Bluerock Residential Growth REIT, Inc.

Second Quarter 2019 Earnings

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CORPORATE PARTICIPANTS

Ramin Kamfar – *Chairman and Chief Executive Officer*

Christopher Vohs – *Chief Financial Officer*

Ryan MacDonald – *Chief Acquisitions Officer*

PRESENTATION

Operator
Good morning ladies and gentlemen and welcome to Bluerock Residential Growth REIT's Second Quarter 2019 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 like to now introduce your host for today's call, Christopher Vohs, Chief Financial Officer of Bluerock Residential. Mr. Vohs, please go ahead.

Christopher Vohs
Thank you, and welcome to Bluerock Residential Growth REIT's Second Quarter 2019 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 bluerockresidental.com under the Investors tab. In addition, we anticipate filing our 10-Q later this week.

Following the conclusion of our remarks, we'll 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 risk 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, please refer to our earnings supplement for reconciliation to GAAP, the reasons management uses these non-GAAP measures, and the assumptions used with respect to our earnings guidance.

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.

In addition to Chris, with me today are several members of our executive team, including, Jordan Ruddy, our President and Chief Operating Officer; Jim Babb, our Chief Investment Officer; and Ryan MacDonald, our Chief Acquisitions Officer; and Mike DiFranco, our EVP of Operations.

I will focus my remarks on key strategic accomplishments and financial highlights from the quarter and close with some capital markets commentary. Afterwards, Ryan will provide you operational transactional balance sheet and guidance detail.

We delivered a strong second quarter, demonstrating our accomplishments across each of our strategic initiatives, including achieving operational performance, value creation through renovations, and accretive capital allocation through dispositions and reinvestment. Building on the trends from last quarter where we reported industry-leading NOI growth, we continued the momentum through the first half of the year. With industry-leading same-store revenue growth of 5.3% and same-store NOI growth of 9% over the prior year quarter, we're continuing to prove out our investment thesis of investing in highly amenitized multifamily assets in knowledge economy growth markets.

Subsequent to the quarter end, we executed on an accretive portfolio sale of four assets totaling $227 million with a fifth asset expected to close by the end of August - the combined total sale price of the portfolio will be $274 million. The sale was executed at an estimated in-place economic cap rate of 4.5% based on a $300 dollar per unit replacement reserves and the buyer's year-one tax estimates - which is a reflection of the quality of our portfolio. Additionally, since the end of the first quarter, we've acquired four assets totaling $303 million in purchase value at year-one cap rates approaching 5% with a stronger long-term growth profile. Ryan is going to provide you additional detail in his remarks.

Moving on to the results, we need to start with GAAP net loss to common which was $0.50 per share for the quarter as compared to a net loss of $0.44 per share for the prior year quarter. The figures included non-cash items, including depreciation and amortization expense, of $0.72 and $0.62 per share for the current and prior year quarter periods respectively.

On the revenue front, we produced a healthy 17% growth in the second quarter to $52.4 million, from $45.0 million in the prior year period, which reflects our strong same-store performance along with significant investment activity throughout the year.

Moving on to property level results, we grew property NOI 23% to $27.6 million in the quarter, from $22.5 million in the prior year period. Same-store revenue and NOI grew a very strong 5.3% and 9.0%, respectively, for the quarter versus the prior year period, partially driving our 230 basis point year-over-year margin expansion.

On the funds from operations front, during the second quarter we achieved Core FFO of $0.22 per share, which was up 16% versus the prior year period at $0.19 per share. Core FFO is simply NAREIT FFO with the add-back of non-cash non-operating items and we believe that's the most representative measure of our operating performance. We also continued to increase our dividend coverage on a year-over-year basis, with a payout ratio, that's now declined to 74% of CFFO versus 86% in the prior year quarter.

Shifting to capital allocation during the second quarter, we repurchased common stock totaling $8.3 million at an average price of $11.13 a share, which represents a significant discount to our estimate of NAV.

