Bluerock Group

Second Quarter 2015 Earnings

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PRESENTATION

Operator
Good morning, ladies and gentlemen, and welcome to Bluerock Residential Growth REIT's Second Quarter 2015 Earnings Conference Call. All participants will be in 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. Mr. Vohs, you may begin.

Christopher Vohs
Thank you, and welcome to Bluerock Residential Growth REIT's Second Quarter 2015 Earnings Conference Call. This morning, prior to market open, we issued our earnings press release and earnings supplement. The press release can be found on our website at bluerockresidential.com. In addition, we anticipate filing our 10-Q this week. Following the conclusion of our prepared 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 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 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 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 will 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, everyone for joining us for Bluerock Residential Growth REIT's Second Quarter Earnings Call. With me today I have several members of our management team. I've got Jordan Ruddy, our President; Jim Babb, our Chief Investment Officer; Ryan MacDonald, our Senior Vice President of Acquisitions; and Larry Kaufman, our Vice President of Asset Management; and Michael Konig, our General Counsel.

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

So, let me jump in and start with the financial highlights. We had a very strong quarter. For the quarter, our adjusted funds from operations, or AFFO, grew 288% to $3.1 million, from $0.8 million, $800,000, in the prior year quarter. On a per share basis, AFFO grew 46% to $0.19 a share, from $0.13 a share in the prior year quarter, which exceeds our guidance of $0.15 to $0.16 a share.

I want to point out that when we put out that guidance of $0.15 to $0.16 a share, we did not contemplate the May 2015 follow-on that we did. So, if you really want to compare our results on an apples-to-apples basis, you'd need to exclude the cash rate and the shares issued in the May follow-

on, and that would give you an AFFO for the second quarter of $0.23 per share. So, excluding the follow-on, it would be $0.23 per share, which beats the high end of our $0.15 to $0.16 guidance by $0.07.

On a pro forma basis, and we committed to report on a pro forma which adjusts for the cash drag in terms of between raising money in the follow-on, two follow-ons that we've done this year and investing that money, so it gives the investors a sense of what the actual run rate is on a pro forma basis, which assumes completion of the investment of the funds that we raised in the January follow-on into the deals that we've identified. As of the start of the second quarter, our AFFO per share was $0.34 per share, and that exceeds the high end of the guidance range for pro forma AFFO of $0.26 to $0.28 by $0.06. I want to point out that we have a dividend of $0.29 per share quarterly, so we're continuing to achieve our goal of covering our dividends on a pro forma AFFO basis.

Moving on, our management fee was $706,000 for the second quarter, or 0.03% of our equity base as compared to $218,000 in the prior year quarter, which was also 0.03% of our equity base in that quarter. For this quarter, BRG's board determined to pay the full amount of our management fee in LTIPs in lieu of paying us in cash. From the manager's point of view, we're pleased to accept the LTIPs, given our strong belief in the value of BRG stock at current levels and also to demonstrate our alignment with our investors.

Moving on to the revenue front, we achieved significant growth as a result of our investment activity. Over the last 12 months, our top line revenue for the second quarter was $10.5 million, which is a 35% increase from $7.8 million in the prior year quarter. In terms of NOI margins, we showed improvement, increasing margins by 160 basis points to 58.3% from 56.7% in the prior year quarter. As a result, property NOI dollars grew at a faster rate than revenues. They grew to $6.1 million in the quarter, which is a 39% increase from $4.4 million in the prior year quarter.

Same store NOI grew substantially by 10.3% for the quarter versus the prior year quarter. Net loss attributable to common stockholders for the quarter improved significantly to a net loss of $0.6 million, versus a net loss of $4.5 million in the prior year quarter. This net loss obviously includes significant non-cash items, which were $3.6 million in our most recent quarter versus $2.5 million in the prior year quarter.

Our asset base continues to grow significantly on a quarterly basis. Gross real estate assets are up 22% to $366 million at the end of our recent quarter from the yearend 2014. And we look for this number to continue to grow significantly through the remainder of the year as we close on our pending transactions.

On the transaction front, we closed on five investments here in the quarter for a total cost of $125 million. We have an additional seven properties under contract, or LOI, for a total cost of $285 million, representing just north of 1,900 units which we are working on closing. Ryan's going to touch on the transactions and give you more detail in a few minutes.

As we've previously indicated, we are continuing to review our portfolio and be active recyclers of capital when it's beneficial to our shareholders. At this point, we have two non-core assets that are under contract for sale at attractive returns and which we are looking forward to close in the third quarter.

