Bluerock Residential Growth REIT

Second Quarter 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ramin Kamfar – *Chairman and Chief Executive Officer*

Ryan MacDonald – *Chief Acquisitions Officer*

Christopher Vohs – *Chief Accounting Officer*

PRESENTATION

Operator
Good morning, ladies and gentlemen. And welcome to Bluerock Residential Growth REIT's Second Quarter 2017 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 you your host for today's call, Christopher Vohs, Chief Accounting Officer of Bluerock Residential. Mr. Vohs, please go ahead.

Christopher Vohs
Thank you, and welcome to Bluerock Residential Growth REIT's second quarter 2017 earnings conference call.

This morning, prior to market open, we issued our earnings press release and supplement. The press release can be found under 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'll be pleased to answer any questions. 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 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 I have today several members of our executive team, Jordan Ruddy, who is our President and Chief Operating Officer; Jim Babb, who is our Chief Investment Officer; and Ryan MacDonald, who is our Chief Acquisitions Officer.

I will focus my remarks on key financial highlights from the quarter and close with some internalization and capital markets commentary. Afterwards, I'm going to ask Ryan to provide you with additional operational and transactional detail.

Let's 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 second quarter was $27 million, which is a 47% increase from $18.4 million in the prior year quarter, and that was largely as a result of our significant investment activity since that quarter. I should note that our revenue growth was impacted by recent asset sales, which allowed us to exit investments in which we were a minority owner. And as a result, we wanted to exit and clean up our investment structures, we wanted to exit, we were able to exit Chicago and Ann Arbor, which as we've indicated in the past are not strategic markets for us. And at the same time, we're able to harvest significant gains for reinvestment with these asset sales.

Net income attributable to common stockholders for the quarter ending June 30th was $0.67 per share, which was $0.91 per share higher than our net loss of $0.24 for the prior year quarter. The significant increase in net income versus the prior year quarter was caused primarily by gains on three asset sales, which totaled $1.27 per share in the second quarter of 2017.

For the quarter, our adjusted funds from operations attributable to common stockholders or AFFO was $3.3 million compared to $4.4 million in the prior year quarter; our AFFO was impacted temporarily by the recent asset sales that I noted above. On a per share basis, AFFO came in at $0.13 per share, significantly exceeding our guidance of $0.01 to $0.02 per share.

Our pro forma AFFO, which assumes that our investible cash was fully invested as of the beginning of the second quarter and to provide investors a sense of our fully invested earnings potential was $0.36 per share versus our guidance range of $0.26 to $0.28. The detail for the pro forma calculation is provided in our earnings supplement for your review.

For the ninth consecutive quarter, BRG's Board determined to pay the full amount of the management fee in LTIPs in lieu of cash, with the goal of continuing to signal the confidence of management in executing our business plan and the underlying value of our shares. This favorably impacted AFFO and pro forma AFFO per share by $0.10 and $0.09 respectively.

Property NOI dollars grew to $14.3 million in the quarter, which is a 30% increase from $11 million in the prior year quarter.

Same-store NOI grew 2.3% for the quarter versus the prior year quarter. This was impacted by the asset mix in our same-store pool due to the recent asset sales, and Ryan is going to touch on it with a little more detail shortly.

Our asset base continues to grow on a quarterly basis; our gross assets were up 7% to over $1.4 billion at the end of the quarter from the previous quarter ending in March.

On the acquisition front, during the quarter we closed on a portfolio acquisition with five operating properties totaling north of 1,400 units for approximately $190 million.

Shifting to the capital markets, our Series B 6% preferred offering continues to ramp up. Second quarter sales increased to $50.5 million, which is a sequential quarter-to-quarter increase of 114% from the first quarter of this year. These increases are the results of our significant effort and progress that we've made in expanding our selling group.

Additionally, we've executed a non-binding term sheet for a bank line of credit, which will enable us to deploy our capital more efficiently and provide capital structure flexibility as we grow the business. Though, I should mention that no definitive agreements have been reached at this point.