We continued to grow our asset base - gross assets were up 16% for the quarter from the prior year period to over $2.1 billion.

Moving to capital markets, during the second quarter we raised a record $51 million through sales of our Series B Preferred stock. The Series B preferred is a unique advantage for BRG because it allows us to grow accretively decoupled from the cyclicality of REIT equity pricing. We can raise Series B capital, grow it accretively and convert it to common equity at our option in the future as we work to grow NAV and close our trading discount. We expect that the second quarter Series B raise will be reflective of an increased baseline quarterly run rate for the remainder of the year.

Finally, as we look ahead, we believe we're uniquely positioned with multiple growth levers to continue delivering shareholder value.

- First, we believe our Market Selection, in terms of picking the right knowledge economy growth markets, and our Asset Selection, in terms of assembling the right well-located, highly amentized live/work/play communities, will allow us to deliver strong organic growth, as seen in our industry-leading same-store revenue and NOI growth this quarter.

- Second, we continue to anticipate being able to enhance the solid organic growth through our value-add upgrade program which is delivering very attractive returns - from inception to date, we've renovated approximately 2,200 units with an average ROI of 26%. Our future identified renovation pipeline is approximately 4,600 units, which alone would grow our NAV per share by several dollars.

- Third, we continue to fund accretive external growth through issuance of our unique Series B preferred, and through sourcing attractive acquisitions with upside potential through our Bluerock Network. We have a robust pipeline of accretive value creating opportunities and look forward to reporting on them in future quarters.

- Finally, we've demonstrated an ability to make prudent and accretive disposition and reinvestment capital allocation decisions for the company when appropriate.

As we look ahead, we look forward to delivering against our guidance and growing NAV for our shareholders, of which management is the largest at approximately 28% ownership in the underlying equity of BRG on a fully diluted basis.

And with that, I'd like to turn the call over to Ryan. Ryan?

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

The operating portfolio continued the positive momentum through the second quarter posting top quartile growth with strong gains across the majority of our assets. The performance continues to be broad-based with 14 of our 16 MSAs posting growth above 4%, highlighted by sustained outperformance in our Florida and Georgia markets and reaccelerating topline growth in our Austin assets.

Portfolio-wide across BRG assets, average occupancy held strong in the second quarter of 2019 at 93.8%, which was generally flat compared to the second quarter of last year at 93.9%.

Overall, same-store revenue increased a robust 5.3% over the prior year period, driven by a 5.5% increase in average rental rates and a 10-basis point increase in occupancy - of note, 28 of the 29 properties in the pool recognized increases in average rental rates in the quarter on a year-over-year basis. We continue to aggressively push rates this quarter - lease rate growth averaged 5.3%, with renewals and new leases achieving 5.2% and 5.4% respectively. And, we continued the strong momentum into the third quarter - July preliminary lease rates are running 4.7% for renewals and 4.5% for new leases for a blended rate of 4.6%.

On the expense front, same-store expenses increased by 40 basis points with taxes accounting for the largest increase offset by a variety of savings, including payroll and utilities. Same-store NOI for the quarter increased 9% on a year-over-year basis and while we expect to be above trend in the coming quarters, we are projecting it to moderate from the 9% level as expense growth normalizes and revenue comps become tougher in the back half of the year.

On a sequential quarter-over-quarter basis, same-store revenue was up 1.5% over the prior year period. Average rental rates contributed a positive 90 basis points, occupancy declined 10-basis points and other income growth was strong, driven by a variety of the income categories.

We continued to be pleased with our value-add renovation program which has delivered healthy results - to date through the second quarter of 2019, across the existing portfolio, we have completed approximately 2,200 unit renovations at an average cost exceeding $4,900 per unit and have yielded monthly rental increases of $107 per month, resulting in a weighted average ROI of 26%. Accounting for the disposition and reinvestment, we estimate there are approximately 4,600 units remaining to be renovated in the portfolio with comparable economics, which would be accretive to our FFO and NAV.

