# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

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# FORM 10-Q

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**(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 000-54369**

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# Resource Real Estate Opportunity REIT, Inc.
**(Exact name of registrant as specified in its charter)**

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| | |
|---|---|
| **Maryland** | **27-0331816** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**1845 Walnut Street, 18th Floor, Philadelphia, PA 19103**
**(Address of principal executive offices) (Zip code)**

**(215) 231-7050**
**(Registrant's 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 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, 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 Act). Yes ☐ No ☑

Securities registered pursuant to Section 12(b) of the Act: None

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| N/A | N/A | N/A |

As of May 3, 2019, there were 70,454,746 outstanding shares of common stock of Resource Real Estate Opportunity REIT, Inc.

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**RESOURCE REAL ESTATE OPPORTUNITY REIT, INC.**

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**Forward-Looking Statements**

Certain statements included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expects,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other comparable terminology. Actual results may differ materially from those contemplated by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required under applicable law.

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## PART 1. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### RESOURCE REAL ESTATE OPPORTUNITY REIT, INC.
### CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (unaudited) | |
| **ASSETS** | | |
| Investments: | | |
| Rental properties, net | $ 973,577 | $ 1,017,943 |
| Loan held for investment, net | 798 | 793 |
| Identified intangible assets, net | 23 | 26 |
| Total investments | 974,398 | 1,018,762 |
| Cash | 63,382 | 63,763 |
| Restricted cash | 7,952 | 14,858 |
| Subtotal- cash and restricted cash | 71,334 | 78,621 |
| Due from related parties | 51 | 123 |
| Tenant receivables, net | 102 | 192 |
| Deposits | 229 | 229 |
| Prepaid expenses and other assets | 4,608 | 2,894 |
| Goodwill | 477 | 477 |
| Operating lease right-of-use assets | 488 | — |
| Total assets | $ 1,051,687 | $ 1,101,298 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Mortgage notes payable, net | $ 786,221 | $ 841,345 |
| Accounts payable | 656 | 951 |
| Accrued expenses and other liabilities | 7,182 | 7,776 |
| Accrued real estate taxes | 5,404 | 10,191 |
| Due to related parties | 748 | 919 |
| Tenant prepayments | 1,252 | 1,160 |
| Security deposits | 2,465 | 2,650 |
| Operating lease liabilities | 488 | — |
| Total liabilities | $ 804,416 | $ 864,992 |
| Stockholders' Equity: | | |
| Preferred stock (par value $.01; 10,000,000 shares authorized, none issued) | — | — |
| Common stock (par value $.01; 1,000,000,000 shares authorized; 70,252,333 and 70,427,946 shares issued and outstanding, respectively) | 702 | 704 |
| Convertible stock (“promote shares”; par value $.01; 50,000 shares authorized; 49,972 and 49,989 shares issued and outstanding) | 1 | 1 |
| Additional paid-in capital | 624,634 | 626,436 |
| Accumulated other comprehensive loss | (330) | (474) |
| Accumulated deficit | (377,736) | (390,361) |
| Total stockholders’ equity | 247,271 | 236,306 |
| Total liabilities and stockholders' equity | $ 1,051,687 | $ 1,101,298 |

The accompanying notes are an integral part of these consolidated financial statements.

**RESOURCE REAL ESTATE OPPORTUNITY REIT, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**
(in thousands, except per share data)
(unaudited)

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| **Revenues:** | | |
| Rental income | $ 35,136 | $ 32,897 |
| Interest and dividend income | 94 | 74 |
| Total revenues | 35,230 | 32,971 |
| **Expenses:** | | |
| Rental operating - expenses | 6,869 | 6,850 |
| Rental operating - payroll | 3,556 | 3,379 |
| Rental operating - real estate taxes | 4,384 | 3,855 |
| Subtotal - Rental operating expenses | 14,809 | 14,084 |
| Acquisition costs | — | 9 |
| Management fees | 4,756 | 4,569 |
| General and administrative | 2,772 | 2,843 |
| Loss on disposal of assets | 151 | 108 |
| Depreciation and amortization expense | 13,597 | 14,337 |
| Total expenses | 36,085 | 35,950 |
| Loss before net gains on dispositions | (855) | (2,979) |
| Net gain on disposition of property | 34,575 | — |
| Income (loss) before other income (expense) | 33,720 | (2,979) |
| **Other income (expense):** | | |
| Interest expense | (11,075) | (8,123) |
| Insurance proceeds in excess of cost basis | 536 | 153 |
| Total other (expense) income | (10,539) | (7,970) |
| Net income (loss) | $ 23,181 | $ (10,949) |
| **Other comprehensive income (loss):** | | |
| Reclassification adjustment for realized loss on designated derivatives | 172 | 37 |
| Designated derivatives, fair value adjustments | (28) | 145 |
| Total other comprehensive income (loss) | 144 | 182 |
| Comprehensive income (loss) | $ 23,325 | $ (10,767) |
| | | |
| Weighted average common shares outstanding | 70,557 | 71,439 |
| **Basic and diluted income (loss) per common share:** | | |
| Net income (loss) per common share | $ 0.33 | $ (0.15) |

The accompanying notes are an integral part of these consolidated financial statements.

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**RESOURCE REAL ESTATE OPPORTUNITY REIT, INC.**
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**
(in thousands)
(unaudited)

| | Common Stock | | Convertible Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at January 1, 2019 | 70,428 | $ 704 | 50 | $ 1 | $ 626,436 | $ (474) | $ (390,361) | $ 236,306 |
| Common stock issued through the distribution reinvestment plan | 613 | 6 | — | — | 6,292 | — | — | 6,298 |
| Distributions declared | — | — | — | — | — | — | (10,556) | (10,556) |
| Common stock redemptions | (789) | (8) | — | — | (8,094) | — | — | (8,102) |
| Other comprehensive income | — | — | — | — | — | 144 | — | 144 |
| Net income | — | — | — | — | — | — | 23,181 | 23,181 |
| Balance at March 31, 2019 | 70,252 | $ 702 | 50 | $ 1 | $ 624,634 | $ (330) | $ (377,736) | $ 247,271 |

| | Common Stock | | Convertible Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at January 1, 2018 | 71,299 | $ 713 | 50 | $ 1 | $ 635,748 | $ (562) | $ (317,308) | $ 318,592 |
| Common stock issued through the distribution reinvestment plan | 405 | 4 | — | — | 4,427 | — | — | 4,431 |
| Distributions declared | — | — | — | — | — | — | (10,680) | (10,680) |
| Common stock redemptions | (1,006) | (10) | — | — | (10,998) | — | — | (11,008) |
| Other comprehensive income | — | — | — | — | — | 182 | — | 182 |
| Net loss | — | — | — | — | — | — | (10,949) | (10,949) |
| Balance at March 31, 2018 | 70,698 | $ 707 | 50 | $ 1 | $ 629,177 | $ (380) | $ (338,937) | $ 290,568 |

The accompanying notes are an integral part of these consolidated financial statements.