I note that on Friday, we announced that we have entered into an agreement to internalize the external management function currently performed by our manager and to directly employ the manager's existing management team and certain other employees. The internalization was unanimously approved by the special committee comprised entirely of independent and disinterested members of our board of directors. The consideration will be calculated pursuant to a formula that was established in our management agreement at the time of our IPO, and is expected to be approximately somewhere between $41 million and $42 million. To further align the interest of our management team with those of our shareholders, 99.9% of the consideration is going to be paid in equity. The Company is targeting a closing shortly after our shareholders meeting, which is currently scheduled for October 26th of this year. We estimate the internalization will be accretive to the AFFO by approximately $3.8 million on a run rate basis at our current size, with the benefits growing significantly over time as we get larger. For example, at a $1.5 billion in equity base versus around $600 million, which is where we are today, we estimate the savings would be north of $10 million per year.

Additionally, this past Friday, we announced the board in conjunction with a financial advisor has undertaken a review of the common stock dividend policy. The board's goal is to ensure the Company is competitive, sustainable and importantly a covered dividend on a current recurring AFFO basis versus on a fully invested pro forma basis as we enter the next stage of our growth. As one of the data points being reviewed, the board will consider dividend yields and payout ratios amongst the multifamily and small cap peer groups. I think, for example, the small cap multifamily REITs, excluding BRG, when I looked this morning average around the mid-5% dividend. So that's one significant data point that the board is going to look at. We anticipate that the board is going to complete its evaluation of our dividend policy in the fourth quarter of this year.

Finally, before handing the call over to Ryan, I'd like to note our pro forma AFFO guidance for the third quarter is $0.25 to $0.27 per share. This range is $0.01 lower than prior quarter's guidance and that's primarily as a result of recycling capital from mature fully cash flowing assets, which we sold for significant gains obviously, and reinvesting those dollars into assets that have value creation and upcoming cash flow growth.

On that note, Ryan?

Ryan MacDonald
Thank you, Ramin, and good morning everyone.

I'd like to start off by noting that from a same-store perspective, this quarter was a transitionary period for us as we recently finished our targeted disposition efforts and are currently reinvesting the capital into growth-oriented assets, whose performance will not be captured in the same-store pool for some time.

Portfolio wide, across BRG's assets, average occupancy for the second quarter of 2017 was 94%. Occupancy held firm in July as well, finishing the month at 95%.

Same-store NOI in the quarter increased by 2.3% from the same period in the prior year, and the improvement was primarily driven by a 2.4% increase in same-store property revenues of which the majority came from a 3.5% increase in average rental rates versus the prior year period, with occupancy down slightly by 50 basis points. Same-store expenses increased by 2.6% and was primarily attributable to tax increases at our Naples and Sarasota properties, which were purchased in 2016.

On the margin front, our margin decline is primarily attributable to our recent disposition and reinvestment activity. We exited mature cash-flowing assets and recycled the capital into higher growth opportunities that typically take a couple of quarters to stabilize into a steady operational state. Takeover volatility and one-time upfront expenses can further disproportionately distort margins during the period of high investment activity.

Shifting to dispositions, during the quarter we sold three assets generating an internal rate of return of 24% and a return of 1.8 times invested equity. We yielded approximately $47 million in net proceeds from the sales and expect to reinvest them accretively by the end of the year.

Turning to the investment front, in the second quarter we closed on a five-asset Texas portfolio totaling 1,408 units and $189 million in gross asset value and $47 million in BRG equity. The business plans focus on a more institutional approach, as well as targeted capital improvements to the amenity areas and select interior unit floor plans. The assets are projected to yield a pro forma stabilized cap rate of approximately 7% versus market cap rates ranging from 5% to 5.3%.

In terms of pending transactions, we are under contract to purchase two assets totaling approximately 720 units in Orlando, Florida and Houston, Texas, for a combined purchase price of $96 million. BRG is projected to invest approximately $20 million in equity for a 98% ownership interest in the Orlando asset, and approximately $13 million in equity for an 80% ownership interest in the Houston asset. The average initial going-in yield for the two assets is approximately 5.6% with opportunity to drive the blended stabilized cap rates north of 6.5% through modest in-unit and amenity value creation enhancements. These investments are subject to customary closing conditions and risks typically associated with a multifamily real estate investment.