Shifting to capital markets, we completed an overnight follow-on offering in May of 6.4 million shares of Class A common stock at an offering price of $13 per share for gross proceeds of $82.5 million. We had originally filed this as a $50 million offering, but the deal was oversubscribed by almost 2.5x in a

matter of hours, and that allowed us to upsize the deal.

We had three goals for this offering. One was to raise capital to execute on a robust pipeline of accretive transactions that we're continuing to see and that we're working on closing now. The second was to continue to build our institutional shareholder base. And here we had demand from approximately 60 institutions, and I'm happy to report we placed over 70% of the shares institutionally, and in general our institutional share holdings, if you look at it, has grown to north of 30% from effectively zero over the last 12 months. And the third was to ensure our inclusion into the Russell 2000 and 3000 indexes, and I'm happy to report that BRG was selected for inclusion in June. And this is an important milestone we believe in our growth.

Finally, we're looking forward to a solid third quarter. We will continue to report AFFO on a pro forma basis so investors can evaluate our earnings potential on a fully invested basis without the temporary cash drag associated with raising and investing the capital. Pro forma AFFO guidance for the third quarter is $0.26 to $0.28 a share, which is the same as it was for the second quarter, and that assumes that we fully invested our remaining cash in pending and pipeline transactions, the details of which are outlined in our supplement which we filed this morning.

And with that, I'm going to hand over the commentary to Larry Kaufman, our Vice President of Asset Management. Larry?

Larry Kaufman
Thank you, Ramin, and good afternoon, everybody. Our operating portfolio continues to perform exceptionally well. I would like to highlight some key metrics for the second quarter. Portfolio-wide, across all of BRG's assets, average occupancy for the second quarter of 2015 was 93.9%, up 40 basis points versus the prior year quarter average of 93.5%. Occupancy was higher in July, averaging 94.9% for the month, and we are seeing strong demand for our properties continue into August.

Same store NOI increased 10.3% compared to the second quarter of last year, 2014. The improvement in NOI was the result of a 5.9% increase in property revenues which came from driving the 60 basis point gain in occupancy and 3.8% increase in average effective rent per occupied unit over the same period last year. Same store expenses remain flat compared to prior year quarter.

Now, I'd like to turn over to Ryan, who will give you some additional details about the quarter's investment activity.

Ryan MacDonald
Thank you, Larry. We had a productive quarter on the investment side of the business. On the acquisition front we made five investments this quarter, made a commitment to three additional investments, and entered into LOIs for four additional investments, for a total cost of $411 million, and representing 3,116 units in eight markets.

Our first investment was the Whetstone Apartment, which is a new Class A 204-unit apartment community currently in lease-up in downtown Durham, North Carolina. Our operating partner was able to source the opportunity at an attractive price by sourcing off market directly with the seller. We are projecting a stabilized cap rate for the asset of approximately 6%, which we believe compares favorably to market cap rates of 4.75% to 5%. From a market perspective, we believe Durham, North Carolina is a vibrant growth market with a tremendous intellectual capital base focused on attracting both healthcare and technology-based employment.

Currently, the property is 66% leased and is averaging approximately 20 leases per month. And based

on the existing run rate, we would expect the property to stabilize in the fourth quarter of this year, at which point we would expect to convert our $12 million convertible preferred investment into majority common equity ownership.

Our second investment is in Cheshire Bridge, which is a to-be-built 285-unit Class A luxury apartment complex in infill Atlanta, with direct access to institutional sub-markets of Buckhead and Midtown. BRG funded a convertible preferred equity investment of just under $16 million in the transaction. BRG's underwriting projects a return on cost for the project ranging from 7% to 7.5% at stabilization for value creation of 200 to 250 basis points versus sales of comparable multi-family communities in the greater Atlanta MSA at 4.5% to 5%.

In addition, we made investments to increase our ownership stake in the Park & Kingston Apartments from 47% to 96%, and in the Fox Hill Apartments from 85% to 95%. These investments helped us achieve our goal of simplifying our ownership structure by owning 90% to100% of each of our properties. And on average we have taken a 94% ownership stake in our investments and our pending investments since our IPO. Lastly, we've funded the second half of our investment in the Alexan Southside development deal.

In terms of pending acquisitions, we have seven properties under contract, or LOI, with a total cost of $285 million, representing 1,917 units, which we are working to close in the next several months. To give you detail on some of the deals, the first pending investment is an off-market purchase of 100% interest in a 2013 and 2015 built, two phase, Class A 473-unit property in suburban Charlotte called the Ashton Apartments. This is an off-market purchase directly from the seller, which was complex for a variety of reasons, including the fact that the Phase I is operating in its existing financing, while Phase II is still under development. As a result of these complications BRG's cap rates on Phases I and II are 6% and 5.8%, respectively, which in our estimation is approximately 50 to 75 basis points better than market, which we estimate to be in the 5% to 5.5% range. We expect to close on Phase I in the next couple of weeks, and Phase II 30 to 60 days following stabilization, estimated to be early in the fourth quarter.

