

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

NexPoint Residential Trust, Inc.  
Form 10-Q  
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-36663

NexPoint Residential Trust, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland 47-1881359  
(State or other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

300 Crescent Court, Suite 700, Dallas, Texas 75201  
(Address of Principal Executive Offices) (Zip Code)

(972) 628-4100

(Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 2, 2018, the registrant had 20,797,135 shares of common stock, \$0.01 par value, outstanding.



NEXPOINT RESIDENTIAL TRUST, INC.

Form 10-Q

Quarter Ended September 30, 2018

INDEX

	Page
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	ii
PART I—FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	5
<u>Consolidated Balance Sheets as of September 30, 2018 (Unaudited) and December 31, 2017</u>	5
<u>Consolidated Unaudited Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	6
<u>Consolidated Unaudited Statement of Equity for the Nine Months Ended September 30, 2017</u>	7
<u>Consolidated Unaudited Statement of Stockholders' Equity for the Nine Months Ended September 30, 2018</u>	8
<u>Consolidated Unaudited Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	9
<u>Notes to Consolidated Unaudited Financial Statements</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	57
Item 4. <u>Controls and Procedures</u>	58
PART II—OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	59
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 3. <u>Defaults Upon Senior Securities</u>	59
Item 4. <u>Mine Safety Disclosures</u>	59
Item 5. <u>Other Information</u>	59
Item 6. <u>Exhibits</u>	60
<u>Signatures</u>	61

### Cautionary Statement Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. In particular, statements relating to our liquidity and capital resources, the performance of our properties and results of operations contain forward-looking statements. Furthermore, all of the statements regarding future financial performance (including market conditions and demographics) are forward-looking statements. We caution investors that any forward-looking statements presented in this quarterly report are based on management's current beliefs and assumptions made by, and information currently available to, management. When used, the words "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "would," "result" and similar expressions that do not relate solely to historical matters are intended to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements are subject to risks, uncertainties and assumptions and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you therefore against relying on any of these forward-looking statements.

Some of the risks and uncertainties that may cause our actual results, performance, liquidity or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- unfavorable changes in market and economic conditions in the United States and globally and in the specific markets where our properties are located;
- risks associated with ownership of real estate;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments;
- our multifamily properties are concentrated in certain geographic markets in the Southeastern and Southwestern United States, which makes us more susceptible to adverse developments in those markets;
- risks associated with our strategy of acquiring value-enhancement multifamily properties, which involves greater risks than more conservative investment strategies;
- potential reforms to the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae");
- competition could limit our ability to acquire attractive investment opportunities, which could adversely affect our profitability and impede our growth;
- competition and any increased affordability of residential homes could limit our ability to lease our apartments or increase or maintain rents;
- the relatively low residential mortgage rates may result in potential renters purchasing residences rather than leasing them, and as a result, cause a decline in our occupancy rates;
- the risk that we may fail to consummate future pending property acquisitions;
- failure of acquisitions to yield anticipated results;
- risks associated with increases in interest rates and our ability to issue additional debt or equity securities in the future;
- we are subject to certain risks associated with selling apartment communities, which could limit our operational and financial flexibility;
  - contingent or unknown liabilities related to properties or businesses that we have acquired or may acquire;
  - lack of or insufficient amounts of insurance;
  -

the risk that our environmental assessments may not identify all potential environmental liabilities and our remediation actions may be insufficient;

• high costs associated with the investigation or remediation of environmental contamination, including asbestos, lead-based paint, chemical vapor, subsurface contamination and mold growth;

• high costs associated with the compliance with various accessibility, environmental, building and health and safety laws and regulations, such as the Americans with Disabilities Act and the Fair Housing Act;

ii

---

- risks associated with limited warranties we may obtain when purchasing properties;
- exposure to decreases in market rents due to our short-term leases;
- risks associated with operating through joint ventures and funds;
- our dependence on information systems;
- risks associated with breaches of our data security;
- risks associated with our reduced public company reporting requirements as an “emerging growth company”;
- costs associated with being a public company, including compliance with securities laws;
- the risk that our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting;
- risks associated with our substantial current indebtedness and indebtedness we may incur in the future;
- risks associated with derivatives or hedging activity;
- the lack of experience of NexPoint Real Estate Advisors, L.P. (our “Adviser”) and property manager in operating under the constraints imposed on us as a real estate investment trust (“REIT”) may hinder the achievement of our investment objectives;
- loss of key personnel of Highland Capital Management, L.P. (our “Sponsor” or “Highland”), our Adviser and our property manager;
- the risk that we may not replicate the historical results achieved by other entities managed or sponsored by affiliates of our Adviser, members of our Adviser’s management team or by our Sponsor or its affiliates;
- risks associated with our Adviser’s ability to terminate the Advisory Agreement (as defined below);
- our ability to change our major policies, operations and targeted investments without stockholder consent;
- the substantial fees and expenses we pay to our Adviser and its affiliates;
- risks associated with any potential internalization of our management functions;
- conflicts of interest and competing demands for time faced by our Adviser, our Sponsor and their officers and employees;
- the risk that we may compete with other entities affiliated with our Sponsor or property manager for properties and tenants;
- failure to maintain our status as a REIT;
- failure of our operating partnership to be taxable as a partnership for federal income tax purposes, possibly causing us to fail to qualify for or to maintain REIT status;
- compliance with REIT requirements, which may limit our ability to hedge our liabilities effectively and cause us to forgo otherwise attractive opportunities, liquidate certain of our investments or incur tax liabilities;
- risks associated with our ownership of interests in taxable REIT subsidiaries;
- the recognition of taxable gains from the sale of properties as a result of the inability to complete certain like-kind exchanges (“1031 Exchanges”) in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (the “Code”);
- the risk that the Internal Revenue Service (the “IRS”) may consider certain sales of properties to be prohibited transactions, resulting in a 100% penalty tax on any taxable gain;
- the ineligibility of dividends payable by REITs for the reduced tax rates available for some dividends;
- risks associated with the stock ownership restrictions of the Code for REITs and the stock ownership limit imposed by our charter;
- the ability of our board of directors (the “Board”) to revoke our REIT qualification without stockholder approval;
- recent and potential legislative or regulatory tax changes or other actions affecting REITs;
- risks associated with the market for our common stock and the general volatility of the capital and credit markets;

• failure to generate sufficient cash flows to service our outstanding indebtedness or pay distributions at expected levels;

• risks associated with limitations of liability for and our indemnification of our directors and officers; and

• any other risks included under Part I, Item 1A, “Risk Factors” of our annual report on Form 10-K, filed with the U.S. Securities and Exchange Commission (“SEC”) on February 15, 2018 (our “Annual Report”).