Over the last 12 months, we've passed on numerous Houston opportunities for a variety of reasons, but felt the location, immediate cash flow basis, and value creation upside warranted moving forward with this opportunistic investment opportunity. We executed a loan application with a life company for a very attractive fixed rate financing at a rate of 3.23% and an LTV of 65%.

We expect to capitalize the Orlando asset with a seven-year agency financing at an approximate rate of 3.75% and an LTV of 65%.

Following the two asset purchases and recycling of capital, we are projected to have approximately $105 million of available capital for investment. We have additional assets under LOI and anticipate the investable cash being deployed by the end of the year.

Finally, our pipeline remains very robust. We are currently evaluating north of $750 million worth of opportunities through a combination of portfolios and one-off assets. Our throughput capability continues to expand with the addition of quality operating partners that have helped us penetrate deeper into our existing markets and expand into new MSAs such as Denver and Phoenix.

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

Ramin Kamfar
Thank you, Ryan. That's the end of our prepared remarks, and with that I'm happy to open it up to Q&A. Operator?

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question you may press star (*) then one (1) 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 (*) then two (2). At this time we will pause momentarily to assemble our roster. Our first question comes from Rob Stevenson with Janney. Please go ahead.

Rob Stevenson
Good morning, guys. Ramin, can you just walk us through in a little bit more detail the thought process that the board is thinking about as you reevaluate the dividend? And what type of magnitude cuts are potentially on the table? And where you see that all falling out at the end of the day?

Ramin Kamfar
Hi, Rob. Good question. Let me give you some background in terms of the dividend issue. We started out by, obviously, the internalization is a big step in terms of our next stage of growth and getting us to be a larger, more institutional REIT. As part of that, we started talking to larger investment banking firms, the warehouses, larger institutional investors in terms of the next steps. And they said the internalization is great, but there are other things that need to fall into place. And one is having a covered dividend. They said that, you, yes, we understand that you cover the dividend on a fully invested basis on this pro forma basis, and that's great. But since you're a growth REIT, you're going to be raising money from time to time. And when you raise money because there's a six-month time frame to invest, that is going to depress your, that's going to mean that your run rate AFFO is never going to match up to your pro forma AFFO, unless and until you get of a size that's large enough where you stop raising money.

So you need to invest, you need to have a dividend that's covered on a run rate basis with sufficient margin so that when the big institutional investors look at you, they're looking at a run rate cover dividend. That's what started the process. And what we did was we went, and the board decided that it should, obviously, dividend is a board-level decision and discussion. The board decided that we should get financial advice on this because it's a complicated decision. So we interviewed some firms, hired a financial advisor, and went through a several-month-long process of looking at data, looking at case studies, looking at peers in terms of multifamily peers, in terms of where the dividend rates are, where the payout rates are, looking at small cap peers in terms of dividend rates and payout ratios and so on and so forth. Our original thinking was this is a process that we wanted to complete by the time we announced the internalization because we didn't want the uncertainty associated with it. But, and in fact, if you look at July 11th or July 12th, where we announced the press release for July dividends, normally, the board approves three months for, the dividend for the full quarter. We went to the board with and got one month approval with a view that we're going to set a new dividend and announce it at that point in time.

However, two things happened after that. One was that we got very strong, the advice from our, from the board's financial advisor was very strong that we should signal to the market rather than surprise the market and cut the dividend. So you need to signal, and it was an advice that we pushed back on, and it's an advice that the financial advisor stood by. They said that if you look at the case studies, over time, the companies that do the signaling in terms of getting the news out there and letting the market absorb it, perform better. That was one thing.

The second was, when we looked at where we wanted the dividend to be, if you look at the large multifamily firms, they're at a 3%, 3.5% dividend. The board looked at that, and we rejected it as being inappropriate for a company our size. When you look at the small cap multifamily peers, and excluding Bluerock, they're in the mid 5s, let's say. Okay, so that's a significant data point that we looked at, but then we want to make sure that the dividend's covered. And we need better visibility into 2018 AFFO, which is driven by a number of things. It's driven by the $100 million plus in cash that we have on hand getting invested, and it's driven by the line of credit so that it makes our cash utilization more efficient. And if you set a dividend today, because we don't have good visibility until fourth quarter, which is when everybody else announces their forward guidance, you'd have to have a much higher haircut to make sure that you're covered. And that would lead to a lower dividend, which we don't want.