The second pipeline investment is the purchase of a 95% interest in a Class A 2006 built, 252-unit apartment community in Orlando, Florida called the Century Palms at World Gateway Apartments. The asset is being purchased off-market for $37 million and is projected to yield a pro forma stabilized cap rate of approximately 6.8%, which is 40 basis points higher than our original underwriting as a result of continued operational improvement at the property. This compares favorably to cap rates in the market for similar quality assets in the 5.25% to 5.5% range. The business plan calls for modern enhancements to the clubhouse and amenities as well as modest in-unit upgrades and installment of washer/dryers in select units.

Our third pipeline investment is an off-market purchase of a 95% interest in two newly built Class A assets totaling 674-units in the Dallas-Fort Worth Metro area. We were able to negotiate favorable pricing that has projected yield of pro forma year one cap rate of approximately 6%, versus market cap rates for similar quality products in the 5% to 5.25% range because of our close relationship with the seller and ability to execute quickly. We are currently in due diligence and have targeted closing in October.

The last pipeline investment I'll mention today is a healthcare-oriented Class A development project in Raleigh, North Carolina. The project is 242-units and located directly adjacent to Rex Hospital, a highly acclaimed medical center within the University of North Carolina Healthcare System that employs more than 5,400 staff, including 2,800 medical personnel. Our partner has been working on a rezoning for many years and as a result it has created tremendous underlying land value.

BRG is coming in at a partners basis through a convertible preferred equity investment, and our underwriting projected return on cost for the project ranging from 7% to 7.5% at stabilization, for a value creation of 200 to 250 basis points, versus sales of high quality institutional multi-family communities in the greater Raleigh Metro at 4.5% to 5% cap rates.

Shifting to the dispositions front, we are under contract to sell two older non-core assets that no longer fit with the BRG's current strategy because of age and location. I'm happy to report that both assets are projected to be sold at attractive returns, yielding approximately $10 million in net proceeds to BRG, and I look forward to reporting further on the sales next quarter.

I'd also like to point out our pipeline remains very robust. Currently we are evaluating north of $500 million worth of investments totaling in excess of 5,000 units and 20 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.

Before I hand the call back to Ramin I'd like to note that our 296-unit development project in Orlando, Florida called EOS recently began leasing. Rents are in line with projections, which means we will be looking at a 7.5% return on cost for this project versus market cap rates of 5% to 5.5%. And we've been trending approximately 25 leases per month with 61 leases signed to date. We look forward to the continued strong lease-up at the property as we deliver additional buildings and reporting on the progress next quarter.

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

Ramin Kamfar
Thank you, Ryan. In closing, I just want to say that we continue to see significant upside to our strategy, which is to build a high quality Class A portfolio in the high growth primary markets throughout the United States and thus targeting the high disposable income renter by choice. We have assembled one of the youngest portfolios in the market, and we are achieving one of the highest average rents for portfolios in our markets and at the same time are generating significant value creation in our portfolio.

I want to thank you all for your support. I look forward to sharing news of our progress as we execute our business plan. And with that, operator, 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 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. At this time we will pause momentarily to assemble our roster.

And our first question will come from Rob Stevenson of Janney.

Rob Stevenson
Good morning, guys. Ramin, beyond the Dallas assets in the pending portfolio, what other new markets are you looking at in the remainder of the asset acquisitions that Ryan was alluding to?

Ramin Kamfar
Good morning, Rob. I'm going to let Ryan answer that.

Ryan MacDonald
Sorry, Rob. Is the question what additional markets above and beyond the assets that we—

Ramin Kamfar
The $500 million that we're looking at—

Ryan MacDonald
Got it.

Ramin Kamfar
Which new markets?

Ryan MacDonald
Let me take that. It's primarily a bolt-on and additional and are similar markets. I'm looking at it. It's North Carolina, Texas, Tennessee, Florida. There are a couple that would be part of portfolios in other markets that are probably non-core in Mid-Atlantic, but the primary markets are Florida, Tennessee, Texas, North Carolina, so our existing markets primarily.

Rob Stevenson
Okay. And then are there additional opportunities to buy additional interest in the current portfolio assets like you did this quarter?

Ramin Kamfar
I think when you look at the assets, we're, I think, 94% in terms of the assets that we've purchased since the IPO. There are a couple of assets, when I look at the list, Rob, that we are not at 90%, and one of them, the EOS development asset, I think that would be an attractive asset to own more of. But we own a small percentage of it, and so it may be an attractive disposition asset. I'm not sure that the cap rate that we're going to be able to sell it at is where we want to be buying into it.