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**RESOURCE REAL ESTATE OPPORTUNITY REIT, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in thousands)
(unaudited)

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 23,181 | $ (10,949) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Loss on disposal of assets | 151 | 108 |
| Casualty (gains) losses | (609) | (155) |
| Net gain on disposition of property | (34,575) | — |
| Depreciation and amortization | 13,597 | 14,337 |
| Amortization of deferred financing costs | 995 | 421 |
| Amortization of debt premium (discount) | (83) | (91) |
| Realized loss on change in fair value of interest rate cap | 172 | 36 |
| Accretion of discount and direct loan fees and costs | (13) | (6) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Tenant receivables, net | 90 | 63 |
| Prepaid expenses and other assets | (1,762) | (2,446) |
| Due to/from related parties, net | (99) | (660) |
| Accounts payable and accrued expenses | (4,597) | (5,833) |
| Tenant prepayments | 103 | 125 |
| Security deposits | 36 | 64 |
| Net cash used in operating activities | (3,413) | (4,986) |
| **Cash flows from investing activities:** | | |
| Proceeds from disposal of property, net of closing costs | 12,897 | — |
| Property acquisitions | — | (2,106) |
| Insurance proceeds received for casualty losses | 609 | 155 |
| Capital expenditures | (2,905) | (3,860) |
| Principal payments received on loans held for investment | 8 | 4 |
| Net cash provided by (used in) investing activities | 10,609 | (5,807) |
| **Cash flows from financing activities:** | | |
| Redemptions of common stock | (8,102) | (11,008) |
| Principal repayments on mortgages | (2,100) | (1,743) |
| Purchase of interest rate caps | (23) | — |
| Distributions paid on common stock | (4,258) | (2,714) |
| Net cash used in financing activities | (14,483) | (15,465) |
| **Net decrease in cash and restricted cash** | (7,287) | (26,258) |
| **Cash and restricted cash at beginning of period** | 78,621 | 131,061 |
| **Cash and restricted cash at end of period** | $ 71,334 | $ 104,803 |
| **Reconciliation to consolidated balance sheets** | | |
| Cash | $ 63,382 | $ 97,485 |
| Restricted cash | 7,952 | 7,318 |
| **Cash and restricted cash at end of period** | $ 71,334 | $ 104,803 |

The accompanying notes are an integral part of these consolidated financial statements.

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## NOTE 1 - NATURE OF BUSINESS AND OPERATIONS

Resource Real Estate Opportunity REIT, Inc. (the “Company”) was organized in Maryland on June 3, 2009 for the purpose of owning a diversified portfolio of discounted U.S. commercial real estate and real estate-related assets in order to generate gains to stockholders from the potential appreciation in the value of the assets and to generate current income for stockholders by distributing cash flow from the Company’s investments. Resource Real Estate Opportunity Advisor, LLC (the “Advisor”), an indirect wholly-owned subsidiary of Resource America, Inc. (“RAI”) has been engaged to manage the day-to-day operations of the Company.

RAI is a wholly-owned subsidiary of C-III Capital Partners LLC, ("C-III"), a leading commercial real estate investment management and services company engaged in a broad range of activities. C-III controls both our Advisor and Resource Real Estate Opportunity Manager, LLC (the "Manager"), the Company's property manager; C-III also controls all of the shares of common stock held by the Advisor.

Through its private offering and primary public offering, which concluded on December 13, 2013, the Company raised aggregate gross offering proceeds of $645.8 million, which resulted in the issuance of 64.9 million shares of common stock, including approximately 276,056 shares purchased by the Advisor and 1.2 million shares sold in the Company's distribution reinvestment plan. During the years ended December 31, 2018 and 2017, the Company issued approximately 5.0 million additional shares for $53.0 million pursuant to its distribution reinvestment plan. During the three months ended March 31, 2019, the Company issued approximately 613,000 additional shares for $6.3 million pursuant to its distribution reinvestment plan. The Company's distribution reinvestment plan offering is ongoing.

The Company has acquired, and may continue to acquire, real estate and real estate-related debt. The Company has a particular focus on owning and operating multifamily assets, and it has targeted, and intends to continue to target, this asset class while also possibly acquiring interests in other types of commercial property assets consistent with its investment objectives. The Company’s portfolio predominantly consists of multifamily rental properties to which the Company has added or will add value with a capital infusion (referred to as “value add properties”). However, the Company is not limited in the types of real estate assets in which it may invest and, accordingly, it may invest in other real estate-related assets either directly or together with a co-investor or joint venture partner.

The Company is organized and conducts its operations in a manner intended to allow it to qualify as a real estate investment trust (“REIT”) for U.S. federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. The Company also operates its business in a manner intended to maintain its exemption from registration under the Investment Company Act of 1940, as amended.

The consolidated financial statements and the information and tables contained in the notes to the consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). However, in the opinion of management, these interim financial statements include all the necessary adjustments to fairly present the results of the interim periods presented. The consolidated balance sheet as of December 31, 2018 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2018. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. The results of operations for the three months ended March 31, 2019 may not necessarily be indicative of the results of operations for the full year ending December 31, 2019.

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## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

### Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with GAAP. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

