# Bluerock Residential Growth REIT

## Third Quarter 2016 Earnings

## November 7, 2016 at 11:00 a.m.  Eastern

**CORPORATE PARTICIPANTS**

**Ramin Kamfar** - *Chairman & CEO*

**Jim Babb** – *Chief Investment Officer*

**Christopher Vohs** - *Chief Accounting Officer*

**Ryan MacDonald** - *Managing Director, Investments*

**PRESENTATION**

**Operator**
Good morning, ladies and gentlemen. Welcome to the Bluerock Residential Growth REIT's Third Quarter 2016 Conference Call. All participants will be in listen-only mode. Should you need any assistance, please signal a conference specialist by pressing the star key followed by zero. 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. Please go ahead, Mr. Vohs.

**Christopher Vohs**
Thank you and welcome to Bluerock Residential Growth REIT's third 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 this week.

Following the conclusion of our remarks, we will be pleased to answer any questions you may have. Before we begin, please 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 the 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 good morning, everyone. With me today are several key members of our executive team, Jordan Ruddy, our President; Jim Babb, our Chief Investment Officer; and Ryan MacDonald, our Managing Director, Investments. I will open my remarks with some key financial highlights from the quarter and close with some capital markets commentary. After my remarks I will ask Ryan MacDonald to give you additional operational and transactional detail.

Let me start with the financial highlights. On the revenue front, we achieved significant growth as a result of our investment activity. Our top-line revenue for the third quarter was $19.6 million which is a 69% increase from $11.6 million in the prior-year quarter.

Our net loss attributable to common stockholders for the quarter ended September 30th was $2.6 million versus a net loss of $0.6 million for the prior-year quarter. The net loss was caused primarily by non-cash items of $8.3 million in the third quarter versus $4.8 million in the prior-year quarter.

For the quarter, our adjusted funds from operations, or AFFO, was $4.3 million compared to $4.4 million in the prior-year quarter. On a per-share basis, AFFO came in at $0.21 a share, which exceeds our guidance of $0.08 to $0.10 a share for the quarter.

On a pro forma AFFO basis, which simply assumes that our investable cash was fully invested as of the July 1 beginning date of the third quarter so that investors can get a sense of our fully invested earnings potential, our AFFO per share was $0.40, which is the highest quarterly figure we've reported to date and exceeded our guidance range of $0.28 to $0.30.

Both our AFFO and pro forma AFFO were favorably impacted by $0.09 from the payment of our management fee in LTIPs with the remaining outperformance coming from operations.

We achieved significant improvements in NOI margins, with an increase of 220 basis points to 61.6% from 59.4% in the prior-year quarter. Property NOI on a dollar basis grew to $12.1 million in the quarter, which is a 75% increase from $6.9 million in the prior-year quarter.

Same-store NOI grew a very strong 8.1% for the quarter versus the prior-year quarter. Ryan will provide additional detail on this shortly.

For the sixth consecutive quarter, BRG's board determined to pay the full amount of the management fee in LTIPs in lieu of cash, with a goal of continuing to signal the confidence of management in executing our business plan and the underlying value of our shares.

Our asset base continues to grow significantly on a quarterly basis. Consolidated real estate assets at cost are up 32% to $738 million at the end of the quarter from year-end 2015.

On the acquisition front, during the quarter we closed on one property with 336 units for $75 million and one 90-unit development property with a projected cost of $30 million. Subsequent to the quarter, we've closed on two operating properties with about 800 units for a total purchase price of $107 million, and we're actively working on closing additional deals with another 1,500-plus units and a total cost of over $330 million.

Shifting to capital markets, in July we saw an opportunity to reduce our cost of capital and executed an underwritten overnight offering of a Series C preferred stock which raised over $57 million at a 7-5/8 rate. This rate is a 62.5 basis point improvement versus our Series A preferred stock, and we achieved it with significant interest from REIT dedicated institutional investors.

After the close of the quarter, in October we saw another opportunity to reduce our cost of capital, and executed another underwritten overnight offering, this time of a Series D preferred stock, raising $71 million—that includes the underwriter's overallotment option—at a 7.125% rate, which is an additional 50 basis point savings over the Series C offering. In addition, we were able to improve the non-economic terms of the deal, so the Series D is a perpetual preferred and a more attractive security from a structural point of view for BRG versus our prior series.