In terms of some brief capital allocation commentary, the sale of the five assets, one of which is still pending, allowed us to accretively migrate a portion of the portfolio from a core-plus strategy to assets in new markets with immediate value-add renovation opportunity. The disposition was executed at an economic cap rate of 4.5% and was reinvested into assets with a year one economic cap rate of approximately 4.9% and a stronger growth profile in line with the rest of the BRG portfolio. If we were to exclude the five disposition assets, same-store revenue and NOI growth would have been positive by 70 and 110 basis points at 6.0% and 10.1% respectively, versus the prior year quarter.

Additionally, the reinvestment portfolio brings approximately 1,250 units to the renovation pipeline with ROIs projected to exceed 20% on average. From a market perspective we exited our two operating assets in Dallas-Fort Worth, two Raleigh investments, and one Orlando property. Simultaneously, we entered Phoenix and Las Vegas for the first time and reentered Nashville after an approximately three-year hiatus to allow for the supply pipeline to diminish. Phoenix, Las Vegas, and Nashville all fit extremely well within our knowledge economy growth market strategy - both Nashville and Phoenix are becoming emerging technology hubs, whereas Las Vegas has irreplaceable entertainment characteristics similar to Orlando, Florida. All three markets have very solid domestic immigration patterns, which should foster an above trend long-term growth profile over time.

Turning to the balance sheet, net proceeds from the disposition of the four assets totaled approximately $75 million with another approximately $16 million due to BRG with the sale of the fifth asset at the end of August. Since the end of the first quarter, BRG completed four acquisitions totaling $303 million in purchase value and $106 million in BRG equity - two acquisitions totaling $110 million in purchase price and $36 million in BRG equity were completed on June 27th. The remaining two assets were purchased in the month of July. Moving to our development commitments, during the quarter, we invested $9 million in our preferred equity and mezzanine program and as of the end of the quarter, the total BRG investment in development preferred equity and mezzanine loans stood at $276 million across 15 projects. Finally, on the balance sheet, as of the end of July, BRG has approximately $42 million available for investment through a combination of cash and availability on our revolving credit facilities plus we continued to grow our capacity through our Series B preferred offering which is accelerating versus the first half of the year.

To conclude, I will note that our first half performance exceeded expectations primarily as a result of our broad-based operating portfolio outperformance. As a result, like last year, we are comfortable raising the midpoint of our full year CFFO per share guidance by narrowing the range to $0.81 to $0.84 per share. Please refer to our earnings supplement for the assumptions used with respect to our revised CFFO guidance.

And with that we will open it up to the 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 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.

The first question comes from Drew Babin with Baird. Please go ahead.

Drew Babin
Hi, good morning. A question on the acquisitions from Q2 in July. You talked about the initial yields and you also mention the value-add opportunity there and some pretty impressive ROIs on that. Putting it together, what's the stabilized yield you would expect building off of that 4.9 economic?

Ryan MacDonald
Sure, Drew, this is Ryan. Our pro forma in year three assumes about a 6.3% cap rate on a stabilized basis.

Drew Babin
Okay, and how were those deals sourced? Was it through your network of partners and operators, or was it unique in the way that it came to Bluerock?

Ryan MacDonald
It was a combination of off-market and relationships, one of the sellers we had transacted with before and we went direct to them. Another was a quietly marketed opportunity that we executed on. So, it was a combination of different sourcing opportunities.

Drew Babin
Okay. That's helpful. And, the July acquisitions in Scottsdale and Vegas, can you give us the rates on the mortgages used for those acquisitions?

Ryan MacDonald
Yes, they were in the 3.3% range. I think it's 3.36% for Scottsdale and low 3.3%s for the Las Vegas deal, but we can get back to you with exact rates.