| Subsidiary | Apartment Complex | Number of Units | Property Location |
|---|---|---|---|
| RRE Opportunity Holdings, LLC | N/A | N/A | N/A |
| Resource Real Estate Opportunity OP, LP | N/A | N/A | N/A |
| RRE Charlemagne Holdings, LLC | N/A | N/A | N/A |
| RRE Iroquois, LP (“Vista”) | Vista Apartment Homes | 133 | Philadelphia, PA |
| RRE Iroquois Holdings, LLC | N/A | N/A | N/A |
| RRE Cannery Holdings, LLC (“Cannery”) | Cannery Lofts | 156 | Dayton, OH |
| RRE Williamsburg Holdings, LLC (Williamsburg) (b) | Williamsburg | — | Cincinnati, OH |
| RRE Autumn Wood Holdings, LLC ("Autumn Wood") | Retreat at Rocky Ridge | 206 | Hoover, AL |
| RRE Village Square Holdings, LLC ("Village Square") | Trailpoint at the Woodlands | 271 | Houston, TX |
| RRE Brentdale Holdings, LLC ("Brentdale") | The Westside Apartments | 412 | Plano, TX |
| RRE Jefferson Point Holdings, LLC ("Jefferson Point") | Tech Center Square | 208 | Newport News,VA |
| RRE Centennial Holdings, LLC ("Centennial") | Verona Apartment Homes | 276 | Littleton, CO |
| RRE Pinnacle Holdings, LLC ("Pinnacle") | Skyview Apartment Homes | 224 | Westminster, CO |
| RRE River Oaks Holdings, LLC ("River Oaks") | Maxwell Townhomes | 316 | San Antonio, TX |
| RRE Nicollet Ridge Holdings, LLC ("Nicollet Ridge") | Meridian Pointe | 339 | Burnsville, MN |
| RRE Addison Place Holdings, LLC ("Addison Place") | The Estates at Johns Creek | 403 | Alpharetta, GA |
| PRIP Coursey, LLC ("Evergreen at Coursey Place") (a) | Evergreen at Coursey Place | 352 | Baton Rouge, LA |
| PRIP 500, LLC ("Pinehurst") (a) | Pinehurst | 146 | Kansas City, MO |
| PRIP Pines, LLC ("Pines of York") (a) | Pines of York | 248 | Yorktown, VA |
| RRE Berkeley Run Holdings, LLC ("Berkley Run") | Perimeter Circle | 194 | Atlanta, GA |
| RRE Berkeley Trace Holdings LLC ("Berkley Trace") | Perimeter 5550 | 165 | Atlanta, GA |
| RRE Merrywood Holdings, LLC ("Merrywood") | Aston at Cinco Ranch | 228 | Katy, TX |
| RRE Sunset Ridge Holdings, LLC ("Sunset Ridge") | Sunset Ridge | 324 | San Antonio, TX |
| RRE Parkridge Place Holdings, LLC ("Parkridge Place") | Calloway at Las Colinas | 536 | Irving, TX |
| RRE Woodmoor Holdings, LLC ("Woodmoor") | South Lamar Village | 208 | Austin, TX |
| RRE Gilbert Holdings, LLC ("Springs at Gilbert") | Heritage Pointe | 458 | Gilbert, AZ |
| RRE Bonita Glen Holdings, LLC ("Bonita") | Point Bonita Apartment Homes | 294 | Chula Vista, CA |
| RRE Yorba Linda Holdings, LLC ("Yorba Linda") | The Bryant at Yorba Linda | 400 | Yorba Linda, CA |
| RRE Providence Holdings, LLC ("Providence in the Park") | Providence in the Park | 524 | Arlington, TX |
| RRE Green Trails Holdings, LLC ("Green Trails") | Green Trails Apartment Homes | 440 | Lisle, IL |
| RRE Terraces at Lake Mary Holdings, LLC ("Lake Mary") | Terraces at Lake Mary | 284 | Lake Mary, FL |
| RRE Courtney Meadows Holdings, LLC ("Courtney Meadows") | Courtney Meadows Apartments | 276 | Jacksonville, FL |
| RRE Sandy Springs Holdings, LLC ("Sandy Springs") | Addison at Sandy Springs | 236 | Sandy Springs,GA |
| RRE Grapevine Holdings, LLC ("Bristol Grapevine") | Bristol Grapevine | 376 | Grapevine, TX |
| | | 8,633 | |

N/A - Not Applicable
(a) Wholly-owned subsidiary of RRE Charlemagne Holdings, LLC.
(b) Underlying investment sold on March 8, 2019.

All intercompany accounts and transactions have been eliminated in consolidation.

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**Segment Reporting**

The Company does not evaluate performance on a relationship-specific or transactional basis and does not distinguish its principal business or group its operations on a geographical basis for purposes of measuring performance. Accordingly, the Company believes it has a single operating segment for reporting purposes in accordance with GAAP.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**Adoption of New Accounting Standards**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "Leases" ("ASU No. 2016-02") and amended by ASU No. 2018-09 "Codification Improvements" in July 2018, which is intended to improve financial reporting related to leasing transactions and requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. In September 2017, the FASB issued ASU No. 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)", which provides additional implementation guidance on the previously issued ASU No. 2016-02. The Company adopted these standards as of January 1, 2019, and the adoption did not have a material effect on the Company's consolidated financial statements and disclosures. The Company's operating leases in which it is the lessor continue to be accounted for on its balance sheet with the underlying leased asset recognized as real estate. The Company has chosen to apply the practical expedient (discussed in ASU No. 2018-11, "Leases: Targeted Improvements") to nonlease component revenue streams and account for them as a combined component with leasing revenue. For leases in which the Company is the lessee, primarily consisting of a parking lot lease, laundry equipment lease, and office equipment leases, the Company recognized a right-of-use (ROU) asset and a lease liability equal to the present value of the minimum lease payments in the amount of $525,778 at January 1, 2019. The Company determines if an arrangement is a lease at inception. The Company elected the package of practical expedients permitted within the new standard, which among other things, allows the Company to carry forward the historical lease classification. Also allowable under the new standard (ASU No. 2018-11) is the option, which the Company has elected, to present the operating lease ROU asset and operating lease liabilities as of January 1, 2019 and not restate prior periods. No cumulative impact adjustment was necessary to opening retained earnings as of January 1, 2019. For certain equipment leases, such as copiers, the Company applied a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

In August 2017, FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities", which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The Company adopted the standard on January 1, 2019, and the adoption did not have a significant impact on its consolidated financial statements.

In June 2018, FASB issued ASU 2018-07 "Improvements to Nonemployee Share-Based Payment Accounting" to simplify the accounting for share-based payment transactions for acquiring goods and services from nonemployees by including these payments in the scope of the guidance for share-based payments to employees. The Company adopted the standard on January 1, 2019, and the adoption did not have a significant impact on its consolidated financial statements.

In July 2018, FASB issued ASU No. 2018-09, "Codification Improvements". This standard does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications of several different FASB Accounting Standards Codification areas based on comments and suggestions made by various stakeholders. The Company adopted the standard on January 1, 2019, and the adoption did not have a significant impact on its consolidated financial statements.

In October 2018, FASB issued ASU No. 2018-16, "Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes". ASU No. 2018-16 permits the use of the Overnight Index Swap ("OIS") Rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate ("LIBOR") and the OIS Rate

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based on the Federal Funds Effective Rate. The Company adopted the standard on January 1, 2019, and the adoption did not have a significant impact on its consolidated financial statements.

Accounting Standards Issued But Not Yet Effective

In June 2016, FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses", which requires measurement and recognition of expected credit losses for financial assets held. ASU No. 2016-03 will be effective for the Company beginning December 15, 2019. Early application is permitted. The Company is continuing to evaluate this guidance; however, the Company does not expect the adoption to have a significant impact on its consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment", which alters the current goodwill impairment testing procedures to eliminate Step 2. Step 2 required that, if the carrying amount of a reporting unit exceeded its fair value, the implied fair value of the goodwill must be compared to the carrying amount in order to determine impairment. ASU No. 2017-04 will be effective for the Company beginning December 15, 2019. Early application is permitted. The Company is continuing to evaluate this guidance; however, the Company does not expect the adoption to have a significant impact on its consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This update removes, modifies and adds certain disclosure requirements in FASB ASC 820, "Fair Value Measurement" ("ASC 820"). ASU No. 2018-13 will be effective for the Company beginning January 1, 2020 and early adoption is permitted. The Company is continuing to evaluate this guidance; however, the Company does not expect the adoption to have a significant impact on its consolidated financial statements.

**Assets Held for Sale**

The Company presents rental property assets that qualify as held for sale separately in the consolidated balance sheets. Real estate assets held for sale are measured at the lower of carrying amount or fair value less cost to sell. Subsequent to classification of an asset as held for sale, no further depreciation is recorded. As of March 31, 2019 and December 31, 2018, the Company had no rental properties included in assets held for sale.