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. They are based on estimates and assumptions only as of the date of this quarterly report. We undertake no obligation to update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes, except as required by law.

## NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Operating Real Estate Investments		
Land	\$ 202,347	\$ 189,615
Buildings and improvements	929,275	806,981
Intangible lease assets	3,049	1,340
Construction in progress	5,048	3,786
Furniture, fixtures, and equipment	57,655	44,725
Total Gross Operating Real Estate Investments	1,197,374	1,046,447
Accumulated depreciation and amortization	(120,292 )	(88,252 )
Total Net Operating Real Estate Investments	1,077,082	958,195
Real estate held for sale, net of accumulated depreciation of \$897 and \$3,397, respectively	17,406	32,961
Total Net Real Estate Investments	1,094,488	991,156
Cash and cash equivalents	19,324	16,036
Restricted cash	26,253	27,212
Accounts receivable	5,014	2,932
Prepaid and other assets	2,660	1,559
Fair market value of interest rate swaps	27,974	16,480
<b>TOTAL ASSETS</b>	<b>\$ 1,175,713</b>	<b>\$ 1,055,375</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Mortgages payable, net	\$ 824,546	\$ 724,057
Mortgages payable held for sale, net	13,368	30,348
Credit facility, net	49,100	29,843
Bridge facility, net	29,550	8,576
Accounts payable and other accrued liabilities	6,181	6,226
Accrued real estate taxes payable	13,492	9,684
Accrued interest payable	2,284	2,074
Security deposit liability	1,917	1,518
Prepaid rents	1,359	1,470
Total Liabilities	941,797	813,796
Redeemable noncontrolling interests in the Operating Partnership	2,431	2,135
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value: 100,000,000 shares authorized; 0 shares issued	—	—
Common stock, \$0.01 par value: 500,000,000 shares authorized; 20,797,135 and 21,049,565 shares issued and outstanding, respectively	207	210

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

Additional paid-in capital	199,661	206,227
Accumulated earnings less dividends	4,798	17,885
Accumulated other comprehensive income	26,819	15,122
Total Stockholders' Equity	231,485	239,444
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,175,713</b>	<b>\$1,055,375</b>
See Notes to Consolidated Financial Statements		

5

---

## NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

## AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended September 30,	
	September 30, 2018	2017	2018	2017
<b>Revenues</b>				
Rental income	\$31,724	\$32,148	\$93,366	\$94,564
Other income	4,771	4,949	13,841	14,758
Total revenues	36,495	37,097	107,207	109,322
<b>Expenses</b>				
Property operating expenses	9,231	10,075	26,339	29,611
Real estate taxes and insurance	5,048	4,853	14,492	14,911
Property management fees (1)	1,085	1,110	3,205	3,280
Advisory and administrative fees (2)	1,885	1,870	5,586	5,544
Corporate general and administrative expenses	1,932	1,623	5,731	4,842
Property general and administrative expenses	1,280	1,594	4,475	4,756
Depreciation and amortization	11,228	11,215	33,638	35,866
Total expenses	31,689	32,340	93,466	98,810
Operating income	4,806	4,757	13,741	10,512
Interest expense	(7,119 )	(8,257 )	(20,739 )	(22,479 )
Loss on extinguishment of debt and modification costs	(2,947 )	(914 )	(3,576 )	(5,717 )
Gain on sales of real estate	—	58,490	13,742	78,386
Net income (loss)	(5,260 )	54,076	3,168	60,702
Net income attributable to noncontrolling interests	—	—	—	2,836
Net income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	(15 )	162	10	162
Net income (loss) attributable to common stockholders	\$(5,245 )	\$53,914	\$3,158	\$57,704
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on interest rate derivatives	1,222	214	11,732	(835 )
Total comprehensive income (loss)	(4,038 )	54,290	14,900	59,867
Comprehensive income attributable to noncontrolling interests	—	—	—	2,720
Comprehensive income (loss) attributable to redeemable noncontrolling interests in the Operating Partnership	(12 )	163	45	163
Comprehensive income (loss) attributable to common stockholders	\$(4,026 )	\$54,127	\$14,855	\$56,984
<b>Weighted average common shares outstanding - basic</b>	20,775	21,085	20,847	21,057
<b>Weighted average common shares outstanding - diluted</b>	21,262	21,453	21,328	21,407

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

Earnings (loss) per share - basic	\$(0.25 )	\$2.56	\$0.15	\$2.74
Earnings (loss) per share - diluted	\$(0.25 )	\$2.51	\$0.15	\$2.70
Dividends declared per common share	\$0.25	\$0.22	\$0.75	\$0.66

(1) Fees incurred to an unaffiliated third party that is an affiliate of the noncontrolling limited partner of the Company's operating partnership (see Notes 10 and 11).

(2) Fees incurred to the Adviser (see Note 11).