We are continuing our efforts on our 6% Series B non-traded preferred offering. We had sales of just under $7 million in the third quarter, which was an increase of 267% from the second quarter of this year and are continuing to get good feedback from the broker-dealer community with respect to this offering.

Our goal for these offerings is to raise accretive capital inside our common dividend to execute on a robust pipeline of accretive transactions that we're continuing to see.

We've previously stated that $500 million is the equity capital base that would be the number where it would make sense for BRG and its investors to have internalized management. The above offerings have allowed us to hit the $500 million equity target, and I'm happy to report we've started the process, working in conjunction with the board and counsel and appropriate advisors to internalize our manager. We are working towards a target of mid-2017 for BRG to become an internally managed REIT, though obviously at this point we cannot guarantee the timing.

Finally, we're looking forward to the last quarter of 2016, building off the momentum of the strong nine months. Our pro forma AFFO guidance for the fourth quarter is $0.31 to $0.33 per share.

Now I would like to hand over the call to Ryan MacDonald, Managing Director of Investments, to give additional commentary on our operational metrics and an overview of our transactions during the quarter and beyond. 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 third quarter of 2016 was 95%.

Same-store NOI increased 8.1% compared to the third quarter of last year. The improvement in NOI was primarily driven by a 7.5% increase in property revenues, of which the majority came from a 4.7% increase in average effective rent per occupied unit over the same period last year. On the expense side, same-store expenses increased by 6.5% versus the prior-year quarter primarily due to one-time favorable real estate tax true-ups recorded in the prior year. Additionally, I'd like to point out that year to date through October we've purchased 20 units at Lansbrook, of which five have been since the end of the second quarter. The average cap rate for the purchases was 10.5% and the additional units contributed 80 basis points to our same-store NOI growth for the quarter.

In terms of financings, at the beginning of the quarter we executed a refinance at Lansbrook, our Class A fractured condo in Palm Harbor, Florida. The new ten-year loan from Fannie Mae in the amount of approximately $57 million allowed us to repay the existing senior loan of approximately $44 million and significantly reduce the interest rate to approximately 3% versus the previous rate of 4.4%.

On the dispositions front, in August, we sold Springhouse, which is our Newport News, Virginia asset, for $38 million. The sale generated an internal rate of return of 17% on BRG's equity and a return on equity of 180% and, in addition, allows us to exit a class B 1985 vintage older asset in a non-core market and reinvest accretively into an asset that fits our core value-creation strategy and in our target markets going forward.

In addition to the above, we are in various stages of the sales process on four additional assets which we anticipate will close in the coming quarters.

On the development front, I'm happy to report our 296-unit development project in Orlando, Florida, called EOS, has stabilized with rents in line with projections, yielding a return on cost for this project north of 7%, versus market cap rates of 5% to 5.25%.

On the investment front, in July we purchased a Class A 2008-built mixed-use asset with 336 apartment units and approximately 39,000 square feet of ground floor retail in the West Midtown submarket of Atlanta, Georgia, called the Tenside Apartments. The asset was purchased for $75 million and is projected to yield a stabilized pro forma cap rate of approximately 6.5% which compares favorably to estimated market cap rates of 4.75% to 5.25% for comparable assets. BRG's business plan includes exterior, amenity, common area and minor interior upgrades to the apartments as well as infusing capital to reposition and retenant the retail component. We believe that Tenside's proximity to Georgia Tech along with its location in West Midtown which has recently emerged as a vibrant 24-hour submarket filled with fashionable retail and trendy restaurants, provides significant long-term catalysts for value creation at the property. Additionally, we expect the rent disparity between West Midtown and Midtown to substantially close in the coming years, which should drive additional rent growth at Tenside. BRG invested 90% of the venture's equity requirement, equating to approximately $22 million, with our joint venture partner funding the balance for a 10% stake in the venture. The joint venture capitalized the investment with a seven-year fixed-rate senior loan from Fannie Mae in the amount of $52 million and a rate of 3.68%.

Then in September we invested in 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 apartments. BRG's underwriting projects a return on cost of 6.5% to 7% at stabilization, for value creation of 200 to 250 basis points versus comparable Class A apartment communities in the greater Boca Raton submarket. BRG initially funded approximately $1 million to consummate the venture and is projected to fund an additional $11 million through a convertible mezzanine structure at vertical construction commencement, estimated in the coming months.