And then you've got our NDA asset, which we own a partial ownership in. It's, again, not a core market for us. It's probably something that we're going to look to dispose as we maximize the value. So, I think what you'll see from us is that going forward we're going to be 90%, 95%, 100%, so that people can look at it and say, okay, it's on average a 95% owned portfolio. And the older assets, where it's less than a handful where we own less than that, those assets over time will probably get monetized.

Rob Stevenson
Okay. And then just lastly for me, between the $10 million of disposition proceeds that you guys were expecting as well as capital on hand and your borrowing capacity, is that enough to close the seven pipeline assets? And how much additional capacity does that give you?

Ramin Kamfar
Yes, it is sufficient to close the pipeline assets. We wouldn't take any deals under contract or even LOI if we didn't have the capital. And in terms of additional capacity, I think that's it. I think we're fully committed, which is what we had promised people when we went out with our last offering, that within three to six months we'd be fully committed. It's not exactly six months yet from May, but we're fully committed at this point.

Rob Stevenson
Okay. And then just one last one to sneak in, have you guys noticed anything in terms of your

conversations with Fannie and Freddie and other lenders in terms of willingness and/or pricing over the last 60 days?

Ramin Kamfar
I'll give you the big picture, and then Ryan can add in some detail. In general what we find is that, first of all, we're a preferred borrower with Fannie/ Freddie. And secondly, the quality assets that we're buying and the quality of the markets that we're in, those are assets that Fannie and Freddie like. Ryan's had the most recent conversation, so I'll let him add color to that.

Ryan MacDonald
Yes, Rob, I think spreads on average are probably up 50 basis points from the beginning of the year. That being said, I think we've been fortunate enough to be able to backfill it with life cos[ph]. I think you're probably looking at a good 50 basis point difference between our life company spreads and our agency spreads. And I think we'll see probably towards the latter half of the year, as the allocations for 2016, the agency spreads will come in quite a bit. So, I think right now our focus has been primarily on life cos, but I think the agencies will begin to open up and spreads will compress towards the latter half of the year.

Ramin Kamfar
Jim Babb's sitting here. Do you want to answer that?

Jim Babb
Hey, Rob. I think Ryan and I both have stayed close to this. And I think that's right, particularly at the leverage level that we're looking, the opportunity, the landscape of lenders is very, very broad, and the life cos[ph] right now seem to have the best execution. But Fannie and Freddie are back. They're quoting. They're a little bit wired, as Ryan said, than perhaps they were at the end of last year, earlier in the year, but more competitive than they were probably 60 or 90 days ago. So, we feel very good about our debt to capital availability.

Rob Stevenson
Okay. Thanks, guys. Appreciate it.

Ramin Kamfar
Thanks, Rob.

Operator
And the next question will come from Wilkes Graham of Compass Point.

Wilkes Graham
Hi. Good afternoon. Just a couple of quick questions. In your north of $500 million pipeline are you seeing more opportunities out there for the 15% preferred investments where you can roll into ownership down the road, or are you seeing more opportunities on the direct acquisition side?

Ramin Kamfar
It's more the pipeline. Good afternoon, Wilkes. Let's start with that, and thanks for joining us. The pipeline adds, we're looking at it right now, and I have it in front of me. It's more weighted towards existing assets. We're trying to keep the preferred investments, the development deals to no more than 30% of our equity base. So, right now what we're seeing is in particular we're working on a portfolio or two that we think would be very interesting if we could bring it in. But internally we put a limit in terms of what we want to put on the preferred and development side. We've got a couple of deals that are going to roll into underlying equity, including the Whetstone transaction shortly.

Wilkes Graham
Okay. Can you maybe just talk a little bit about your decision to accept the management fee in LTIP as opposed to cash? And is that something you plan to do going forward, or was that just this quarter?

Ramin Kamfar
It's a board-level decision, so I think it was a discussion with the board. We thought that it would send the right signal to our investor base for us taking our whole of management. I think last quarter we had an incentive fee. We took all of that in LTIPs as opposed to just half of it, and this quarter we started a discussion with the board. It was a board-level decision. It was initiated by us because we felt that it was the right signal to everyone out there that we are strong believers of the stock at recent pricing.

Are we going to do it again? We'd like to. Again, the board has to make that determination. We're open to it. I'm hoping the stock's not going to be where it was yesterday, but I think that our stock, as you and I have discussed, we think that the stock has significant room for multiple expansion. Obviously, we're putting very strong numbers in terms of operating performance of the portfolio out there. We're seeing tremendous deals. So, the message is we're significant buyers of the stock at this point.