See Notes to Consolidated Financial Statements

## NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(dollars in thousands)

(Unaudited)

	Preferred Stock Number of Shares	Common Stock Number of Shares	Common Stock Held in Treasury	Additional Paid-in Capital	Accumulated Earnings Less Dividends	Accumulated Other Comprehensive Income	Common Stock Held in Treasury	Noncontrolling Interests	Total
Balances, December 31, 2016	—	21,293,825	—	\$ 241,450	\$(14,584 )	\$ 9,052	\$(4,587 )	\$ 24,558	\$ 256,102
Net loss attributable to common stockholders				—	(3,616 )	—	—	—	(3,616 )
Net income attributable to noncontrolling interests				—	—	—	—	312	312
Contributions by noncontrolling interests				—	—	—	—	13	13
Distributions to noncontrolling interests				—	—	—	—	(1,433 )	(1,433 )
Vesting of stock-based compensation				608	—	—	—	—	608
Common stock dividends declared				—	(4,724 )	—	—	—	(4,724 )
Other comprehensive income				—	—	946	—	100	1,046
Balances, March 31, 2017	—	21,293,825	—	\$ 242,058	\$(22,924 )	\$ 9,998	\$(4,587 )	\$ 23,550	\$ 248,308
Net income attributable to common stockholders				—	7,406	—	—	—	7,406

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

Net income attributable to noncontrolling interests										2,524	2,524
Contributions by noncontrolling interests										25	25
Distributions to noncontrolling interests										(3,356 )	(3,356 )
Purchase of noncontrolling interests										(22,527 )	(53,840 )
Vesting of stock-based compensation										—	984
Common stock dividends declared										—	(4,724 )
Other comprehensive loss										(216 )	(2,095 )
Balances, June 30, 2017	— \$	—	21,293,825	\$ 213	\$ 211,729	\$ (20,242 )	\$ 8,119	\$ (4,587 )	\$ —		\$ 195,232
Net income attributable to common stockholders										—	53,914
Repurchase of common stock										(1,354 )	(1,354 )
Retirement of common stock held in treasury										5,941	—
Vesting of stock-based compensation										—	823
Common stock dividends declared										—	(4,712 )
Other comprehensive income										—	213
Balances, September 30, 2017	— \$	—	21,095,769	\$ 211	\$ 206,613	\$ 28,960	\$ 8,332	\$ —	\$ —		\$ 244,116

See Notes to Consolidated Financial Statements

## NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(dollars in thousands)

(Unaudited)

	Preferred Stock Number of Shares	Common Stock Number of Shares	Par Value of Shares	Additional Paid-in Capital	Accumulated Earnings Less Dividends	Accumulated Other Comprehensive Income	Common Stock Held in Treasury at Cost	Total
Balances, December 31, 2017	—	21,049,565	\$ 210	\$ 206,227	\$ 17,885	\$ 15,122	\$—	\$ 239,444
Net income attributable to common stockholders				—	10,064	—	—	10,064
Repurchase of common stock				—	—	—	(5,058)	(5,058)
Retirement of common stock held in treasury		(203,953)	(2)	(5,056)	—	—	5,058	—
Vesting of stock-based compensation		80,743	1	914	—	—	—	915
Common stock dividends declared				—	(5,380)	—	—	(5,380)
Other comprehensive income				—	—	7,738	—	7,738
Balances, March 31, 2018	—	20,926,355	\$ 209	\$ 202,085	\$ 22,569	\$ 22,860	\$—	\$ 247,723
Net loss attributable to common stockholders				—	(1,661)	—	—	(1,661)
Repurchase of common stock				—	—	—	(4,614)	(4,614)
Retirement of common stock held in treasury		(178,988)	(2)	(4,612)	—	—	4,614	—
Vesting of stock-based compensation				1,094	—	—	—	1,094
Common stock dividends declared				—	(5,316)	—	—	(5,316)
Other comprehensive income				—	—	2,740	—	2,740
Adjustment to reflect redemption value of redeemable				—	(22)	—	—	(22)

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

noncontrolling interests in the Operating Partnership									
Balances, June 30, 2018	—	\$ —	20,747,367	\$ 207	\$ 198,567	\$ 15,570	\$ 25,600	\$—	\$239,944
Net loss attributable to common stockholders					—	(5,245 )	—	—	(5,245 )
Vesting of stock-based compensation			49,768	—	1,094	—	—	—	1,094
Common stock dividends declared					—	(5,315 )	—	—	(5,315 )
Other comprehensive income					—	—	1,219	—	1,219
Adjustment to reflect redemption value of redeemable noncontrolling interests in the Operating Partnership					—	(212 )	—	—	(212 )
Balances, September 30, 2018	—	\$ —	20,797,135	\$ 207	\$ 199,661	\$ 4,798	\$ 26,819	\$—	\$231,485

See Notes to Consolidated Financial Statements

## NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
<b>Cash flows from operating activities</b>		
Net income	\$3,168	\$60,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of real estate	(13,742 )	(78,386 )
Depreciation and amortization	33,638	35,866
Amortization/write-off of deferred financing costs	2,494	2,551
Change in fair value on derivative instruments included in interest expense	(2,391 )	1,235
Net cash received (paid) on derivative settlements	2,372	(777 )
Amortization/write-off of fair market value adjustment of assumed debt	(145 )	(155 )
Vesting of stock-based compensation	3,103	2,415
Changes in operating assets and liabilities, net of effects of acquisitions:		
Operating assets	(1,111 )	(413 )
Operating liabilities	3,066	4,461
Net cash provided by operating activities	30,452	27,499
<b>Cash flows from investing activities</b>		
Net proceeds from sales of real estate	29,553	224,416
Prepaid acquisition deposits	—	(1,500 )
Additions to real estate investments	(23,164 )	(17,192 )
Acquisitions of real estate investments	(130,373)	(138,106)
Net cash provided by (used in) investing activities	(123,984)	67,618
<b>Cash flows from financing activities</b>		
Mortgage proceeds received	232,252	583,713
Mortgage payments	(148,711)	(275,840)
Credit facilities proceeds received	55,000	25,000
Credit facilities payments	(35,000 )	(310,000)
Bridge facility proceeds received	30,000	65,875
Bridge facility payments	(8,597 )	(41,278 )
Deferred financing costs paid	(3,553 )	(3,742 )
Interest rate cap fees paid	(56 )	—
Repurchase of common stock	(9,672 )	(1,354 )
Dividends paid to common stockholders	(15,802 )	(13,996 )
Distributions to redeemable noncontrolling interests in the Operating Partnership	—	(53 )
Contributions from noncontrolling interests	—	38
Distributions to noncontrolling interests	—	(4,789 )

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

Purchase of noncontrolling interests	—	(51,840 )
Net cash provided by (used in) financing activities	95,861	(28,266 )
Net increase in cash and restricted cash	2,329	66,851
Cash and restricted cash, beginning of period	43,248	55,261
Cash and restricted cash, end of period	\$45,577	\$122,112