Drew Babin
Okay, and one more for me, you gave guidance for the full year for, I think, $2.5 million of recurring CapEx. Can you talk about how that's—what the cadence of that has been year-to-date versus that number for the year?

Ryan MacDonald
Sure. We're still very comfortable with that number. I think we've been about $1.3 million to $1.4 million year-to-date. First quarter was about $600,000. I think the second quarter was about $700,000. I think we feel very comfortable the back half of the year will round us out to about $2.5 million, which is in line with our guidance.

Drew Babin
Great. That's all very helpful, thank you.

Operator
Again, if you have a question please press star, then one.

The next question comes from Merrill Ross with Compass Point Research. Please go ahead.

Merrill Ross
Hi, thank you, and good morning. Looking at the dispositions, the one that sort of stands out as being a

market where you have seen a lot of opportunity is Orlando and I realize it was 252 units, so it was not a huge property. But, what I'm curious about is to what extent you had already done the in-unit renovations at that property and maybe for the aggregate of all the sold properties and felt that source of growth was already executed?

Ryan MacDonald
Sure, Merrill, this is Ryan again. With respect to Orlando in particular, you are correct. It is a market that we do like long-term. We obviously have an overweight there, which we feel very good about. That asset in particular is an asset where we did execute a phase one renovation program and felt like, for us, that business plan was executed so the opportunity to recycle capital into other opportunities presented itself and it made sense to move on from that specific asset. But, it's not an indictment on our view on Orlando at all.

Merrill Ross
Yes, thank you, that's what I was getting at. Appreciate it.

Operator
The next question comes from Barry Oxford with D.A. Davidson. Please go ahead.

Barry Oxford
Great guys, thanks. On your dispositions, it looks like that's pretty good healthy cap rate there. Can you talk a little bit about the number of buyers that are showing up? Are you still seeing very strong interest for apartments out there in the marketplace?

Ryan MacDonald
Absolutely. Barry, this is Ryan again. It's a very healthy environment on the sell side for us, across a variety of institutions, regional capital, family office capital. So, when we're selling into our environment, we're trying to, obviously, reach the broadest amount of capital out there so that we can drive pricing appropriately on the disposition side. It's still very competitive.

Barry Oxford
Then the acquisitions probably gives you the other side of having sourcing from and trying to find reasonable cap rates. But, I guess you guys are working some of the off-market angle.

Ramin Kamfar
That's a strategy, Barry, which is on the sell side, we like to do widely marketed stuff and in this case we put the portfolio together to get to a larger size on the dispo to get some larger institutions interested that wouldn't necessarily be buying one-off assets, because of the amount of capital they need to put out and get a competitive process that way with the understanding we could always break it up and market them individually if we needed to. But we got very strong bids at the portfolio level and executed at that. But we went through a very competitive process.

On the buy side, as you know, we have the reverse strategy. We don't like to buy in very competitive processes. We want to find little hidden gems that people—that we're getting either off-market or it's only partially marketed, or it's a relationship or we're seeing and finding an opportunity that other people aren't seeing, because the market's inefficient and because we have deep and broad reach, much bigger than an institution of our size, because of our partner network, which is effectively a 10X multiplier in terms of how broad and deep our reach is and our relationships are.

And that's how we're selling at 4.5% and we're buying assets that are year one a 4.9% or a 5%, growing to 6.25%. And that's the exact strategy.

Barry Oxford
Perfect. Are you guys having to match that up 1031s with the dispositions? How do you think about that?

Ryan MacDonald
We, actually—you're spot on, Barry. We reverse 1031s into two and we're forward 1031 into another two. So, it was a 1031 execution.

Barry Oxford
Right, perfect. Obviously, that makes sense. All right, guys, appreciate it.

Ramin Kamfar
Thank you, Barry.

Ryan MacDonald
Thank you.

CONCLUSION

Operator
This concludes our 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 joining us today. We look forward to continuing to report on our progress to you in the upcoming quarters. Good-bye.

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