NexPoint Residential Trust, Inc.
Form 10-Q
April 30, 2019

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 March 31, 2019

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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

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 April 30, 2019, the registrant had 23,643,277 shares of its common stock, par value $0.01 per share, outstanding.

NEXPOINT RESIDENTIAL TRUST, INC.

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Quarter Ended March 31, 2019

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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 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;
- increased risks associated with our strategy of acquiring value-enhancement multifamily properties rather 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 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;
- 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 of 1990 (the “ADA”) and the Fair Housing Act (the “FHA”);
- 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 relative 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 19, 2019 (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)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Operating Real Estate Investments		
Land	$ 231,170	$ 202,347
Buildings and improvements	1,038,797	935,604
Intangible lease assets	2,438	3,049
Construction in progress	1,594	1,881
Furniture, fixtures, and equipment	66,661	61,456
Total Gross Operating Real Estate Investments	1,340,660	1,204,337
Accumulated depreciation and amortization	(146,473)	(134,124)
Total Net Operating Real Estate Investments	1,194,187	1,070,213
Real estate held for sale, net of accumulated depreciation of $897 and $897, respectively	17,347	17,329
Total Net Real Estate Investments	1,211,534	1,087,542
Cash and cash equivalents	20,536	19,864
Restricted cash	17,747	23,265
Accounts receivable	3,418	3,340
Prepaid and other assets	3,807	9,058
Fair market value of interest rate swaps	12,467	18,141
TOTAL ASSETS	$ 1,269,509	$ 1,161,210
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgages payable, net	$ 903,143	$ 824,702
Mortgages payable held for sale, net	13,269	13,318
Credit facility, net	51,910	—
Accounts payable and other accrued liabilities	5,795	5,765
Accrued real estate taxes payable	5,480	12,607
Accrued interest payable	3,210	2,852
Security deposit liability	1,955	1,889
Prepaid rents	1,616	1,482
Total Liabilities	986,378	862,615
Redeemable noncontrolling interests in the Operating Partnership	2,808	2,567
Stockholders' Equity:		
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; 23,643,277 and 23,499,635 shares issued and outstanding, respectively	235	234
Additional paid-in capital	286,580	