forma AFFO. It's just a, that gap is the function of the \$75 million or \$80 million that we've outlined in terms of the investment. I think it was \$76 million or whatever the number was. And we said, okay, we're going to invest. We did four deals in the middle of the quarter, let's pull that up to Jan 1, then we had \$17 million going into the other two deals, Domain and Flagler, I believe, let's pull that to Jan 1, and that's all the difference is between the pro forma and the actual. What I was, what I meant to say is that as our fundraising slows down, which it did, because we didn't raise any dollars in Q1, you're going to see us deliver on what we've been telling people, which is hey, as you spend the money our actual AFFO comes up to start to cover the dividend, because that's a question a lot of people have. So this quarter our actual was \$0.26 and our dividend is obviously \$0.29, so we're \$0.03 off. Does that answer your question?

Steve Shaw

Yes, got it. Thanks Ramin.

Operator

And again, if you would like to ask a question please press star (*) then one (1). At this time I am showing no further questions. I would like to turn the conference back over to Ramin Kamfar for any closing remarks.

CONCLUSION

Ramin Kamfar

Thank you, Austin, and I want to again thank you all for your support and I look forward to continuing to share news of our progress as we execute our business plan. Goodbye.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.