Finally, subsequent to the quarter end we closed two acquisitions totaling $35 million in BRG equity.

After the close of the quarter, in October we closed on an attractive, well-located apartment community in the northern suburbs of Atlanta for $68 million. This was a relationship purchase where Bluerock and its joint venture partner leveraged the execution with the seller of the Naples and Sarasota portfolio into a contract on this asset, which has a similar value-add investment strategy. The Atlanta acquisition is projected to yield a pro forma stabilized cap rate of approximately 6.5%, which we believe compares favorably to cap rates of 4.75% to 5.25% for assets of similar quality in the market. BRG invested 90% of the venture's equity requirement, equating to approximately $24 million, with our joint venture partner funding the balance for a 10% stake in the venture. The joint venture capitalized the investment with an acquisition loan from Freddie Mac in the amount of $48 million and a rate of approximately 3%.

The most recent fourth quarter acquisition was the purchase of a Class B+ 2003-built 320-unit apartment community in Port Saint Lucie, Florida, call the Apex Prima Vista apartments. The asset was purchased for $38.5 million and is projected to yield a stabilized pro forma cap rate of approximately 7.3%, which compares favorably to estimated market cap rates of 5% to 5.5% for comparable assets. BRG plans to utilize a similar core-plus renovation strategy of amenity and interior unit upgrades implemented successfully by our joint venture partner on an asset within the same submarket. Major area employers include biomedical research institutes and significant healthcare systems. BRG invested 85% of the venture's equity requirement, equating to approximately $11 million, with our joint venture partner funding the balance for a 15% stake in the venture. The joint venture capitalized the investment with a seven-year fixed-rate senior loan from Freddie Mac in the amount of $27 million and a rate of 3.95%.

In terms of pending transactions, we have four additional investments totaling 1,160 units with total projected costs of approximately $236 million, which invests all of our investable cash other than $16 million. Let me review a few of them with you.

The first pending transaction is a relationship purchase of a 98% interest in a 320-unit Class A apartment community located in Roswell, Georgia, for a total purchase price of $76 million. Bluerock was able to source the opportunity directly with the seller due to an ongoing relationship cultivated over many years. The location benefits from tremendous barriers to entry for new multifamily construction, evidenced by this being the only institutional multifamily asset built in Roswell in the last 15 years. We believe our unique product fills a void in the marketplace by targeting renters that desire to live in larger, professionally managed apartments with walkability to a vibrant downtown retail and restaurant scene on historic Canton Street. The acquisition is projected to yield a pro forma stabilized cap rate of 5.75% which we believe compares favorably to cap rates of 4.75% to 5.25% for assets of similar quality in the market. BRG is projected to invest 98% of the venture's equity requirement, equating to approximately $26 million, with our joint venture partner funding the balance for a 2% stake in the venture. We expect the joint venture will be capitalized with a ten-year fixed rate loan from a large insurance company in the amount of approximately $51 million and a rate of 3.63%.

Our second pending acquisition is a relationship purchase of a 92.5% interest in a 324-unit 2000-built garden style apartment community located in Austin, Texas, for a total purchase price of approximately $49 million. The business plan contemplates refreshing the exterior of the property and enhancing curb appeal, as well as interior renovations, which we believe will ultimately yield a pro forma stabilized cap rate of approximately 6.5%, which we believe compares favorably to cap rates of 4.75% to 5.25% for assets of similar quality in the market. BRG is projected to invest 92.5% of the venture's equity requirement in November of this year, equating to approximately $15 million, with our joint venture partner funding the remaining balance for a 7.5% stake in the venture. We expect the joint venture will be capitalized with a fixed-rate loan from Fannie Mae in the amount of $34 million and a rate of 3.71%.