See Notes to Consolidated Financial Statements

## NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

## Supplemental Disclosure of Cash Flow Information

Interest paid	\$21,983	\$19,098
Prepayment penalties and defeasance costs paid	1,706	2,701
Supplemental Disclosure of Noncash Activities		
Issuance of operating partnership units for purchase of noncontrolling interests	—	2,000
Capitalized construction costs included in accounts payable and other accrued liabilities	1,884	1,245
Change in fair value on derivative instruments designated as hedges	11,732	835
Other assets acquired from acquisitions	76	84
Liabilities assumed from acquisitions	1,382	690
Increase in dividends payable on restricted stock units	209	164

See Notes to Consolidated Financial Statements

NEXPOINT RESIDENTIAL TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

NexPoint Residential Trust, Inc. (the “Company”, “we”, “our”) was incorporated in Maryland on September 19, 2014, and has elected to be taxed as a real estate investment trust (“REIT”). The Company is focused on “value-add” multifamily investments primarily located in the Southeastern and Southwestern United States. Substantially all of the Company’s business is conducted through NexPoint Residential Trust Operating Partnership, L.P. (the “OP”), the Company’s operating partnership. The Company owns its properties (the “Portfolio”) through the OP and its wholly owned taxable REIT subsidiary (“TRS”). The OP owns approximately 99.9% of the Portfolio; the TRS owns approximately 0.1% of the Portfolio. The Company’s wholly owned subsidiary, NexPoint Residential Trust Operating Partnership GP, LLC (the “OP GP”), is the sole general partner of the OP. As of September 30, 2018, there were 21,116,902 common units in the OP (“OP Units”) outstanding, of which 21,043,669, or 99.7%, were owned by the Company and 73,233, or 0.3%, were owned by a noncontrolling limited partner (see Note 10).

The Company began operations on March 31, 2015 as a result of the transfer and contribution by NexPoint Strategic Opportunities Fund (fka NexPoint Credit Strategies Fund) (“NHF”) of all but one of the multifamily properties owned by NHF through its wholly owned subsidiary NexPoint Real Estate Opportunities, LLC (fka Freedom REIT, LLC) (“NREO”). We use the term “predecessor” to mean the carve-out business of NREO. On March 31, 2015, NHF distributed all of the outstanding shares of the Company’s common stock held by NHF to holders of NHF common shares. We refer to the distribution of our common stock by NHF as the “Spin-Off.”

The Company is externally managed by NexPoint Real Estate Advisors, L.P. (the “Adviser”), through an agreement dated March 16, 2015, as amended, and renewed on February 12, 2018 for a one-year term set to expire on March 16, 2019 (the “Advisory Agreement”), by and among the Company, the OP and the Adviser. The Adviser conducts substantially all of the Company’s operations and provides asset management services for its real estate investments. The Company expects it will only have accounting employees while the Advisory Agreement is in effect. All of the Company’s investment decisions are made by the Adviser, subject to general oversight by the Adviser’s investment committee and the Company’s board of directors (the “Board”). The Adviser is wholly owned by NexPoint Advisors, L.P., which is an affiliate of Highland Capital Management, L.P. (the “Sponsor” or “Highland”).

The Company’s investment objectives are to maximize the cash flow and value of properties owned, acquire properties with cash flow growth potential, provide quarterly cash distributions and achieve long-term capital appreciation for its stockholders through targeted management and a value-add program. Consistent with the Company’s policy to acquire assets for both income and capital gain, the Company intends to hold at least majority interests in its properties for long-term appreciation and to engage in the business of directly or indirectly acquiring, owning, and operating well-located multifamily properties with a value-add component in large cities and suburban submarkets of large cities primarily in the Southeastern and Southwestern United States consistent with its investment objectives. Economic and market conditions may influence the Company to hold properties for different periods of time. From time to time, the Company may sell a property if, among other deciding factors, the sale would be in the best interest of its stockholders.

The Company may also participate with third parties in property ownership through limited liability companies (“LLCs”), funds or other types of co-ownership or acquire real estate or interests in real estate in exchange for the issuance of common stock, OP Units, preferred stock or options to purchase stock. These types of investments may

permit the Company to own interests in larger assets without unduly restricting diversification, which provides flexibility in structuring the Company's portfolio.

The Company may allocate up to thirty percent of the portfolio to investments in real estate-related debt and securities with the potential for high current income or total returns. These allocations may include first and second mortgages and subordinated, bridge, mezzanine, construction and other loans, as well as debt securities related to or secured by multifamily real estate and common and preferred equity securities, which may include securities of other REITs or real estate companies.

## 2. Summary of Significant Accounting Policies

### Predecessor

With the exception of a nominal amount of initial cash funded at inception, the Company did not own any assets prior to March 31, 2015. The business and operations of the Company prior to March 31, 2015 occurred under the predecessor. The predecessor included all of the properties in the Portfolio that were held directly or indirectly by NREO prior to the Spin-Off that occurred on March 31, 2015. However, the Company's consolidated financial statements reflect operations of the predecessor through March 31, 2015 as if they were incurred by the Company. The predecessor was determined in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). References throughout these consolidated financial statements to the "Company", "we", or "our", include the activity of the predecessor defined above.

## Basis of Accounting

The accompanying unaudited consolidated financial statements have been prepared according to the rules and regulations of the SEC. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of management, all adjustments and eliminations necessary for the fair presentation of the Company’s financial position as of September 30, 2018, and results of operations for the nine months ended September 30, 2018 and 2017 have been included. Such adjustments are normal and recurring in nature. The unaudited information included in this quarterly report on Form 10-Q should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2017 and notes thereto included in its annual report on Form 10-K filed with the SEC on February 15, 2018.

The accompanying unaudited consolidated financial statements are presented in accordance with GAAP. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation. There have been no significant changes to the Company’s significant accounting policies during the nine months ended September 30, 2018.