Wilkes Graham
I appreciate that. And I definitely agree with the move. Another board-level decision obviously is the decision to internalize management. You and I have discussed that recently, but can you just talk again, you're right about the $250 million market cap hurdle, but it probably wouldn't be neutral or accretive to AFFO to do so now. Can you just talk about how you think about when the right time to internalize is?

Ramin Kamfar
Again, it's a board-level discussion that we've engaged. In our point of view, and I think we're on the same page with the board and hopefully with all the investors, is that we want to internalize as quickly as possible, as quickly as it makes sense for the investors. And that's a point where internalizing would be neutral to AFFO, if not accretive. So, we think that that number is around, if you look at our peers they're running at a $7.5 million G&A, so that's at our management piece about 1.5 points, somewhere just a little under that of equity, so that translates into about $500 million of equity. So, we've gone from $25 million in equity since our IPO last April to 250, and we're hoping that we're going to hit a number that makes it economic for us to internalize in 2016.

So, I would be disappointed if we're not internalized by the end of 2016 so that we can take this issue off the table and so that we can do it in a way that's accretive for the investor base. But we're committed to internalizing as quickly as it makes sense for the investors.

Wilkes Graham
I appreciate the detail. Thank you.

Operator
And next we have a question from Craig Kucera of Wunderlich.

Craig Kucera
Hi. Good afternoon, guys. I wanted to follow up on the LTIP. First of all, kudos to you for doing that. I think that sends a very strong signal to your investor base to do that. But I wanted to find out, was that price based on an end of the quarter price, or where was your strike price on that?

Ramin Kamfar
The strike price hasn't been determined yet. The strike price gets determined the same way that, there's a mechanism in our management agreement for determining stock price in terms of paying the fee using LTIPs, which was used for the incentive fee last quarter, and that same mechanism is going to be used this quarter and going forward if and when this happens again. And that is once the board makes that determination that it's going to be an average of, I believe the next five trading days, Chris, you may know, if I'm incorrect you can correct me. I know it's a five day average, and I think the start date is the day the board makes the determination. We had our board meeting last Wednesday, I believe, and so it will end I think the last day that gets rolled into the number is tomorrow, next Wednesday. Chris, am I correct on that?

Christopher Vohs
That's correct, Ramin.

Craig Kucera
Got it. Well, it's definitely appreciated, I'm sure, particularly by those that have participated in the stock in the last several follow-ons. I had a few detailed questions to go through just on timing of the acquisition pipeline that you've outlined. Is that still expected to likely close by the end of year, or is that maybe some of it may be slipping into first quarter?

Ramin Kamfar
I think everything should close by end of year. Ryan, why don't you go through when the various deals should close. I see two August, one September, and three October's in there. But we can put dates next to specific deals, if you'd like.

Craig Kucera
No, that's fine. I think I'm just looking more for a round dollar amount. But, yes, certainly if you have the bulk of the close by early fourth quarter, that's helpful.

Ryan MacDonald
Craig, the majority's by October.

Craig Kucera
Okay, got it. And just following up on Rob's question on the debt piece, what kind of quotes are you currently seeing for the debt that you've sort of identified on Ashton Reserve and maybe the Century Palms property? Is it maybe 350, 375, something like that?

Ryan MacDonald
Ashton, we're actually assuming a loan for the first phase, which is the 322-units, so that's fixed, and that's 467 with a life company that's a legacy loan. On Century Palms, for business planning reasons, we're actually going to utilize a floater. We think this is an opportunity to get in fixed and then potential risk cycle capital, so I think we were 225 over, and we hedge our exposure as well. That's correct. But on a generalized basis we're seeing anywhere from 3.5 or 3.25 depending on where we term out our maturity, to about 3.75, is in our wheelhouse right now.

Christopher Vohs
Yes. We have, the Dallas portfolio now is out in the marketplace. We've had very, very strong initial indications. We haven't formalized the quotes yet, Craig, but we expect them to be in the mid-3s.

Ryan MacDonald
That's correct.

Craig Kucera
Got it. And the total cost on the Dallas portfolio, I know you guys know that your equity investment was expected to be about $30 million. Do you guys have a good ballpark figure for what the total investment will be there?

Ryan MacDonald
Approximately $100 million.

Craig Kucera
$100 million, okay. And I guess finally, you're selling a couple of assets, you're harvesting some value here out of some of the older assets, but given where your stock price is today, are you revisiting maybe some of the other pieces of the portfolio that are maybe non-core to actually recycle capital, or what are your thoughts there?