So we decided, the board decided as a whole, that the right thing to do is work with our financial advisor to evaluate, communicate this to the market, which was the strong advice of the financial advisor. And as we get better visibility in the fourth quarter, maintain the current high dividend in place. And as we get to the fourth quarter, announce what the new dividend policy is going to be. Does that make, I know it's a long-winded answer, but there's a lot that went into, it was a decision that, it was a process that was very, very involved. And not only did we review this with our financial advisor, I have to say, we reviewed it with the rest of our investment bankers also because we know that we have an investor base that has a large retail component that's looking for a robust dividend. And we wanted to make sure that we don't do anything that impacts that negatively.

Rob Stevenson
Okay, helpful. I mean, a couple of related sort of questions. I mean, part of the moving target with the dividend has been that you guys have been selling a bunch of assets and also buying a bunch of assets and raising capital. When you look at the portfolio today, how many of the assets that are in the current portfolio are likely to be sold over the next year, because of fit or because they're approaching what you wanted, what you'd hoped to do with it versus just somebody coming in and throwing in a big offer or whatever, where the entire portfolio is always for sale. But I mean, how much of the portfolio today do you think is likely to be churned over the next year, all else being equal? Are we getting to a point where this is the go-forward portfolio?

Ramin Kamfar
Rob, another very good question, and I think you've kind of answered it towards the end, which is we're getting to a point where this is the go-forward portfolio. As you know, when we're having this discussion over the last couple of years, we've said that there are assets that we're looking to prune out of our portfolio for a variety of reasons. We had two assets in Michigan. Michigan is not a growth market. It's not a target market for us. So we sold our Southfield asset previously, and we sold our Ann Arbor asset in the first quarter. Chicago, again, a great market for, maybe a great market for others, but it's not a target market for us in terms of its growth characteristics.

So we're able to exit Chicago and Ann Arbor at significant gains. I think those were close to 2x on both of those. In addition, we've said that we, you know, we're going to sell assets. We want to own 90% to 100% pretty much of every asset to simplify our holding structure and our balance sheet and our income statement for your benefit and for the benefit of all the institutional investors that we have. So when, again, we had assets that we held 49% of something, 35% of something, the Chicago asset we just sold, that was a 35% ownership. So we sold out of those assets and the assets where we had smaller ownership and unnecessarily complicated our balance sheet or were not in our target markets. And I think that's done. When I look at, and so when you look at the next stage of our growth, if we're running for a max run rate AFFO to allow us to demonstrate that and to have a robust dividend, then what you need is you need a stable asset base to build on that, as opposed to continue to churn your assets. So when I look at the portfolio over the next 12 months, I'd be, I would think that less than 5% of the assets, maybe 1 or 2, opportunistically. It may be zero. But at this point, we don't have anything else left on the runway for sale.

Rob Stevenson
Okay. And so to keep triangulating sort of the run rate, when you think about it from a core basis, I mean, once everything that's pending from an acquisition and investment standpoint is fully funded, what of the announced, after the announced transactions currently are you left with sort of dry powder that needs to be invested until you get back to fully invested? How substantial is that number today once everything is sort of deducted down?

Ramin Kamfar
I'll let Ryan answer that question.

Ryan MacDonald
Sure. We have $105 million after the two assets that we announced this quarter. I can reiterate that we do have a bunch of assets under LOI, and the expectation is that will be fully funded by the end of the year, Rob.

Rob Stevenson
Okay. And so,

Ramin Kamfar
If you're asking for projection purposes, Rob, the things that you need to do is take the cash that we show on hand and invest it, but you also have to keep in mind that because we're raising money, we're never fully 100% last dollar invested, unless we stop doing that. And that's just not practical in today's world. That's just not practical at our size today. So you need to invest that. But you need to have some sort of a margin in terms of cash on hand. Now the way we're doing that, that's where the line of credit comes in. We're having the line of credit come into play. So the cash on hand is not sitting just on our books. It goes against a line of credit. And therefore, maybe it's not earning as much as fully invested cash, but it's earning, it's a contra credit towards our interest expense at 3.5% or 4%. So that, those are the things that you need to take into account for modeling purposes.