## Principles of Consolidation

The Company accounts for subsidiary partnerships, joint ventures and other similar entities in which it holds an ownership interest in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation. The Company first evaluates whether each entity is a variable interest entity (“VIE”). Under the VIE model, the Company consolidates an entity when it has control to direct the activities of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the voting model, the Company consolidates an entity when it controls the entity through ownership of a majority voting interest. The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries, including the OP and its subsidiaries.

## Revenue Recognition

The Company’s primary operations consist of rental income earned from its residents under lease agreements typically with terms of one year or less. Rental income is recognized when earned. This policy effectively results in income recognition on the straight-line method over the related terms of the leases. Resident reimbursements and other income consist of charges billed to residents for utilities, carport and garage rental, and pets, administrative, application and other fees and are recognized when earned.

## Real Estate Investments

Upon acquisition of a property, the purchase price and related acquisition costs (“total consideration”) are allocated to land, buildings, improvements, furniture, fixtures, and equipment, and intangible lease assets in accordance with FASB ASC 805, Business Combinations, and Accounting Standards Update (“ASU”) 2017-01, Clarifying the Definition of a Business (Topic 805) (“ASU 2017-01”), which the Company early adopted on October 1, 2016. The Company believes most future acquisition costs will be capitalized in accordance with ASU 2017-01. Prior to the Company’s

adoption of ASU 2017-01, acquisition costs were expensed as incurred.

The allocation of total consideration, which is determined using inputs that are classified within Level 3 of the fair value hierarchy established by FASB ASC 820, Fair Value Measurement and Disclosures (see Note 7), is based on management's estimate of the property's "as-if" vacant fair value and is calculated by using all available information such as the replacement cost of such asset, appraisals, property condition reports, market data and other related information. The allocation of the total consideration to intangible lease assets represents the value associated with the in-place leases, which may include lost rent, leasing commissions, legal and other related costs, which the Company, as buyer of the property, did not have to incur to obtain the residents. If any debt is assumed in an acquisition, the difference between the fair value, which is estimated using inputs that are classified within Level 2 of the fair value hierarchy, and the face value of debt is recorded as a premium or discount and amortized as interest expense over the life of the debt assumed.

Real estate assets, including land, buildings, improvements, furniture, fixtures and equipment, and intangible lease assets are stated at historical cost less accumulated depreciation and amortization. Costs incurred in making repairs and maintaining real estate assets are expensed as incurred. Expenditures for improvements, renovations, and replacements are capitalized at cost. Real estate-related depreciation and amortization are computed on a straight-line basis over the estimated useful lives as described in the following table:

Land	Not depreciated
Buildings	30 years
Improvements	15 years
Furniture, fixtures, and equipment	3 years
Intangible lease assets	6 months

Construction in progress includes the cost of renovation projects being performed at the various properties. Once a project is complete, the historical cost of the renovation is placed into service in one of the categories above depending on the type of renovation project and is depreciated over the estimated useful lives as described in the table above.

Real estate assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, the Company will evaluate the recoverability of such real estate assets based on estimated future cash flows and the estimated liquidation value of such real estate assets, and provide for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the real estate asset. If impaired, the real estate asset will be written down to its estimated fair value.

The Company periodically classifies real estate assets as held for sale when certain criteria are met, in accordance with GAAP. At that time, the Company presents the net real estate assets and the net debt associated with the real estate held for sale separately in its consolidated balance sheet, and the Company ceases recording depreciation and amortization expense related to that property. Real estate held for sale is reported at the lower of its carrying amount or its estimated fair value less estimated costs to sell.

#### Reportable Segment

Substantially all of the Company's net income (loss) is from investments in real estate properties within the multifamily sector that the Company owns through LLCs. The Company evaluates operating performance on an individual property level and views its real estate assets as one industry segment and, accordingly, its properties are aggregated into one reportable segment.

#### Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and expects to continue to qualify as a REIT. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement to distribute annually at least 90% of its "REIT taxable income," as defined by the Code, to its stockholders. As a REIT, the Company will be subject to federal income tax on its undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions it pays with respect to any calendar year are less than the sum of (1) 85% of its ordinary income, (2) 95% of its capital gain net income and (3) 100% of its undistributed income from prior years. The Company intends to operate in such a manner so as to qualify as a REIT, but no assurance can be given that the

Company will operate in a manner so as to qualify as a REIT. Taxable income from certain non-REIT activities is managed through a TRS and is subject to applicable federal, state, and local income and margin taxes. The Company had no significant taxes associated with its TRS for the nine months ended September 30, 2018 and 2017.

If the Company fails to meet these requirements, it could be subject to federal income tax on all of the Company's taxable income at regular corporate rates for that year. The Company would not be able to deduct distributions paid to stockholders in any year in which it fails to qualify as a REIT. Additionally, the Company will also be disqualified from electing to be taxed as a REIT for the four taxable years following the year during which qualification was lost unless the Company is entitled to relief under specific statutory provisions. As of September 30, 2018, the Company believes it is in compliance with all applicable REIT requirements.

The Company evaluates the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" (greater than 50 percent probability) of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The Company's management is required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which include federal and certain states. The Company has no examinations in progress and none are expected at this time.

The Company recognizes its tax positions and evaluates them using a two-step process. First, the Company determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Second, the Company will determine the amount of benefit to recognize and record the amount that is more likely than not to be realized upon ultimate settlement.

The Company had no material unrecognized tax benefit or expense, accrued interest or penalties as of September 30, 2018. The Company and its subsidiaries are subject to federal income tax as well as income tax of various state and local jurisdictions. The 2017, 2016 and 2015 tax years remain open to examination by tax jurisdictions to which the Company and its subsidiaries are subject. When applicable, the Company recognizes interest and/or penalties related to uncertain tax positions on its consolidated statements of operations and comprehensive income (loss).