**Rental Properties**

The Company records acquired rental properties at fair value on the acquisition date. The Company considers the period of future benefit of an asset to determine its appropriate useful life and depreciates the asset using the straight line method. The Company anticipates the estimated useful lives of its assets by class as follows:

| | |
|---|---|
| Buildings | 27.5 years |
| Building improvements | 5.0 to 27.5 years |
| Furniture, fixtures, and equipment | 3.0 to 5.0 years |
| Tenant improvements | Shorter of lease term or expected useful life |
| Lease intangibles | Remaining term of related lease |

Improvements and replacements in excess of $1,000 are capitalized when they have a useful life greater than or equal to one year. The Manager earns a construction management fee of 5.0% of actual aggregate costs to construct improvements, or to repair, rehab or reconstruct a property. These costs are capitalized along with the related asset. Costs of repairs and maintenance are expensed as incurred.

**Impairment of Long Lived Assets**

When circumstances indicate the carrying value of a property may not be recoverable, the Company reviews the asset for impairment. This review is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. The review also considers factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors.

An impairment loss will be recorded to the extent that the carrying value exceeds the estimated fair value of a property to be held and used. For properties held for sale, the impairment loss would be the adjustment to fair value less the estimated cost to dispose of the asset. There were no impairment losses recorded on long-lived assets during the three months ended March 31, 2019 and 2018.

**Loans Held for Investment, Net**

The Company records acquired performing loans held for investment at cost and reviews them for potential impairment at each balance sheet date. The Company considers a loan to be impaired if one of two conditions exists. The first condition is if, based on current information and events, management believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The second condition is if the loan is deemed to be a troubled-debt restructuring ("TDR") where a concession has been given to a borrower in financial difficulty. A TDR may not have an associated specific loan loss allowance if the principal and interest amount is considered recoverable based on current market conditions, expected collateral performance and/or guarantees made by the borrowers.

The amount of impairment, if any, is measured by comparing the recorded amount of the loan to the present value of the expected cash flows or, as a practical expedient, the fair value of the collateral. If a loan is deemed to be impaired, the Company records a reserve for loan losses through a charge to income for any shortfall.

Interest income from performing loans held for investment is recognized based on the contractual terms of the loan agreement. Fees related to any buy down of the interest rate are deferred as prepaid interest income and amortized over the term of the loan as an adjustment to interest income. The initial investment made in a purchased performing loan includes the amount paid to the seller plus fees. The initial investment frequently differs from the related loan's principal amount at the date of the purchase. The difference is recognized as an adjustment of the yield over the life of the loan. Closing costs related to the purchase of a performing loan held for investment are amortized over the term of the loan and accreted as an adjustment to interest income.

The Company may acquire real estate loans at a discount due to the credit quality of such loans and the respective borrowers under such loans. Revenues from these loans are recorded under the effective interest method. Under this method, an effective interest rate ("EIR") is applied to the cost basis of the real estate loan held for investment. The EIR that is calculated when the loan held for investment is acquired remains constant and is the basis for subsequent impairment testing and income recognition. However, if the amount and timing of future cash collections are not reasonably estimable, the Company accounts for the real estate receivable on the cost recovery method. Under the cost recovery method of accounting, no income is recognized until the basis of the loan held for investment has been fully recovered.

**Allocation of the Purchase Price of Acquired and Foreclosed Assets**

On January 1, 2018, the Company adopted ASU 2017-01. Acquisitions that do not meet the definition of a business under this guidance are accounted for as asset acquisitions. In most cases, the Company believes acquisitions of real estate will no longer be considered business combinations, as in most cases substantially all of the fair value is concentrated in a single identifiable asset or group of tangible assets that are physically attached to each other (land and building). However, if the Company determines that substantially all of the fair value of the gross assets acquired is not concentrated in either a single identifiable asset or in a group of similar identifiable assets, the Company will then perform an assessment to determine whether the set is a business by using the framework outlined in the ASU. If the Company determines that the acquired asset is not a business, the Company will allocate the cost of the acquisition, including transaction costs, to the assets acquired or liabilities assumed based on their related fair value.

Upon the acquisition of real properties, the Company allocates the purchase price of properties to acquired tangible assets consisting of land, buildings, fixtures and improvements, identified intangible lease assets, consisting of the value of above-market and below-market leases, as applicable, the value of in-place leases, the value of tenant relationships, and liabilities, based in each case on their fair values.

The Company records above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The Company amortizes any capitalized above-market or below-market lease values as an increase or reduction to rental income over the remaining non-cancelable terms of the respective leases.

The Company measures the aggregate value of other intangible assets acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if it were vacant. Management's estimates of value are determined by independent appraisers (e.g., discounted cash flow analysis). Factors to be considered in the analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions and costs to execute similar leases.

In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods. Management also estimates costs to execute similar leases including leasing commissions and legal and other related expenses to the extent that such costs have not already been incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets acquired is further allocated to in-place lease values and customer relationship intangible values based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with that respective tenant. Characteristics to be considered by management in allocating these values include the nature and extent of the Company's existing relationships with the tenant, the tenant's credit quality and expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

The Company amortizes the value of in-place leases to expense over the average remaining term of the underlying leases. The value of customer relationship intangibles are amortized to expense over the initial term and any renewal periods in the respective leases, but in no event will the amortization periods for the intangible assets exceed the remaining depreciable life of the building.

The determination of the fair value of assets and liabilities acquired requires the use of significant assumptions with regard to current market rental rates, discount rates and other variables. The use of inappropriate estimates would result in an incorrect assessment of the purchase price allocations, which could impact the amount of the Company's reported net income.

**Goodwill**

The Company records the excess of the cost of an acquired entity over the difference between the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit during the fourth quarter of each calendar year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. There have been no such events or changes in circumstances during the three months ended March 31, 2019.

**Revenue Recognition**

The Company recognizes minimum rent, including rental abatements and contractual fixed increases attributable to operating leases, on a straight-line basis over the term of the related lease.

The future minimum rental payments to be received from noncancelable operating leases for residential rental properties are $61.4 million and $1.3 million for the 12 month periods ending March 31, 2020 and 2021, respectively, and none thereafter. The future minimum rental payments to be received from noncancelable operating leases for commercial rental properties and antenna rentals are $507,000, $405,000, $361,000, $175,000, and $61,000 for the 12 month periods ending March 31, 2020 through March 31, 2024, respectively, and $193,000 thereafter.