Our third pending deal is a 250-unit Class A apartment community in the same Southwest Austin submarket as the previous investment. The newly built asset recently exited a challenging lease-up that resulted primarily from construction delays, budget misses and operational volatility from multiple property management companies. With a need to close by year-end, our ability to quickly underwrite the market and operations allowed us to capitalize on a discount purchase opportunity. The acquisition is projected to yield a pro forma stabilized cap rate of approximately 6%, which we believe compares favorably to cap rates of 4.75% to 5.25% for assets of similar quality in the submarket. Closing is targeted for the end of the year and BRG is projected to invest 90% of the venture's equity requirement, equating to approximately $11 million, with our joint venture partner funding the balance for a 10% stake in the venture. We expect the joint venture will be capitalized with a fixed-rate loan from Fannie Mae in the approximate amount of $27 million.

The final pending investment is a to-be-built 266-unit Class A luxury mixed-use apartment and retail development in the extremely high barrier to entry Jacksonville submarket of San Marco. The Bluerock and ArchCo venture will be teaming with Regency Centers to develop the project which includes substantial high-end ground-floor retail anchored by a Publix supermarket. BRG's underwriting projects a return on cost of 6.5% to 7% at stabilization for value creation of 150 to 200 basis points versus comparable Class A apartment communities in the greater Jacksonville MSA. BRG is projected to fund approximately $24 million through a convertible mezzanine structure at vertical construction commencement, estimated to be in the first half of 2017.

Now moving on to the capital markets front, I'd 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. Today, fixed rate spreads generally range from 180 to 240 basis points for all-in rates of

3.4% to 4% with term ranging from five to ten years.

Finally, our pipeline continues to remain very robust. We are currently evaluating north of $400 million worth of opportunities totaling in excess of 1,800 units. 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 over to Texas. 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 portfolio in high-growth primary markets throughout the United States and targeting the high disposable income renter by choice. We have assembled and are continuing to assemble one of the youngest portfolios in the market and are seeing significant value creation in our portfolio.

With that, operator, I'm happy to answer any questions that we have.

## 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 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star and then two. At this time, we will pause momentarily to assemble our roster.

First question comes from Rob Stevenson from Janney. Please go ahead.

**Rob Stevenson**
Good morning, guys. Ramin, can you just highlight for us what the timing and the issues around potentially internalizing the management that pushes it out to mid-2017? Is it much more than just trying to find an appropriate price for the management company? What are the other challenging challenges that you guys are facing at the moment with that?

**Ramin Kamfar**
Hi, Rob. How are you? It’s a good question. Actually, I don't think there is a challenge in terms of finding a price because from that point of view this is relatively simple internalization, because we've already disclosed that upfront when we went public, so it's formula based. So the issue is not price. The issue is the process takes time. The company and the board have hired advisors and counsel. We just met with our board, and they set up a special committee.

So there are three pieces of this that need to happen. One is structure. And by structure I don't mean the pricing of the deal, but the structuring of the deal and the employment arrangements and contracts that have to go to all of the management team. So we have an advisor on board that actually advises a lot of companies and a lot of REITs - a large proportion – and they have a very large market share in the REIT business, and they’ve advised over 30%-plus of the REIT universe in terms of compensation structure and so on and so forth.

So we're going through with that process. That's going to be this quarter. Next quarter is going to be basically putting all the documents in place, not just in terms of employment agreements but in terms of the internalization. And then we go out for a shareholder vote on various pieces of it, and depending on whatever counsel determines at the end of the day needs to go in front of the shareholders. That's going to be—that's going to push us into the second quarter of the year.

So we're targeting to close this as of—so that we turn the switch on at the end of Q2. So it's a process issue as opposed to a complication issue. It just takes time.

**Rob Stevenson**
Okay. Then I think Ryan said that you had $16 million of cash after completing the pending acquisitions. What level of proceeds are you expecting for the four property dispositions that you are looking to do? And what does that give you on a combined, investable firepower going forward?

**Ryan MacDonald**
Sure, good morning, Rob. It's about, I think we've said, $25 million to $50 million. It will be towards the middle to upper end of that range. And that will give us that amount plus the $16 million that we've identified in our pro forma guidance as available for investment going forward.

**Rob Stevenson**
Okay.

**Ramin Kamfar**
Rob, let me just add that it's not—I don't think it's taking us longer to do this internalization process than anybody else. I think that we're announcing it earlier than other people, because we had committed to our investors that once we hit the $500 million that we're going to go ahead and internalize. So we wanted to make sure that people knew that we've started working on it.