Rob Stevenson
Okay, all right. And then just one last one for me, is obviously, given the move in the stock over the last few days on the common is that, my guess is that you're not looking at that as an attractive source of capital going forward until that recovers. When you're ramping up, when you continue to see the ramp in the class, Series B preferred and you're now running at $50 million plus a quarter, where do see preferred as a percentage of the overall Bluerock Enterprise Value going to? And the Series B, in particular, how much of this stuff do you think that you will continue to issue, especially given the relative size of the preferred now relative to the common equity?

Ramin Kamfar
Well, let me address the stock price first, because I have to tell you that everyone here around this table is shocked at the reaction. The advice that we got and the data we were shown by

our financial advisor is that the announcement should be, should have an impact of maybe 1% or 2% for a week or two, and then we'll be back to flat and then above. So, obviously, yet, we're surprised at the reaction, and we're not looking to issue common equity at these prices. Having looked at the underlying data, I still believe that we're going to, that the stock's going to, once it's past absorbing this information, it's going to get back up to where it was or maybe better because the internalization is a net-net positive, significant savings over time, and our business hasn't changed, okay. Our properties are still worth, we still have a great portfolio that we believe in and that they're worth the same they were Friday morning. So the Company is worth the same as it was Friday morning as it is today, notwithstanding where the stock price is trading. I know one of the research analysts changed our cap rate by 25 basis points, which I don't understand, which we don't understand because nothing's changed since Friday.

Anyway, having said that, we're not looking to issue common stock at these prices. Obviously, there's a significant disconnect between that and value. It makes so as the Series B is very accretive because it's a 6% dividend, and we're, our return on equity, when we invest it, is north of 11%, generally. And so, then you need to balance it. So it's very accretive for our NOI and AFFO. And the whole focus going forward is to have a robust run rate AFFO and grow that so that you can grow the dividend alongside of it. Having said that, there needs to be a balance between the preferred and common. We don't want it to get out of whack.

So we're hoping and expecting that the stock's going to recover. Once it fully understands what we're talking about here, which is all of what we're saying is a net positive. The internalization is net positive. The dividend, if there is a dividend reduction, again, it's a board discussion. If there's a dividend reduction, those dollars aren't going anywhere. They're sitting in the Company and growing NAV over time, so it will be part of total shareholder return. So we're hoping that the stock is going to recover. And one of our goals is to continue to issue common to grow our common base, get on RMZ, get on the, grow over time to get to, which is required as part of attracting the institutional investor base that we want. The other lever that we have, obviously, is the conversion of Series B into common. And we have a two-year non-call. They're callable starting, we started issuing the first or second quarter, so in the second quarter of next year, we'll be able to call that and convert it into common, which again helps balance the ratio, if necessary.

Again, we're not going to do that if the stock price is significantly depressed. But our vision of it is that, and based on the data that we've seen, we don't believe that it will be because there are people who'll see the underlying value. And in fact, today, you wouldn't want to go out and issue stock anyway, because we looked at issuances in Q2 and Q3, and they're getting even overnight issuances on common stock are getting price close to, we've seen deals at 7%, 8%, 9%, 10% discounts. And for companies in the $1 billion and under market cap, plus 4% and 5% raise cost. So that's a huge cost. We did our deal in Q1, the common stock offering, we had a 5% discount off of the last trade.

Rob Stevenson
Okay, thanks guys. I'll yield the floor.

Operator
Our next question comes from Craig Kucera with FBR Capital. Please go ahead.

Craig Kucera
Hey, good morning guys. I want to follow up on the internalization, but before we get there, can you give us a little bit more color on the same-store this quarter? I know there was a mention

that there was a pickup in repair and maintenance cost. How should we think about that for the rest of the year? And how should we think about what the impact of the sale of Lansbrook and Fox Hill was to same-store?

Ryan MacDonald
Sure. I'll talk about the sales first. The three asset sales, Craig, had about a 160-basis-point impact on overall same-store. I think, from a repairs and maintenance perspective, I think it's normal seasonality. And I think, over the course of the back half of the year, you'll see it return. So those are the two main contributors this quarter.