Revenue is primarily derived from the rental of residential housing units for which the Company receives minimum rents and utility reimbursements pursuant to underlying tenant lease agreements. The Company also receives other ancillary tenant fees for administration of leases, late payments, amenities, and revenue sharing arrangements of cable income from contracts with cable providers at the Company's properties. The Company adopted ASU No. 2014-09 beginning January 1, 2018. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. The Company records utility reimbursement income and ancillary charges in the period when the performance obligation is completed, either at a point in time or on a monthly basis as the service is utilized. Included in Accrued expenses and other liabilities on the consolidated balance sheet at March 31, 2019 and December 31, 2018, is deferred revenue related to contracts with cable providers in the amounts of $517,000 and $564,000, respectively. The Company recognizes income on a straight line basis over the contract period of 10 years to 12 years. In the three months ended March 31, 2019, approximately $20,000 of revenue from the contract liability was recognized as income.

**Tenant Receivables**

Tenant receivables are stated in the consolidated financial statements as amounts due from tenants net of an allowance for uncollectible receivables. Payment terms vary and receivables outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time receivables are past due, security deposits held, the Company's previous loss history, the tenants' current ability to pay their obligations to the Company, the condition of the general economy and the industry as a whole. The Company writes off receivables when they become uncollectible. As of March 31, 2019 and December 31, 2018, there were allowances for uncollectible receivables of approximately $2,000 and $19,000, respectively.

**Leases**

For operating leases where the Company is the lessor, the leases are accounted for on its balance sheet with the underlying leased asset recognized as real estate. The Company, as a lessor of multifamily apartment units, has nonlease components associated with these leases (i.e. CAM, utilities, etc.). The Company combines nonlease component revenue streams and accounts for them as a combined component with leasing revenue.

For leases in which the Company is the lessee, primarily consisting of a parking space lease, a laundry equipment lease, and office equipment leases, the Company recognizes a right-of-use asset and a lease liability equal to the present value of the minimum lease payments. Operating leases are included in operating lease ROU assets and operating lease liabilities in the Company's consolidated balance sheets. The Company uses a market rate for equipment leases, when readily determinable, in calculating the present value of lease payments. Otherwise, the incremental borrowing rate is used. The operating lease ROU asset includes any lease payments and excludes lease incentives. Operating lease terms may include options to extend the lease when it is reasonably certain the lease will be extended. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

**Income Taxes**

The Company elected to be taxed as a REIT commencing with its taxable year ended December 31, 2010. To maintain its REIT qualification for U.S. federal income tax purposes, the Comp any is generally required to distribute at least 90% of its taxable net income (excluding net capital gains) to its stockholders as well as comply with other requirements, including certain asset, income and stock ownership tests. As a REIT, the Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it is subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which it fails its REIT qualification. Accordingly, the Company's failure to qualify as a REIT could have a material adverse impact on its results of operations and amounts available for distribution to its stockholders.

The dividends-paid deduction of a REIT for qualifying dividends to its stockholders is computed using the Company's taxable income as opposed to net income reported on the financial statements. Generally, taxable income differs from net income reported on the financial statements because the determination of taxable income is based on tax provisions and not financial accounting principles.

The Company may elect to treat any of its subsidiaries as taxable REIT subsidiaries ("TRSs"). In general, the Company's TRSs may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A TRS is subject to U.S. federal, state and local corporate income taxes. While a TRS may generate net income, a TRS can declare dividends to the Company which will be included in the Company's taxable income and necessitate a distribution to its stockholders. Conversely, if the Company retains earnings at a TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. As of March 31, 2019 and December 31, 2018, the Company had no TRSs.

The Company evaluates the benefits from tax positions taken or expected to be taken in its tax return. Only the largest amount of benefits from tax positions that will more likely than not be sustainable upon examination are recognized by the Company. The Company does not have any unrecognized tax benefits, nor interest and penalties, recorded in its consolidated financial statements and does not anticipate significant adjustments to the total amount of unrecognized tax benefits within the next 12 months.

The Company is subject to examination by the U.S. Internal Revenue Service and by the taxing authorities in other states in which the Company has significant business operations. The Company is not currently undergoing any examinations by taxing authorities. The Company is not subject to IRS examination for tax return years 2014 and prior.

**Earnings Per Share**

Basic earnings per share is calculated on the basis of the weighted-average number of common shares outstanding during the year. Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted to common stock. None of the 49,972 shares of convertible stock (see Note 13) are included in the diluted earnings per share calculations because the necessary conditions for conversion have not been satisfied as of March 31, 2019 (were such date to represent the end of the contingency period).

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified to conform to the current-year presentation. The impact of the reclassifications made to prior year amounts are not material and did not affect net income (loss).

## NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents the Company's supplemental cash flow information (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Non-cash operating, financing, and investing activities:** | | |
| Stock issued from the distribution reinvestment plan | $ 6,298 | $ 4,431 |
| Cash distributions on common stock declared but not yet paid | — | 3,535 |
| Accruals for construction in progress | 990 | 1,221 |
| Lease liabilities arising from obtaining right-of-use assets | 526 | — |
| Non-cash activity related to dispositions: | | |
| Mortgage notes payable settled directly with proceeds from sale of rental property | 53,936 | — |
| **Cash paid during the period for:** | | |
| Interest | $ 9,996 | $ 7,565 |

## NOTE 4 - RESTRICTED CASH

Restricted cash represents escrow deposits with lenders to be used to pay real estate taxes, insurance, and capital improvements. The following table presents a summary of the components of the Company's restricted cash (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Real estate taxes | $ 4,856 | $ 10,426 |
| Insurance | 553 | 1,669 |
| Capital improvements | 2,543 | 2,763 |
| Total | $ 7,952 | $ 14,858 |

In addition, the Company had unrestricted cash designated for capital expenditures of $20.9 million and $22.2 million as of March 31, 2019 and December 31, 2018, respectively.

## NOTE 5 - RENTAL PROPERTIES, NET

The following table presents the Company’s investments in rental properties (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Land | $ 197,607 | $ 200,848 |
| Building and improvements | 923,116 | 965,629 |
| Furniture, fixtures and equipment | 40,751 | 44,918 |
| Construction in progress | 1,117 | 1,325 |
| | 1,162,591 | 1,212,720 |
| Less: accumulated depreciation | (189,014) | (194,777) |
| | $ 973,577 | $ 1,017,943 |

Depreciation expense for the three months ended March 31, 2019 and 2018 was $13.6 million and $13.3 million, respectively.

## NOTE 6 - LOAN HELD FOR INVESTMENT, NET

In 2011, the Company purchased, at a discount, one performing promissory note (the "Trail Ridge Note”), which is secured by a first priority mortgage on a multifamily rental apartment community. The contract purchase price for the Trail Ridge Note was $700,000, excluding closing costs. As of both March 31, 2019 and December 31, 2018, the Trail Ridge Note was both current and performing.

The following table presents details of the balance and terms of the Trail Ridge Note as of March 31, 2019 and December 31, 2018 (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Unpaid principal balance | $ 904 | $ 912 |
| Unamortized discount and acquisition costs | (106) | (119) |
| Net book value | $ 798 | $ 793 |
| Maturity date | 10/28/2021 | |
| Interest rate | 7.5% | |
| Average monthly payment | $ 8 | |

The Company has evaluated the loan for impairment and determined that, as of March 31, 2019, it was not impaired. There were no allowances for credit losses as of both March 31, 2019 and December 31, 2018. There were no charge-offs for both the three months ended March 31, 2019 and March 31, 2018.