So generally when companies announce it after they've done a significant amount of this work. There was some discussion as to whether we should wait until we're closer to it until we announce, but we figured that we should get the information out there because we don't want any questions as to, hey, you guys hit your $500 million target; why aren't you working on it?

**Rob Stevenson**
Okay, that's great. Then how are you thinking about the various preferred series issuances going forward, whether or not it's the Series B or doing something further under the ATM? How should we be thinking about that, as to how those will be used?

**Ramin Kamfar**
Well, we're looking to reduce our cost of capital, right? Because the lower cost our capital at the end of the day, the more accretive our deals are going to be. So we've been I think opportunistic in terms of—our Series A came out a year ago, and it was 8.25%. In the course of a year, we've been able to reduce that with a Series C to 7-1/8%. And we've converted it from what effectively had a seven-year redemption right and a ratchet in the Series A and Series B to a security that's permanent capital. It's a perpetual preferred which should trade at a 25 basis point premium to what has a redemption feature. So we've improved it even more than the 112.5 basis points.

Now, the Series B we've launched because it has a 6% dividend rate. Obviously that would be the most accretive. We have a focus on growing that. And we're going to be—I can't give you a more specific answer other than as the market, we're hoping that as the market continues to see our performance, our growth and our—both on the top line and on the bottom line, as we grow our AFFO and people see the fully invested numbers, our cost of capital comes down. And we're going to continue to push to do accretive deals.

**Rob Stevenson**

Okay. Thanks, guys. Appreciate it.

**Operator**
The next question comes from Craig Kucera from Wunderlich. Please go ahead.

**Craig Kucera**
Hi, guys.

**Ryan MacDonald**
Good morning, Craig.

**Ramin Kamfar**
Good morning.

**Craig Kucera**
Appreciate the color on the same-store portfolio. If you were to strip out the operating expense affiliated with the real estate tax true-up last year, do you have a feel for either what your same-store operating expense would've—how that would've increased, or alternatively maybe what your same-store NOI would've been, had you not had that true-up a year ago?

**Ryan MacDonald**
Well, I can put a finer point on it. Just to clarify, the same-store tax true-up last year was greater than it was this year. It's a couple hundred thousand dollars is the difference. About, I think, half of the expense change was related to the real estate tax true-up difference. I think there was $222,000 of change in the expenses, and about half of that was related to the tax true-up difference.

**Ramin Kamfar**
So, Chris, do you have a number there in terms of what the number would have been without the tax true-up difference?

**Christopher Vohs**
Not the percent, but Ryan is correct on the $125,000. I can run the number quickly.

**Ramin Kamfar**
Can you run the numbers while we're talking?

**Christopher Vohs**
Yes.

**Craig Kucera**
That's fine. I mean, I guess what I'm just trying to get at is you guys were fairly close to double-digit same-store; and you probably effectively would've been, I'm guessing, is what I'm guessing.

**Ramin Kamfar**
That's correct. It would have been higher than the 8.1%.

**Craig Kucera**
Okay. Switching gears, I've been hearing from some of your competitors that they've been seeing a little bit more need for capital from JV partners or at least potential JV partners because of the shift in HVCRE rules and those really starting to take a bite out of particularly multifamily, frankly, in the Sun Belt. Are you seeing any increase in your mezzanine loan opportunities? And does that alter how you

think about the mix? Are you still thinking a third mezz and two-thirds investing in property upfront?

**Ramin Kamfar**
I think that we're seeing the same in terms of the bank financing market for construction loan has gotten tighter. And that is, we believe, good news because it effectively shuts out the marginal developer and is going to have a dramatic impact on supply come 18 months from now.

So we're going to be a much tighter supply market which means—assuming that the job growth continues—you're going to have significantly higher growth potential in terms of on your top line. So, we are fortunate to be in the have group as opposed to the have-not group in that we're finance-able, and as a result of that, we are seeing, -- because the financing market has tightened up, we're seeing a lot more opportunities and very high-quality opportunities with our partners.

I don't think it changes the mix for us. I think we're comfortable at about a third on the development side and the rest of it on the operating side. Obviously, we're creating a lot of value on the development side. But A) I don't think it's appropriate to have all development in the REIT; and B) we're also seeing significant value creation on our operating assets, because we're not just going out and buying stabilized assets at an auction where you're the highest bidder out of 35 guys. We're mostly buying, as you know, off-market deals that have some special value creation.