Craig Kucera
Got it. So when we think about your margins this quarter, I know you mentioned that there's some disruption by virtue of recycling capital and whatnot, but would we anticipate somewhat of a recovery in the back half of the year? Is that fair to say?

Ryan MacDonald
I think it's actually, the recovery probably should show itself kind of later fourth quarter into the first quarter of 2018, as we work through some start-up costs with some of the large portfolios we just acquired as well as some of the new asset sales. There are some one-time expenses that ultimately increase or reduce the margins in the acquisition process initially.

Craig Kucera
Okay.

Ramin Kamfar
So what, Craig, we're buying properties, we sold properties that we fixed up and are humming along, and that's why we got the big gains. And we're buying properties that have the opportunity to get there. But it's going to be work. So the first couple of quarters, you're going to have lower margins until you make the investment and the changes and the upgrades and the management improvements and so on and so forth, but that yields returns after a couple of quarters.

Craig Kucera
Okay. I'd like to discuss the corporate governance at Bluerock. You've got a five-person board. When you internalize, have there been any discussions about bringing in more members and maybe more independent directors to the board?

Ramin Kamfar
Yes, there have. I will tell you that we have a five-person board today, three are independent and two are officially insiders. But really, Gary Kachadurian, who is our Vice Chairman, is more of an advisor and an independent, even though we're not classifying him as an independent, because he owns a share of the advisor, but he really is our gray hair and kind of advisor. He heads up our Investment Committee and so on and so forth. But leaving that aside, we want a bigger board with more independents, okay?

So that's going to happen, but you can't do it in the middle of an internalization process just because there's so much going on that no one who's any good is going to want to step into the middle of it, okay? So that's something that's going to be front and center once the internalization is complete. And in fact, you might see us have even fewer insiders than we do today.

Craig Kucera
Okay. And going to the board, I know you mentioned that you're not looking at the common stock for raising capital today, just given that it's down about 23% from Friday. But the OP units, I believe, are going to be priced at a volume weighted price of 20 days, I think, beginning here in a few weeks. Will the board consider this down move in sort of compensating for the management contract? Will they maybe look possibly at the 20 days prior to the announcement, A, and B, would they consider paying cash?

Ramin Kamfar
All good questions. I will start with my, again, with what I just said in terms of the downward movement has taken everybody by surprise. We were advised by the financial advisor, who is getting paid money to do this, who is an investment banker, banking firm, you know, a substantial one who shall remain unnamed, that the impact of, we've got to get ahead of it. We've got to announce it. And the market reaction is going to be more positive the more time we have in terms of the announcement and it should be a 1% or 2%, no more than that and no more than, with no more than an impact in the first few days or first couple of weeks. That's why the calculation of the OP units was set so that you had two-week cooling-off period after the announcement, which is 10 trading days.

And then it was with the idea that the stock would have full equilibrium with all of the information in it, likely be up because of the positive of the internalization. And then another four weeks of trading averaged during that period, once the buying and selling is subsided and back to normal. So we haven't had discussions with the board at this point about changing the view up. I think everyone is looking, obviously, to see where the stock settles down. I think going backwards and setting it at a prior price, I don't think it's, personally, I don't think that is fair, because in a buy and sell transaction, you want to price things when the, when all the information is out there. But I'll defer to the board. Obviously, it's a, it would be a, the board can't unanimously change it. It would have to be a negotiation.

Craig Kucera
Okay. I want to go to the G&A expectations for next year. I think it's, based on your presentation, you're looking at somewhere at $12 million in cash. Have there been any discussions about what the non-cash might be at this point?

Ramin Kamfar
I think there are, the non-cash elements will be, what's disclosed in terms of employment agreements. And I think all of the details were disclosed in our 8-K. So I don't have that number off the top of my head, but we can look at it and get back to you. But the non-cash piece is complicated. We had another consultant, FPL, that does, I guess, two-thirds of the REIT universe in here for months. They produced an initial report that was 77 pages and then subsequent reports and so on and so forth. So it has a lot of moving parts. Some of it's performance-based. Some of it is time-based. So I can't begin to even try to tell you what it is off the top of my head. But we can get back to you on that. Or you can find it in the 8-K.