Ramin Kamfar
We're consistently looking and constantly looking at where we can recycle capital and re-deploy it accretively. So, the answer to that is absolutely. We were going through the portfolio and had a recent conversation about one particular deal in terms of that's a significant investment for us, whether we can and whether we should recycle it. So, we're having those conversations. Those conversations happen continuously, Craig.

Craig Kucera
Okay, great. Thanks a lot.

Ramin Kamfar
Thank you.

Operator
And the next question will come from David Kanen of Aegis Capital.

David Kanen
Good afternoon, guys. First question, well, more of a comment. I've been a shareholder for about a year now, and when I look at all of your key metrics, you're performing exceptionally well, but the bad news is from a year ago our stock hasn't gone up at all. In fact, it's down about 15% since last September. And then if I compare you versus one of your peers, Preferred Apartments, their stock is up about 20% during the same period. And while you're doing so many things right, I would almost analogize it to a football game, where your star quarterback is getting 400 yards, your running back is rushing for 200 yards, but we're actually losing the game.

And I think the reason is a little bit of an overweight in terms of source of capital towards equity. I think if that were tweaked, we would probably get much better performance. And I would like to get your thoughts on that and commentary, if that's something that you will consider and employ going forward.

Ramin Kamfar
David, I appreciate the comments. We're always looking for input as to what we can do better. I think that from a capital structure point of view, we're open to whatever makes sense and is accretive for our investor base. So, when you're saying overweight towards equity, are you thinking debt, or are you thinking preferred? What is it that you're thinking about?

David Kanen
Well, I think we've been too aggressive in terms of issuing equity, and I think it also puts you—so far it hasn't, but it could potentially put you at a disadvantage in terms of your pipeline because now you have a gun to your head in terms of deploying that capital. If you do raise equity, you've got to get a return on it quickly, so there may be the inclination to be less judicious in terms of the transactions that you do.

So, you're selling properties, you're doing a great job, you're recycling properties. I would say using those proceeds and using debt, possibly preferreds [ph], as source of closing transactions, I don't think you have to ramp as quick as you've done. I would prefer to see you digest and use debt and recycling of capital and less dilutive equity going forward. And I believe very strongly that the stock price will reflect that.

Ramin Kamfar
David, I appreciate it. We're always looking to be smarter from a capital markets point of view. On the debt side, I think we're putting 65% generally, where two-thirds—we're high in terms of REIT leverage, for a mature REIT, but we're not mature. For our cost of capital, our strategies, we put two-thirds debt on it, and with the value creation we get below 50%. So, I'm not sure that we have much capacity to add debt on. We've looked at a preferred. The issue is convertible versus perpetual. Convertible preferred potentially puts pressure down on the stock, on the equity. We don't want to do that. And perpetual is something that will be right for our capital stack at the right time.

I agree with a lot of what you're saying. In terms of recycling capital, we're aggressive about that. I'm not sure that I agree with you in terms of just comparing us with Preferred Apartments. If you look at us, and I did this for our board last week so I have the numbers in front of me, if you look at us versus the total small cap and mid cap universe, which includes not just Preferred Apartments but IRT, Mid-America, Post, Trade Street, and Camden, and its numbers are a little skewed against us because Trade Street is being bought, so that's skewing the numbers a little bit.

Year-to-date, this was as of last week, now it doesn't reflect our recent down leg a few days ago, so through last Wednesday we had delivered 8.4% versus the peer group at 5.6%. And since our January 15 follow-on, we've delivered 7.8%, versus our peer group at 1.2%. And since our October '14 follow-on, last year, which was our first institutional ramp, we delivered 19%, versus 15% for the peer group. I think our biggest issue, and we hear this when we do our institutional road shows, is our size. We're too small for the REIT dedicated guys. I think we'd be trading at a significantly different multiple if our market cap was half a billion and we were internalized as opposed to 250 million and internalized. So, we're trying to get from here to there in a smart way, but I appreciate all of your input.

David Kanen
Okay. I would press you to do a little closer study on the potential dilutive effect. I think what you'll find is if you compare yourself to your peers, and everybody has been doing a lot of dilutive deals, yes, you're performing just fine. But, again, from a year ago, or from your public offering shareholders haven't made any money, so clearly it's not good enough.

The difference really between you and Preferred Apartments is John Williams, like him or dislike him, is a stickler when it comes to equity. I've heard it out of his own lips. He's very, very tight when it comes to issuing equity, and he really hasn't done a better job than you in terms of operating his properties. I would say you've probably done a better job, but his stock has gotten a better value because of his being such a stickler with dilution. So, I don't want to debate it back and forth. I just wanted to make

the point I would appreciate you and the board considering that. Thank you.