That's why on this call, for example, Ryan spends a lot of time talking about what the value opportunity is on each of these. So we can get the value creation without necessarily the development component also. Jim, Ryan, feel free to add to that.

**Jim Babb**
Good morning, Craig. It’s Jim. I think that's right. I think, as Ryan highlighted, in the new acquisitions we actually see a real opportunity for different reasons, whether it's operational upside, in some cases, we're going to be making some more meaningful investments in the property. But the fact that we're able to still effectively underwrite value creation on the acquisition side is a real positive. I think we've picked some spots, submarkets and even a new market—we still like Florida—that we think is going to continue to add to the same-store sales growth going forward.

**Craig Kucera**
Got it. One last one for me, I know you mentioned you had four assets you were looking to sell. When you think about the portfolio, does it make sense to get out of maybe some of the Midwestern assets and become more of a pure play in the Sun Belt? I may have missed what those assets were, but does that come into consideration when you think about what kind of portfolio you're try to put going forward? Or is it more asset by asset and we're going to pick the best deals to possibly harvest value at a certain point in time?

**Ramin Kamfar**
I think you're thinking about the right way, Craig. I think you saw us get out of Newport News which is not a core market for us and at an attractive profit. The two Midwest assets that we have are both part of the four, so we're looking to exit both of those. The reason to sell assets is obviously A) it's not a target asset, it's not a target market, or you've achieved a point of value creation where you've maximized value and you think it's time to harvest. So we're doing it for both reasons, but the two Midwestern assets are on our list to harvest, and I think you'll see that in the coming quarters.

**Craig Kucera**
Okay, thanks, guys.

**Ramin Kamfar**
Thank you.

**Operator**
Once again, if you have a question, please press star then one to enter the queue. Our next question comes from Jim Lykins from D.A. Davidson. Please go ahead.

**Jim Lykins**
Good morning, guys. First, the Roswell acquisition, can you give us a sense for when you anticipate that one closing? I'm not sure if I missed that or not.

**Ryan MacDonald**
By the end of the year, Jim.

**Jim Lykins**
Okay. Also the Austin transaction, you mentioned where there have been some challenges with lease-up. Was that supply—can you just give us any more color on the issues the former owner had with lease-up there?

**Ryan MacDonald**
Sure, happy to do that. I think it was actually more a function of the ownership or the selling group more than the specific asset and location. We actually think that the location has some unique attributes that insulates it from supply. Really a function of, I think, a couple things. One is changing property managers multiple times. The developer tried to do the lease-up themselves, and they don't have a really have a property management arm to do the lease-up. So that caused tremendous volatility. Then I just think on the construction side also, the fact that it took them a little bit longer to get buildings finished and that disrupted operations as well. So those are really the two main factors that created the volatility at that specific property.

**Jim Lykins**
Okay. Good.

**Ramin Kamfar**
And they stopped investing the money at some point because it had taken them longer to get it out of the ground, and so they haven't finished their amenities. They have room for a fire pit, but they didn't put it in. I mean, lease-up isn't where you skimp on the dollars. So I think it's an operational issue. It's a great asset and a great market. It's not a supply-related issue.

**Jim Lykins**
Okay, that's helpful. And then lastly, if you could just maybe give us a sense for how rents and renewals are trending so far into Q4.

**Ryan MacDonald**
Sure. Sequentially I think they're certainly flat to up. It's on a case-by-case basis. I think that generally speaking our same-store sales growth would continue to be pretty solid going into the fourth quarter, but I mean, generally up.

**Jim Lykins**
Okay, thanks, guys.

**Ramin Kamfar**
Just one item going back to Craig's question on same-store sales, if you normalize for the tax true-up in the prior year, same-store NOI would have been up 10.6%, Craig, as opposed to 8.1%.

**Operator**
Once again, if you have a question, please press star then one.

**CONCLUSION**

**Operator**
This concludes your question-and-answer session. I would like to turn the conference back over to Ramin Kamfar for any closing remarks.

**Ramin Kamfar**
Thank you, operator, and thank you, everyone, for your support. I look forward to sharing news of our progress as we continue to execute our business plan. Goodbye.

**Operator**
Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.