Craig Kucera
That's fine. I'll review that. I've just got a couple more, then I'll yield the floor. Can you tell us how management will be incentivized when you internalize? Do you have a sense of, will it be some sort of per share growth or some other metrics as opposed to kind of the equity-based management fee and incentive?

Ramin Kamfar
Yes. First of all, management will own a significant chunk of the common equity. So we're in the same boat in terms of common as everybody else. And I want to note that, you know, we've been buying common at these high prices alongside everybody else. For the last nine quarters, we have taken our fee and, or for the last eight quarter, this is the ninth one, we've taken our fee in equity. And that's been at average prices that are, you know, over the last two years. So we're in it. We're feeling the pressure alongside everybody else. That's number one. Not to mention that our, my family is a big, I had to sit down on Friday and talk to my 91-year-old dad, why he had $128,000 loss in his BRG position, which is a double-digit in terms of his net worth. He's not a wealthy guy. But he understood that the value of our properties hasn't changed. So it's a negative market reaction. So that's the first leg of it.

The second leg of it is that there's going to be an annual incentive plan and a long-term incentive plan that will have different metrics. Total shareholder return is a primary metric for both. Same-store NOI growth is also a primary driver for both. And then the annual plan, I think, has three additional metrics in it, which is, one is getting our developments done on time. Another is getting the developments done on budget. And a third is the returns that we achieve on the redevelopment of the units. So basically, the board directed us to effectively put our comp money where our mouth is and say, okay, you've got a business plan to drive returns, drive NOIs, do developments, and do redevelopments and we want to tie your annual comp both in terms of cash, any cash or equity, to that number. And then you've got the long-term, the comp piece that is going to be tied to total shareholder return over three years, same-store NOI over three years, and then the third trigger is going to be inclusion in the RMZ and the S&P 600. So we need to get included in both to get the maximum awards. So that's the long-term performance. And in terms of the mix between cash and equity, I will say that at my level it is one-third cash, two-thirds equity and for the rest of the management, it's 50-50. So it's a substantial portion is equity-weighted and a substantial, very substantial portion of our comp is performance-weighted.

Craig Kucera
Okay, thank you for the color. And I'll try to wrap up here shortly. Just going to the cash on balance sheet, I know you mentioned you had the assets that you're looking to close here. I think about $85 million, $86 million. Based on commentary, are you not going to put asset-level finance on those? Are those going to be maybe used to support the borrowing base at the line of credit? Or are you likely to finance those and maybe you're only looking at putting $35 million or so to work in that, or $30 million?

Ryan MacDonald
Sure, Craig. Of the five assets that we have under LOI that I mentioned, four will be used towards the borrowing base for our line of credit. Of, and then one is actually a loan assumption that has permanent financing, so.

Craig Kucera
Okay. So the $180 million then, what, I'm sorry, just walk me through quickly again, what is spoken for, I guess, at this point in time?

Ryan MacDonald
Of the $105 million in cash? Is that what you're?

Craig Kucera
No. I think at quarter-end, you've had closer to $180 million, including restricted cash. I'm just

trying to figure out what your cash balance, kind of what's being deployed.

Ryan MacDonald
Sure. After the two assets that we had mentioned, I think we total about $105 million, including some additional, call it, development commitments that we have prior to year-end. And then of that $105 million that's spread across five assets under LOI that we hopefully expect to close before year-end, of which four will be the line of credit. So the $105 million is spread across the five assets, plus some development commitments.

Craig Kucera
And one last one for me. I know you go back to first quarter of 2016, you guys had maybe $9 million of cash and you were levered about 60% kind of net debt. I think one of the challenges for the investor community is that you've been running at an average of about $150 million of cash per quarter over the last four quarters. When we think about what the Company looks like when you're internalized, what is sort of the more reasonable level of sort of net debt or however you want to think about it, a leverage? Is it coming down from kind of where you were at that 60% level? Or is it somewhere in the low 50s? Do you have a feel for what the balance sheet looks like going forward?