Ramin Kamfar
Thank you, David. Duly noted.

Operator
The next question will come from John Benda of National Securities Corporation.

John Benda
Good afternoon, everyone. How are you doing today?

Ramin Kamfar
Good. How are you, John?

John Benda
Good. So, just quickly, I know it was offered before, can you actually assign some dates to the pending investment acquisitions, if possible?

Ryan MacDonald
I'm happy to do that, John. We've got our first Ashton, Phase I at the end of this month. We expect the second phase to close, call it 30 to 60 days thereafter, beginning of October. Century Palms, we expect again at the end of this month, our Dallas portfolio in early October, followed by our Raleigh preferred investment, again probably September, early October as well.

John Benda
Okay. And then just with some of the properties that are currently in lease-up now, what do you guys look for when you evaluate the decision to keep your preferred equity investment or convert to an ownership position and buy it out?

Ramin Kamfar
That's an easy one, John. I think we look at value creation, if the preferred is worth more than its book value, which it should be if you're doing development and you've created all this value, you convert it into the underlying equity and you take the upside on the equity. It's only in a downside scenario where you've gone through the development process, you haven't created any value, and you say, okay, give me my preferred equity back, and you cash your chips and leave the table. So, at this point in the cycle with the deals that we have, we expect to convert all of them.

John Benda
Okay, great. And then with North Park Towers, it's been held for sale for, I don't know, about four quarters now. And if we look at the performance this quarter over last, rental rates are up, occupancy rates are up, and with the multi-family housing market being what it is, what's the hold up on disposing of that asset? And B) as you speak to increasing your growth to be the right size to reach a larger institutional investor audience, why not just keep that?

Ramin Kamfar
Well, again good questions. I'll give you one answer, and that's Detroit. So—

John Benda
Excuse me, that was what?

Ramin Kamfar

That's the answer to a number of the questions that you asked. What's the hold up? The market for multi-family in Michigan is not as robust as it is in Nashville, let's say. Originally when we put it as a held for sale, it was an unsolicited third party bid that had prompted that. That purchaser, after going through a long and involved process, fell out of bed. So, at that point we decided to take it to start the marketing process from scratch, and that takes time. And because it's in the Michigan market, it takes time. I can sell it tomorrow, but—if I want to leave millions on the table, I can sell it off-market. But we buy off-market in a direct with seller transaction, because we create millions of dollars of value. We don't sell off-market. We sell through a marketed process. I want it to be as broad as possible. I want as many people at the table.

And that's what we did here, and as a result of that we're getting what I think is a very attractive price. I think you'll be impressed in terms of the returns we got on an asset that we've held for a year effectively in Michigan once it closes. And the reason not to own it is because if you look at the average rents, if you look at the vintage of the property, if you look at the average rent, if you look at the growth prospects of the Southfield sub-market, it doesn't have long-term secular growth drivers that we have in our other markets. We want to be in long-term growth markets outside of the top six coastal cities, so number seven to thirty-seven, where you've got long-term drivers that are generating jobs over the next couple of decades with high disposable income. I think Michigan today is in a cyclical upswing because of the recovery of the auto industry, and that cycle will turn down, and we don't want to own that asset at that point.

John Benda
Okay. Alright, that was pretty clear. Thank you. Then, what were the expected proceeds? I know that you mentioned this earlier in the call, the expected proceeds that you were talking about, was it $10 million you stated?

Ramin Kamfar
Ten million dollars between that deal and between our Villas at Oak Crest, which is our Chattanooga preferred investment deal. So, that's the other reason to sell them. They're small investments and they don't really move the needle.

John Benda
And that's $10 million net proceeds after debt repayment, etc.?

Ramin Kamfar
I'm sorry. Yes, $10 million between the two of them on a net basis.

John Benda
Will there be any kind of charge for exiting the JV in the P&L in the coming quarter when that sells?

Ramin Kamfar
No, no. In fact, I think you'll see gains on both.

John Benda
Okay. And then just my last question, I know that one of the largest public [audio disruption] market cap has started to enter the multi-family market pretty aggressively, and some of the footprint, more of a Southeastern United States concentration of the portfolio. Are you running into a lot of new entrants as you're looking to acquire properties or portfolios, or is your off-market sourcing kind of helping alleviate some of the cap rate compression when you're looking to buy these things?

Ramin Kamfar

Are you talking about Lenore[ph] in terms of—?

John Benda?
Yes, I very much am.