#### Recent Accounting Pronouncements

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of this extended transition period. As a result of this election, the Company’s financial statements may not be comparable to companies that comply with public company effective dates for such new or revised standards. The Company may elect to comply with public company effective dates at any time, and such election would be irrevocable pursuant to Section 107(b) of the JOBS Act. The following recent accounting pronouncements reflect effective dates that delay the adoption until those standards would otherwise apply to private companies.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) (“ASU 2017-12”), which clarifies hedge accounting requirements, improves disclosure of hedging arrangements, and better aligns risk management activities and financial reporting for hedging relationships. The Company early adopted ASU 2017-12 on January 1, 2018, on a modified retrospective basis. For cash flow hedges existing as of the date of adoption, the Company eliminated the separate measurement of ineffectiveness by means of a cumulative-effect adjustment to accumulated other comprehensive income (“OCI”) with a corresponding adjustment to the opening balance of accumulated earnings less dividends on January 1, 2018. The cumulative-effect adjustment, which eliminated the cumulative ineffectiveness that was previously reported in interest expense, resulted in an increase to OCI of approximately \$1.4 million, with a corresponding decrease to accumulated earnings less dividends.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which amends ASU 2014-09 to defer the effective date by one year. The new standard is effective for annual and interim periods in fiscal years beginning after December 15, 2018. Entities are allowed to use either the full or modified retrospective approach when transitioning to the ASU. The Company expects to implement the provisions of ASU 2014-09 as of January 1, 2019 using the modified retrospective approach. The Company does not expect the adoption of ASU 2014-09 to have a material impact on its consolidated financial statements as a substantial portion of its revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which changes certain recognition, measurement, presentation, and disclosure requirements for financial instruments. The ASU requires all equity investments, except those accounted for under the equity method of accounting or resulting in consolidation, to be measured at fair value with changes in fair value recognized in net income. The ASU also simplifies the impairment assessment for equity investments without readily determinable fair values, amends the presentation requirements for changes in the fair value of financial liabilities, requires presentation of financial instruments by measurement category and form of financial asset, and eliminates the requirement to disclose the methods and significant assumptions used in estimating the fair value of financial instruments. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. The Company expects to implement the provisions of ASU 2016-01 as of January 1, 2019, and does not expect the new standard to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”), which supersedes the current accounting for leases and while retaining two distinct types of leases, finance and operating, (1) requires lessees to record a right of use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (2) eliminates most real estate specific lease provisions, and, (3) aligns many of the underlying lessor model principles with those in the new revenue standard. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Entities are required to use a modified retrospective approach when transitioning to the ASU for leases that exist as of or are entered into after the beginning of the earliest comparative period presented in the financial statements. The Company expects to implement the provisions of ASU 2016-02 as of January 1, 2020 in conjunction with the adoption of ASU 2014-09 discussed above. As lessors, substantially all of the Company’s agreements have a term of 12 months or less. Based on a preliminary assessment, the Company expects most of its operating leases will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in an immaterial increase in the assets and liabilities on its consolidated balance sheets. The Company is continuing its evaluation, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures.

In August 2018, the SEC adopted SEC Release No. 33-10532, Disclosure Update and Simplification (the “SEC Release”), which amends certain disclosure requirements that were redundant, duplicative, overlapping or superseded by other SEC disclosure requirements or GAAP. The amendments generally eliminated or otherwise reduced certain disclosure requirements of various SEC rules and regulations. However, in some cases, the amendments require additional information to be disclosed, including changes in stockholders’ equity in interim periods. Under the SEC Release, registrants will be required to disclose in interim periods on Form 10-Q the changes in each caption of stockholders’ equity and noncontrolling interests for the current and comparative year-to-date periods, with subtotals for each interim period and the amount of dividends per share for each class of shares. The amendments require registrants, including smaller reporting companies, to provide information as prescribed by Rule 3-04 of Regulation S-X. Therefore, the interim disclosures of changes in stockholders’ equity, including dividends per share amounts, may be given in a note to the financial statements or in a separate financial statement. Under Rule 3-04, the interim disclosures of the changes in stockholders’ equity should be in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed, with all significant reconciling items described by appropriate captions. The reconciliation should also reflect any adjustments to the balance at the beginning of the earliest period presented for items retroactively applied to periods prior to that period. The Company adopted the provisions of the SEC Release on September 30, 2018, on a retrospective basis.

### 3. Investments in Subsidiaries

The Company has in the past and may in the future invest in joint ventures. The Company consolidates the entities that it controls as well as any VIEs where it is the primary beneficiary. In connection with its indirect equity investments in the properties acquired, the Company, through the OP and the TRS, directly or indirectly holds 100% of the membership interests in single-asset LLCs that directly own the properties. All of the properties the Company has acquired are consolidated in the Company’s financial statements. The assets of each entity can only be used to settle obligations of that particular entity, and the creditors of each entity have no recourse to the assets of other entities or the Company.

Additionally, the Company has in the past and may in the future enter into purchase and sale transactions structured as reverse like-kind exchanges (“1031 Exchanges”) under Section 1031 of the Code. For a reverse 1031 Exchange in which the Company purchases a new property prior to selling the property to be matched in the like-kind exchange (the Company refers to the new property being acquired in the 1031 Exchange prior to the sale of the related property as a “Parked Asset”), legal title to the Parked Asset is held by an Exchange Accommodation Titleholder (“EAT”) engaged to

execute the 1031 Exchange until the sale transaction and the 1031 Exchange are completed. The Company, through a wholly owned subsidiary, enters into a master lease agreement with the EAT whereby the EAT leases the acquired property and all other rights acquired in connection with the acquisition to the Company. The term of the master lease agreement is the earlier of the completion of the reverse 1031 Exchange or 180 days from the date that the property was acquired. The EAT is classified as a VIE as it does not have sufficient equity investment at risk to finance its activities without additional subordinated financial support. The Company consolidates the EAT as its primary beneficiary because it has the ability to control the activities that most significantly impact the EAT's economic performance and the Company retains all of the legal and economic benefits and obligations related to the Parked Assets prior to completion of the 1031 Exchange. As such, the Parked Assets are included in the Company's consolidated financial statements as VIEs until legal title is transferred to the Company upon either completion of the 1031 Exchange or termination of the master lease agreement, at which time they will be consolidated as wholly owned subsidiaries.