Ramin Kamfar
I think you'll see that, Craig, the whole point of the line of credit is to make sure that we, a couple of things are happening. One is, as we discussed in response to Rob's question, where we're going to be doing a lot less, a lot fewer asset sales. So that is going to, the asset sales, obviously, exacerbate the cash balance situation. So the management of the cash is going to be easier because of that. The second is we're putting in this line of credit of up to $200 million. And at the same time, obviously, as you flagged, we need to have a borrowing base against it. We're establishing the borrowing base, and that will allow us to, instead of having excess cash sitting on the balance sheet, use it against a line of credit. So that it's earning some dollars. So it's a lot more efficient. And that has a potential impact, depending on utilization, of up to $0.20 on our AFFO on a run rate basis.

So you'll see the, and the third is that the Series B raise, because it's coming in, it rolls in on a monthly basis, is more efficient in terms of its management, because we can plan to invest it much more efficiently than we can going after rates, doing it overnight, of $100 million, because you really can't plan to invest that overnight until it happens. And then that's when you start, because we can't commit to spending those dollars. We don't really know if you wake up the morning of the overnight and the stock price is not going to be there, given our commitment not to issue at low prices.

So we're getting more efficient because the line of credit, because of fewer dispositions, because of the Series B. So you'll see the cash balance, now there's a certain amount of restricted cash that's operating cash at the properties that's maybe out of the $180 million, maybe $39 million, $40 million of it. That's going to stay at the properties. Obviously, you can't invest that, it's either in the properties or is committed to be invested in upgrades at the properties, etcetera, etcetera. So you can't invest that. But you've got the free cash of $140 million-ish, $35 million has been invested. Today it's $105 million remaining, that's earmarked for the deals towards the end of the year. So you'll see us going into the New Year once this is invested and once a line of credit in place, carrying a lot less cash that makes us a lot more efficient. Does that answer your question?

Craig Kucera
Yes, it does. Thank you.

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

Steve Shaw
Hey guys, regarding the third quarter AFFO guidance, can you explain how much of that dip is related to dispositions? And how much, if any, is related to the internalization?

Ramin Kamfar
Chris, do you want to take that?

Christopher Vohs
As far as the AFFO guidance for Q3, the internalization does not impact AFFO at all. So that's not included in the guidance for Q3.

Ramin Kamfar
So it's pretty much, Steve, it's the dispositions and it's the excess cash that we have on the, which reduces our, which reduces the income temporarily until it gets invested. And it's the excess cash that we have and it's the Series B, because we're, to note, the AFFO is after Series B dividend. So once, as the Series B comes in, those dividends go to reduce your AFFO, but then, as they get invested, you get the income coming in. So there's a lag, but that's why we have this whole focus with a line of credit, etcetera, etcetera, to try to manage the lag and improve it and shorten it to the extent possible. But that impact, in particular, has to do with the fact, a lot of it has to do with the fact that we just sold three assets and we're in the process of reinvesting them.

Steve Shaw
Thanks.

Ramin Kamfar
Thank you.

Operator
Again, if you have a question, please press star (*) then one (1). It appears there are no more questions. This conc…, oh, we had one jump in. Gerald Rosen with Morgan Stanley. Please go ahead.

Gerald Rosen
Formerly with Morgan Stanley, now retired. What is the net asset value of the portfolio?

Ramin Kamfar
I think, well, there are published reports out there, Gerald, that talk about what our net asset value is. I think, prior to the internalization, if you average, I think Janney, D.A. Davidson, FBR, Wunderlich, have published research on it. If you want that, let us know and we'll get it to you. I think, on average, from what I recall, they were in the somewhere between the $16 and $17 range, maybe $16.50 on average is probably a good number. You have to take a discount to that for the additional shares that are being issued in the internalization. So take a, depending on what the stock price ends up being, take a 10% to 15% haircut to that, and that will give you our net asset value today. So I saw one firm that published in their newsflash our NAV, and

they were in the, I think $15.67, one of those four firms, just in the last couple of days. But that's the kind of calculation, that's probably the right range, somewhere around there. Thank you for your question.

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

CONCLUSION

Ramin Kamfar
I want to thank everyone for giving us the time today and look forward to continuing to report to you on our progress on an ongoing basis. Thank you everyone.

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