## NOTE 7 - DISPOSITION OF PROPERTIES AND DECONSOLIDATION OF INTERESTS

The Company disposed of one property during the three months ended March 31, 2019. The following table presents details of the Company's disposition activity during the three months ended March 31, 2019 (in thousands):

| | | | | Net Gain on Disposition of Property |
|---|---|---|---|---|
| Multifamily Community | Location | Sale Date | Contract Sales Price | Three Months Ended March 31, 2019 |
| *2019 Dispositions:* | | | | |
| Williamsburg | Cincinnati, OH | March 8, 2019 | $ 70,000 | $ 34,575 |

The following table presents the Company's revenues and net income attributable to the property sold, which includes gain on sale, for the three months ended March 31, 2019 (in thousands):

| | Revenues Attributable to Property Sold | Net Income Attributable to Property Sold |
|---|---|---|
| Multifamily Community | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2019 |
| *2019 Dispositions:* | | |
| Williamsburg | $ 2,168 | $ 33,120 |

## NOTE 8 - IDENTIFIED INTANGIBLE ASSETS, NET AND GOODWILL

Identified intangible assets, net, relate to in-place apartment unit rental and antennae leases. The net carrying value of the acquired in-place leases totaled $23,000 and $26,000 as of March 31, 2019 and December 31, 2018, respectively, net of accumulated amortization of $27.4 million and $29.3 million, respectively. The weighted-average remaining life of the acquired apartment unit rental leases was zero months for both March 31, 2019 and December 31, 2018. Expected amortization for the antennae leases at the Vista Apartment Homes for the years ending March 31, 2020 through March 31, 2022 are $12,580, $7,150, $3,361, respectively, and none thereafter. Amortization of the apartment unit rental and antennae leases for the three months ended March 31, 2019 and 2018 was approximately $3,000 and $1.1 million, respectively.

The following table presents the Company's expected amortization for the rental and antennae leases for the next five 12-month periods ending March 31, and thereafter (in thousands):

| | | |
|---|---|---|
| 2020 | $ | 13 |
| 2021 | | 7 |
| 2022 | | 3 |
| 2023 | | — |
| 2024 | | — |
| Thereafter | | — |
| | $ | 23 |

As of both March 31, 2019 and December 31, 2018, the Company had $477,000 of goodwill included on the consolidated balance sheets.

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## NOTE 9 - MORTGAGE NOTES PAYABLE, NET

The following table presents a summary of the Company's mortgage notes payable, net (in thousands):

| | March 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Collateral | Outstanding Borrowings | Premium (Discount) | Deferred finance costs, net | Carrying Value | Outstanding Borrowings | Premium (Discount) | Deferred finance costs, net | Carrying Value |
| Vista Apartment Homes | $ 14,532 | $ — | $ (95) | $ 14,437 | $ 14,603 | $ — | $ (104) | $ 14,499 |
| Cannery Lofts | 13,100 | — | (129) | 12,971 | 13,100 | — | (136) | 12,964 |
| Trailpoint at the Woodlands | 17,965 | — | (146) | 17,819 | 18,046 | — | (154) | 17,892 |
| Verona Apartment Homes | 32,970 | — | (405) | 32,565 | 32,970 | — | (419) | 32,551 |
| Skyview Apartment Homes | 28,400 | — | (352) | 28,048 | 28,400 | — | (364) | 28,036 |
| Maxwell Townhomes | 12,997 | — | (74) | 12,923 | 13,069 | — | (81) | 12,988 |
| Pinehurst | 7,192 | — | (99) | 7,093 | 7,220 | — | (105) | 7,115 |
| Evergreen at Coursey Place | 26,014 | 50 | (48) | 26,016 | 26,146 | 55 | (54) | 26,147 |
| Pines of York | 14,344 | (158) | (30) | 14,156 | 14,422 | (173) | (33) | 14,216 |
| The Estates at Johns Creek | 47,314 | — | (141) | 47,173 | 47,576 | — | (170) | 47,406 |
| Perimeter Circle | 26,115 | — | (344) | 25,771 | 26,115 | — | (356) | 25,759 |
| Perimeter 5550 | 20,630 | — | (315) | 20,315 | 20,630 | — | (327) | 20,303 |
| Aston at Cinco Ranch | 22,379 | — | (138) | 22,241 | 22,497 | — | (152) | 22,345 |
| Sunset Ridge 1 | 18,665 | 104 | (81) | 18,688 | 18,788 | 121 | (96) | 18,813 |
| Sunset Ridge 2 | 2,815 | 14 | (13) | 2,816 | 2,831 | 16 | (13) | 2,834 |
| Calloway at Las Colinas | 33,493 | — | (162) | 33,331 | 33,681 | — | (177) | 33,504 |
| South Lamar Village | 11,839 | — | (16) | 11,823 | 11,909 | — | (29) | 11,880 |
| Heritage Pointe | 25,222 | — | (232) | 24,990 | 25,360 | — | (242) | 25,118 |
| The Bryant at Yorba Linda | 66,883 | — | (247) | 66,636 | 67,092 | — | (301) | 66,791 |
| Point Bonita Apartment Homes | 26,012 | 1,286 | (221) | 27,077 | 26,121 | 1,359 | (233) | 27,247 |
| The Westside Apartments | 36,427 | — | (329) | 36,098 | 36,624 | — | (341) | 36,283 |
| Tech Center Square | 11,883 | — | (124) | 11,759 | 11,933 | — | (132) | 11,801 |
| Williamsburg | — | — | — | — | 53,995 | — | (582) | 53,413 |
| Retreat at Rocky Ridge | 11,346 | — | (174) | 11,172 | 11,375 | — | (183) | 11,192 |
| Providence in the Park | 46,929 | — | (412) | 46,517 | 47,000 | — | (434) | 46,566 |
| Green Trails Apartment Homes | 61,500 | — | (532) | 60,968 | 61,500 | — | (559) | 60,941 |
| Meridian Pointe | 39,500 | — | (472) | 39,028 | 39,500 | — | (495) | 39,005 |
| Terraces at Lake Mary | 32,250 | — | (304) | 31,946 | 32,250 | — | (318) | 31,932 |
| Courtney Meadows Apartments | 27,100 | — | (298) | 26,802 | 27,100 | — | (311) | 26,789 |
| Addison at Sandy Springs | 22,750 | — | (280) | 22,470 | 22,750 | — | (292) | 22,458 |
| Bristol at Grapevine | 32,922 | — | (350) | 32,572 | 32,922 | — | (365) | 32,557 |
| | $ 791,488 | $ 1,296 | $ (6,563) | $ 786,221 | $ 847,525 | $ 1,378 | $ (7,558) | $ 841,345 |