Ramin Kamfar
Yes. It's a very good question, John. Our strategy sets us apart in terms of development. If you notice, if you go back and listen to us talk about our development deals, we're not going and buying land that's set up for multi-family development and developing it. What we're doing, as Ryan just talked about, the Lake Boon deal, and in that deal our partner's been working on it for three years, to put that deal together.

Nashville is a prime example. We just sold a Berryhill deal. That was a market that had—that was a couple miles out of their urban core, and it was on a path of growth surrounded by million-dollar houses. No one was building multi-family, but because we had this local operator that had deep intellectual capital and transaction experience in that market for two decades, we identified the sub-market. We went and got a car dealership. We repositioned it as a multi-family piece. We built multi-family on it. We were pioneers, and as a result we got an 8.6 return on cost on something we sold for a sub-5 cap, and now that we validated it, you've got other guys coming in to the market and bidding up the land prices, including Lenore[ph], by the way, that's a couple of blocks—

Christopher Vohs.
Literally right next door.

Ramin Kamfar
Right next door, right next door. So, that's where our strategy gives us the advantage, which is we've got this network of eyes and ears and depth of intellectual capital that we tap to find these nuggets, as opposed to going and buying development land and building multi-family on it.

John Benda
Alright, great. Thank you very much.

Ramin Kamfar
Thank you, John.

Operator
And next we have a question from Amit Nihalani of Oppenheimer.

Amit Nihalani
Hi. Good afternoon. Are you able to comment on your expected cap rates on the dispositions?

Ramin Kamfar
Well, the Chattanooga deal is a preferred equity investment. So, we're getting paid back. This is a 15% prof[ph]. For this asset, when we went in to it, we weren't comfortable going 100% up to cash stack in terms of equity. But we were comfortable getting a 15% return on it, I think. So, we have a partner in that that put up 100% of the common equity, controls the sale. They're selling that asset at a 5.5 cap on trailing.

Christopher Vohs
Tax adjusted.

Ramin Kamfar
Tax adjusted on trailing NOI, and we're getting an attractive return plus a gain on our prof. And then North Park Towers, which is our Michigan asset, is 7.5 on trailing, but that's partially impacted because it's got a high coupon assumable debt on it, which is at 565. So, they're taking that debt on, so that impacts the cap rate obviously. We're not delivering it free and clear.

Amit Nihalani
Okay. And finally, what do you expect the total dispositions to be for 2015?

Ramin Kamfar
I think that's it in terms of dispositions for us. We had Berryhill, and with these two assets, I think, as I said, we're continuously evaluating our portfolio for additional capital recycling, but given the time frame it takes to take a deal to market and close, I think that's it for 2015. And at this point, we're looking at 2016 dispositions.

Amit Nihalani
Got it. Thank you.

Ramin Kamfar
Thank you.

Operator
And next we have a follow-up question from John Benda.

John Benda
Hey, guys, just quickly on the debt front, looking at where rates are today and to your comments on North Park Towers at 565, when you look at the rest of your portfolio's average interest rate, Spring House 566, Enders 43, MDA 535, what's the opportunity to refi out of some of those loans and get maybe sub-4% financing placement and just save a whole bunch of interest in the portfolio? Are you locked into a lot of those loans, or is the payment penalty outsized relative to the savings over the interest?

Ramin Kamfar
It is. I think that from an economic point of view it's not going to make sense. And, by the way, two of the three assets that you mentioned are assets that are going to be on the disposition runway at some point.

John Benda
But especially in that situation, so in the North Park Towers example, the reason that the cap rate is what it is is because the debt is so expensive. So, wouldn't refi'ing [ph] into a lower note, even though there might be a penalty fee, allow you to gain more on the sale when you sell it because the debt is so much more attractive?

Ramin Kamfar
Well, the debt is more attractive, but you're looking at it on a net-net basis. When we take it to market on North Park, John, we offer it up both ways, which is on an assumption basis and free and clear. So, we're getting "X" now on a sale with an assumption. If someone's going to pay us "Y" and the difference between "Y" and "X" was large enough to pay our prepayment penalty, then we'd absolutely take that. So, you always have the option to do that.

But I hear your underlying point, and it's a good one. And it's a good one, and we're continuously looking at that. We try to be smart real estate guys. We're smart capital markets guys. The capital markets means both on the equity side, on the debt side, and everything else in the cap market. And one of the big pieces obviously is debt and how do we maximize the value in terms of the debt piece.

John Benda
Alright, great. Thank you very much.

Ramin Kamfar
Thanks, John.

CONCLUSION

Operator
And this concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Ramin Kamfar
Thank you, operator. I don't have any closing remarks, other than I want to thank everyone for giving us the time, and look forward to reporting to you next quarter with hopefully results that are just as strong. Thank you all.

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