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

As of September 30, 2018, the Company, through the OP and the wholly owned TRS, owned 35 properties. The following table represents the Company's ownership in each property as of September 30, 2018 and December 31, 2017:

Property Name	Location	Year Acquired	Effective Ownership Percentage at		
			September 30, 2018	December 31, 2017	
Arbors on Forest Ridge	Bedford, Texas	2014	100%	100	%
Cutter's Point	Richardson, Texas	2014	100%	100	%
Eagle Crest	Irving, Texas	2014	100%	100	%
Silverbrook	Grand Prairie, Texas	2014	100%	100	%
Timberglen	Dallas, Texas	2014	—	(1)	100 %
Edgewater at Sandy Springs	Atlanta, Georgia	2014	100%	100	%
Beechwood Terrace	Antioch, Tennessee	2014	100%	100	%
Willow Grove	Nashville, Tennessee	2014	100%	100	%
Woodbridge	Nashville, Tennessee	2014	100%	100	%
Abbingtion Heights	Antioch, Tennessee	2014	100%	100	%
The Summit at Sabal Park	Tampa, Florida	2014	100%	100	%
Courtney Cove	Tampa, Florida	2014	100%	100	%
Radbourne Lake	Charlotte, North Carolina	2014	100%	100	%
Timber Creek	Charlotte, North Carolina	2014	100%	100	%
Belmont at Duck Creek	Garland, Texas	2014	100%	100	%
Sabal Palm at Lake Buena Vista	Orlando, Florida	2014	100%	100	%
Southpoint Reserve at Stoney Creek(2)	Fredericksburg, Virginia	2014	100%	100	%
Cornerstone	Orlando, Florida	2015	100%	100	%
The Preserve at Terrell Mill	Marietta, Georgia	2015	100%	100	%
The Ashlar	Dallas, Texas	2015	100%	100	%
Heatherstone	Dallas, Texas	2015	100%	100	%
Versailles	Dallas, Texas	2015	100%	100	%
Seasons 704 Apartments	West Palm Beach, Florida	2015	100%	100	%
Madera Point	Mesa, Arizona	2015	100%	100	%
The Pointe at the Foothills	Mesa, Arizona	2015	100%	100	%
Venue at 8651	Fort Worth, Texas	2015	100%	100	%
Parc500	West Palm Beach, Florida	2016	100%	100	%
The Colonnade	Phoenix, Arizona	2016	100%	100	%
Old Farm	Houston, Texas	2016	100%	100	%
Stone Creek at Old Farm	Houston, Texas	2016	100%	100	%
Hollister Place	Houston, Texas	2017	100%	100	%
Rockledge Apartments	Marietta, Georgia	2017	100%	100	%
Atera Apartments	(3) Dallas, Texas	2017	100%	100	%
Cedar Pointe	(4) Antioch, Tennessee	2018	100%	—	(5)
Crestmont Reserve	Dallas, Texas	2018	100%	—	(5)
Brandywine I & II	Nashville, Tennessee	2018	100%	—	(5)

(1) Property was sold during the nine months ended September 30, 2018.

(2) Property was classified as held for sale as of September 30, 2018.

(3)

The entity that directly owned Atera Apartments was consolidated as a VIE at December 31, 2017. The Company completed the reverse portion of the 1031 Exchange of Atera Apartments with the sale of Timberglen on January 31, 2018, at which time legal title to Atera Apartments transferred to the Company. Upon the transfer of title, the entity that directly owns Atera Apartments was no longer considered a VIE (see Note 5).

- (4) The entity that directly owned Cedar Pointe was consolidated as a VIE at September 30, 2018. The Company anticipates completing a reverse 1031 Exchange of Cedar Pointe during the fourth quarter of 2018 with a sale of Southpoint Reserve at Stoney Creek, which was classified as held for sale as of September 30, 2018, or one of the Company's other properties, at which time legal title to Cedar Pointe will transfer to the Company. Upon the transfer of title, the entity that directly owns Cedar Pointe will no longer be considered a VIE.
- (5) Properties were acquired in 2018; therefore, no ownership as of December 31, 2017.

## 4. Real Estate Investments Statistics

As of September 30, 2018, the Company was invested in a total of 35 multifamily properties, as listed below:

Property Name	Rentable Square Footage (in thousands)	Number of Units	Date Acquired	Average Effective Monthly		% Occupied (2)	
				Rent Per Unit (1) as of		as of	
				September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Arbors on Forest Ridge	155	210	1/31/2014	\$ 866	\$ 862	95.7%	96.2%
Cutter's Point	198	196	1/31/2014	1,103	1,063	95.9%	95.4%
Eagle Crest	396	447	1/31/2014	921	887	89.7%	93.3%
Silverbrook	526	642	1/31/2014	827	791	94.7%	95.2%
Edgewater at Sandy Springs	727	760	7/18/2014	962	940	91.3%	93.8%
Beechwood Terrace	272	300	7/21/2014	943	927	93.3%	94.3%
Willow Grove	229	244	7/21/2014	955	919	95.1%	95.5%
Woodbridge	247	220	7/21/2014	1,014	952	90.9%	93.6%
Abbingtion Heights	239	274	8/1/2014	895	890	93.4%	94.2%
The Summit at Sabal Park	205	252	8/20/2014	948	913	95.6%	92.9%
Courtney Cove	225	324	8/20/2014	890	836	94.4%	94.4%
Radbourne Lake	247	225	9/30/2014	1,087	1,061	92.0%	93.3%
Timber Creek	248	352	9/30/2014	834	817	93.8%	94.0%
Belmont at Duck Creek	198	240	9/30/2014	1,034	999	93.8%	95.4%
Sabal Palm at Lake Buena Vista	371	400	11/5/2014	1,241	1,167	95.3%	96.8%
Southpoint Reserve at Stoney Creek(3)	116	156	12/18/2014	1,100	1,067	94.9%	93.6%
Cornerstone	318	430	1/15/2015	993	927	95.8%	94.4%
The Preserve at Terrell Mill	692	752	2/6/2015	908	855	93.8%	93.1%
The Ashlar	206	264	2/26/2015	850	835	93.2%	91.7%
Heatherstone	116	152	2/26/2015	863	839	96.7%	89.5%
Versailles	301	388	2/26/2015	879	865	94.6%	94.8%
Seasons 704 Apartments	217	222	4/15/2015	1,116	1,076	94.1%	96.4%
Madera Point	193	256	8/5/2015	858	807	96.5%	93.0%
The Pointe at the Foothills	473	528	8/5/2015	838	814	91.7%	90.9%
Venue at 8651	289	333	10/30/2015	854	809	94.9%	94.3%
Parc500	266	217	7/27/2016	1,229	1,179	96.8%	94.9%
The Colonnade	256	415	10/11/2016	712	685	94.0%	94.0%
Old Farm	697	734	12/29/2016	1,187	1,183	92.8%	92.6%
Stone Creek at Old Farm	186	190	12/29/2016	1,171	1,165	94.7%	94.7%
Hollister Place	246	260	2/1/2017	975	959	94.6%	95.0%
Rockledge Apartments	802	708	6/30/2017	1,176	1,149	94.2%	92.9%
Atera Apartments	334	380	10/25/2017	1,229	1,265	92.6%	92.1%