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The following table presents additional information about the Company's mortgage notes payable, net (in thousands, except percentages) as of March 31, 2019:

| Collateral | Maturity Date | Annual Interest Rate | | Average Monthly Debt Service | Average Monthly Escrow |
|---|---|---|---|---|---|
| Vista Apartment Homes | 1/1/2022 | 4.78% | (1)(5) | $ 79 | $ 17 |
| Cannery Lofts | 11/1/2023 | 5.03% | (1)(3) | 52 | 26 |
| Trailpoint at the Woodlands | 11/1/2023 | 4.90% | (1)(4) | 95 | 47 |
| Verona Apartment Homes | 10/1/2026 | 4.85% | (1)(3) | 125 | 40 |
| Skyview Apartment Homes | 10/1/2026 | 4.85% | (1)(3) | 108 | 24 |
| Maxwell Townhomes | 1/1/2022 | 4.32% | (2)(5) | 71 | 78 |
| Pinehurst | 11/1/2023 | 4.91% | (1)(3) | 38 | 15 |
| Evergreen at Coursey Place | 8/1/2021 | 5.07% | (2)(5) | 154 | 37 |
| Pines of York | 12/1/2021 | 4.46% | (2)(5) | 80 | 25 |
| The Estates at Johns Creek | 7/1/2020 | 3.38% | (2)(5) | 221 | 79 |
| Perimeter Circle | 1/1/2026 | 3.99% | (1)(3) | 89 | 45 |
| Perimeter 5550 | 1/1/2026 | 3.99% | (1)(3) | 70 | 33 |
| Aston at Cinco Ranch | 10/1/2021 | 4.34% | (2)(5) | 120 | 70 |
| Sunset Ridge 1 | 11/1/2020 | 4.58% | (2)(5) | 113 | 89 |
| Sunset Ridge 2 | 11/1/2020 | 4.54% | (2)(5) | 16 | — |
| Calloway at Las Colinas | 12/1/2021 | 3.87% | (2)(5) | 171 | 115 |
| South Lamar Village | 8/1/2019 | 3.64% | (2)(5) | 59 | 57 |
| Heritage Pointe | 4/1/2025 | 4.37% | (1)(4) | 130 | 43 |
| The Bryant at Yorba Linda | 6/1/2020 | 4.24% | (1)(3) | 310 | — |
| Point Bonita Apartment Homes | 10/1/2023 | 5.33% | (2)(5) | 152 | 61 |
| The Westside Apartments | 9/1/2026 | 4.61% | (1)(3) | 195 | 69 |
| Tech Center Square | 6/1/2023 | 5.07% | (1)(5) | 65 | 24 |
| Retreat at Rocky Ridge | 1/1/2024 | 4.95% | (1)(3) | 58 | 23 |
| Providence in the Park | 2/1/2024 | 4.79% | (1)(3) | 237 | 138 |
| Green Trails Apartment Homes | 6/1/2024 | 4.48% | (1)(3) | 278 | 79 |
| Meridian Pointe | 8/1/2024 | 4.39% | (1)(3) | 167 | 56 |
| Terraces at Lake Mary | 9/1/2024 | 4.40% | (1)(3) | 133 | 46 |
| Courtney Meadows Apartments | 1/1/2025 | 4.33% | (1)(3) | 97 | 51 |
| Addison at Sandy Springs | 5/1/2025 | 4.25% | (1)(3) | 75 | 38 |
| Bristol at Grapevine | 5/1/2025 | 4.20% | (1)(3) | 107 | 78 |

(1) Variable rate based on one-month LIBOR of 2.49450% (as of March 31, 2019) plus a fixed margin.
(2) Fixed rate.
(3) Monthly interest-only payment currently required.
(4) Monthly fixed principal plus interest payment required.
(5) Fixed monthly principal and interest payment required.

Loans assumed as part of the Point Bonita Apartment Homes, South Lamar Village, Paladin (Pinehurst, Retreat of Shawnee, Evergreen at Coursey Place, Pines of York), Sunset Ridge and Maxwell Townhomes acquisitions were recorded at their fair values. The premium or discount is amortized over the remaining term of the loans and included in interest expense. For the three months ended March 31, 2019 and 2018, interest expense was reduced by $83,000 and $91,000, respectively, for the amortization of the premium or discount.

All mortgage notes are collateralized by a first mortgage lien on the assets of the respective property as named in the table above. The amount outstanding on the mortgages may be prepaid in full during the entire term with a prepayment penalty on the majority of mortgages held.

The following table presents the Company's annual principal payments on outstanding borrowings for each of the next five 12-month periods ending March 31, and thereafter (in thousands):

| | | |
|---|---|---|
| 2020 | $ | 21,860 |
| 2021 | | 143,195 |
| 2022 | | 127,330 |
| 2023 | | 10,021 |
| 2024 | | 132,928 |
| Thereafter | | 356,154 |
| | $ | 791,488 |

The mortgage notes payable are recourse only with respect to the properties that secure the notes, subject to certain limited standard exceptions, as defined in each mortgage note. These exceptions are referred to as “carveouts.” The Company has guaranteed the carveouts under mortgage notes by executing a guarantee with respect to the properties. In general, carveouts relate to damages suffered by the lender for a borrower’s failure to pay rents, insurance or condemnation proceeds to lender, failure to pay water, sewer and other public assessments or charges, failure to pay environmental compliance costs or to deliver books and records, in each case as required in the loan documents. The exceptions also require the Company to guarantee payment of audit costs, lender’s enforcement of its rights under the loan documents and payment of the loan if the borrower voluntarily files for bankruptcy or seeks reorganization, or if a related party of the borrower does so with respect to the subsidiary.

The Company may borrow an additional $7.5 million on the mortgage secured by The Bryant at Yorba Linda when certain debt service coverage and loan to value criteria are met. The Bryant at Yorba Linda mortgage loan includes a net worth and liquidity covenant. The Company was in compliance with all covenants related to this loan as of March 31, 2019.

Deferred financing costs incurred to obtain financing are amortized over the term of the related debt. During the three months ended March 31, 2019 and March 31, 2018, $1.0 million and $421,000, respectively, of amortization of deferred financing costs was included in interest expense. Accumulated amortization as of March 31, 2019 and December 31, 2018 was $5.3 million and $5.2 million, respectively.

The following table presents the Company's estimated amortization of the existing deferred financing costs for the next five 12-month periods ending March 31, and thereafter (in thousands):

| | | |
|---|---|---|
| 2020 | $ | 1,623 |
| 2021 | | 1,299 |
| 2022 | | 1,100 |
| 2023 | | 954 |
| 2024 | | 835 |
| Thereafter | | 752 |
| | $ | 6,563 |

**NOTE 10 - LEASES**

As the lessee, the Company’s operating leases primarily consist of a parking lot lease, a laundry equipment lease, and office equipment leases. These operating leases have remaining terms ranging from less than one year to 5 years. Some of the leases include options to extend the lease for up to an additional five years. Only those rental periods reasonably certain to be extended beyond the initial term expiration are included within the calculation of the operating lease liability. As of March 31, 2019, the payments due under the contractually-obligated portion of these leases totaled $522,000. The market rate is used for equipment leases, when readily determinable, in calculating the present value of lease payments. Otherwise, the incremental borrowing rate based on the information available at commencement date is used. As of March 31, 2019, the weighted average remaining lease term was 3.8 years and the weighted average discount rate was 4.23% for the Company’s operating leases. As of March 31, 2019, the Company included approximately $488,000 in its consolidated balance sheet for both operating lease right-of-use assets and operating lease liabilities. For the three months ended March 31, 2019, the Company’s lease expense was approximately $41,000, which is included in rental operating expenses in the consolidated statements of operations.