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

Cedar Pointe	224	210	8/24/2018	1,051	—	(4)	90.5%	—	(4)
Crestmont Reserve	199	242	9/26/2018	898	—	(4)	95.9%	—	(4)
Brandywine I & II	414	632	9/26/2018	954	—	(4)	95.4%	—	(4)
	11,028	12,555							

- (1) Average effective monthly rent per unit is equal to the average of the contractual rent for commenced leases as of September 30, 2018 and December 31, 2017, respectively, minus any tenant concessions over the term of the lease, divided by the number of units under commenced leases as of September 30, 2018 and December 31, 2017, respectively.
- (2) Percent occupied is calculated as the number of units occupied as of September 30, 2018 and December 31, 2017, divided by the total number of units, expressed as a percentage.
- (3) Property was classified as held for sale as of September 30, 2018.
- (4) Properties were acquired in 2018.

17

---

## 5. Real Estate Investments

As of September 30, 2018, the major components of the Company's investments in multifamily properties were as follows (in thousands):

Operating Properties	Land	Buildings and Intangible Improvements	Lease Assets	Construction Progress	Furniture, Fixtures and Equipment	Totals
Arbors on Forest Ridge	\$2,330	\$ 11,302	\$ —	\$ —	\$ 991	\$14,623
Cutter's Point	3,330	13,324	—	—	1,281	17,935
Eagle Crest	5,450	21,724	—	1,226	1,452	29,852
Silverbrook	4,860	26,274	—	—	2,935	34,069
Edgewater at Sandy Springs	14,290	44,101	—	—	4,883	63,274
Beechwood Terrace	1,390	20,922	—	136	1,595	24,043
Willow Grove	3,940	10,819	—	—	1,201	15,960
Woodbridge	3,650	13,108	—	—	1,442	18,200
Abbingtion Heights	1,770	17,102	—	—	1,466	20,338
The Summit at Sabal Park	5,770	13,428	—	—	1,294	20,492
Courtney Cove	5,880	12,987	—	—	1,182	20,049
Radbourne Lake	2,440	22,077	—	—	1,489	26,006
Timber Creek	11,260	13,555	—	—	1,390	26,205
Belmont at Duck Creek	1,910	17,362	—	—	1,418	20,690
Sabal Palm at Lake Buena Vista	7,580	41,280	—	—	1,228	50,088
Cornerstone	1,500	30,515	—	—	1,771	33,786
The Preserve at Terrell Mill	10,170	48,779	—	—	4,644	63,593
The Ashlar	4,090	12,834	—	—	1,892	18,816
Heatherstone	2,320	8,120	—	—	1,187	11,627
Versailles	6,720	20,054	—	1,474	2,898	31,146
Seasons 704 Apartments	7,480	14,221	—	—	1,238	22,939
Madera Point	4,920	17,568	—	—	1,383	23,871
The Pointe at the Foothills	4,840	46,952	—	—	1,981	53,773
Venue at 8651	2,350	18,012	—	41	2,377	22,780
Parc500	3,860	20,623	—	26	2,390	26,899
The Colonnade	8,340	37,001	—	316	1,374	47,031
Old Farm	11,078	70,443	—	8	1,721	83,250
Stone Creek at Old Farm	3,493	19,381	—	—	448	23,322
Hollister Place	2,782	21,268	—	163	1,246	25,459
Rockledge Apartments	17,451	94,848	—	587	2,777	115,663
Atera Apartments	22,371	35,380	—	1,071	1,061	59,883
Cedar Pointe	(1) 2,371	23,425	600	—	399	26,795
Crestmont Reserve	4,124	19,537	687	—	450	24,798
Brandywine I & II	6,237	70,949	1,762	—	1,171	80,119
	202,347	929,275	3,049	5,048	57,655	1,197,374
Accumulated depreciation and amortization	—	(86,885 )	(100 )	—	(33,307 )	(120,292 )
Total Operating Properties	\$202,347	\$ 842,390	\$ 2,949	\$ 5,048	\$ 24,348	\$1,077,082

Held For Sale Property						
Southpoint Reserve at Stoney Creek	6,120	11,412	—	—	771	18,303
Accumulated depreciation and amortization	—	(736 )	—	—	(161 )	(897 )
Total Held For Sale Property	\$6,120	\$ 10,676	\$ —	\$ —	\$ 610	\$17,406
Total	\$208,467	\$ 853,066	\$ 2,949	\$ 5,048	\$ 24,958	\$1,094,488

(1) The entity that directly owned Cedar Pointe was consolidated as a VIE at September 30, 2018. The Company anticipates completing a reverse 1031 Exchange of Cedar Pointe during the fourth quarter of 2018 with a sale of Southpoint Reserve at Stoney Creek, which was classified as held for sale as of September 30, 2018, or one of the Company's other properties, at which time legal title to Cedar Pointe will transfer to the Company. Upon the transfer of title, the entity that directly owns Cedar Pointe will no longer be considered a VIE.

Edgar Filing: NexPoint Residential Trust, Inc. - Form 10-Q

As of December 31, 2017, the major components of the Company's investments in multifamily properties were as follows (in thousands):

Operating Properties	Land	Buildings and Improvements	Intangible Assets	Leases in Progress	Construction	Furniture, Fixtures and Equipment	Totals
Arbors on Forest Ridge	\$						