The following table presents the Company’s annual payments for the operating lease liabilities for each of the next five 12–month periods ending March 31, and thereafter (in thousands):

| | | |
|---|---|---|
| 2020 | $ | 157 |
| 2021 | | 142 |
| 2022 | | 107 |
| 2023 | | 92 |
| 2024 | | 31 |
| Thereafter | | — |
| | $ | 529 |

**NOTE 11 - ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the changes in each component of the Company's accumulated other comprehensive loss for the three months ended March 31, 2019 (in thousands):

| | | |
|---|---|---|
| Balance, January 1, 2019 | $ | (474) |
| Reclassification adjustment for realized loss on designated derivatives | | 172 |
| Designated derivatives, fair value adjustments | | (28) |
| Balance, March 31, 2019 | $ | (330) |

**NOTE 12 - CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In the ordinary course of its business operations, the Company has ongoing relationships with several related parties.

**Relationship with RAI and C-III**

*Property loss pool.* Until February 28, 2019, the Company's properties participated in a property loss self-insurance pool with other properties directly and indirectly managed by RAI and C-III, which was backed by a catastrophic insurance policy. Substantially all of the receivables from related parties represent insurance deposits held in escrow by RAI and C-III related to the self-insurance pool which will be returned to the Company. The pool covered losses up to $2.5 million, in aggregate, after a $25,000 deductible per incident. Claims beyond the insurance pool limits were covered by the catastrophic insurance policy, which covered claims up to $250 million, after either a $25,000 or a $100,000 deductible per incident, depending on the location and/or type of loss.

As of March 1, 2019, the Company now participates (with other properties directly or indirectly managed by RAI and C-III) only in the catastrophic insurance policy, which covers claims up to $250.0 million, after either a $25,000 or a $100,000 deductible per incident, depending on location and/or type of loss. Therefore, unforeseen or catastrophic losses in excess of the Company's insured limited could have a material adverse effect on the Company's financial condition and operating results.

*General liability loss pool.* The Company also participates (with other properties directly or indirectly managed by RAI and C-III) in a general liability policy. The insured limit for the general liability policy is $76 million in total claims, after a $25,000 deductible per incident.

*Internal audit*. RAI performs internal audit services for the Company.

*Directors and officers liability insurance.* The Company participates in a liability insurance program for directors and officers coverage with other C-III managed entities and subsidiaries for coverage up to $100.0 million. The Company paid premiums of $283,533 during the year ended December 31, 2018 in connection with this insurance program for an annual policy through September 2019.

*Other expenses.* The Company utilizes the services of The Planning and Zoning Resource Company, an affiliate of C-III, for zoning reports for acquisitions.

**Relationship with the Advisor**

In September 2009, the Company entered into an advisory agreement (the “Advisory Agreement”) pursuant to which the Advisor provides the Company with investment management, administrative and related services. The Advisory Agreement was amended in January 2010 and further amended in January 2011 and March 2015. The Advisory Agreement has a one -year term and renews for an unlimited number of successive one -year terms upon the approval of the conflicts committee of the Company's board of directors. The Company renewed the Advisory Agreement for another year on September 15, 2018. Under the Advisory Agreement, the Advisor receives fees and is reimbursed for its expenses as set forth below:

*Acquisition fees.* The Company pays the Advisor an acquisition fee of 2.0% of the cost of investments acquired on behalf of the Company, plus any capital expenditure reserves allocated, or the amount funded by the Company to acquire loans, including acquisition expenses and any debt attributable to such investments.

*Asset management fees.* The Company pays the Advisor a monthly asset management fee equal to one-twelfth of 1.0% of the higher of the cost or the independently appraised value of each asset, without deduction for depreciation, bad debts or other non-cash reserves. The asset management fee is based only on the portion of the costs or value attributable to the Company’s investment in an asset if the Company does not own all or a majority of an asset and does not manage or control the asset.

*Disposition fees.* The Advisor earns a disposition fee in connection with the sale of a property equal to the lesser of one-half of the aggregate brokerage commission paid, or if none is paid, 2.75% of the contract sales price.

*Debt financing fees.* The Advisor earns a debt financing fee equal to 0.5% of the amount available under any debt financing obtained for which it provided substantial services.

*Expense reimbursements.* The Company also pays directly or reimburses the Advisor for all of the expenses paid or incurred by the Advisor or its affiliates on behalf of the Company or in connection with the services provided to the Company in relation to its public offering, including its ongoing distribution reinvestment plan offering.

Reimbursements also include expenses the Advisor incurs in connection with providing services to the Company, including the Company’s allocable share of costs for Advisor personnel and overhead, out of pocket expenses incurred in connection with the selection and acquisition of properties or other real estate related debt investments, whether or not the Company ultimately acquires the investment. However, the Company will not reimburse the Advisor or its affiliates for employee costs in connection with services for which the Advisor earns acquisition or disposition fees.

**Relationship with Resource Real Estate Opportunity Manager**

The Manager manages the Company's real estate properties and real estate-related debt investments and coordinates the leasing of, and manages construction activities related to, some of the Company’s real estate properties pursuant to the terms of the management agreement with the Manager.

*Property management fees.* The Manager earns 4.5% of the gross receipts from the Company's properties, provided that for properties that are less than 75% occupied, the manager receives a minimum fee for the first 12 months of ownership for performing certain property management and leasing activities.

*Construction management fees.* The Manager earns a construction management fee of 5.0% of actual aggregate costs to construct improvements, or to repair, rehab or reconstruct a property.

*Debt servicing fees.* The Manager earns a debt servicing fee of 2.75% on payments received from loans held by the Company for investment.

*Information technology fees and operating expense reimbursement.* During the ordinary course of business, the Manager or other affiliates of RAI may pay certain shared information technology fees and operating expenses on behalf of the Company for which they are reimbursed.

**Relationship with Other Related Parties**

The Company utilizes the services of a printing company, Graphic Images, LLC (“Graphic Images”), whose principal owner is the father of RAI’s Chief Financial Officer.

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The following table presents the Company's amounts payable to and amounts receivable from such related parties (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Due from related parties: | | |
| RAI and affiliates | $ 51 | $ 123 |
| Due to related parties: | | |
| Advisor: | | |
| Operating expense reimbursements | 89 | 55 |
| Manager: | | |
| Property management fees | 508 | 520 |
| Other operating expense reimbursements | 151 | 344 |
| | $ 748 | $ 919 |

The following table presents the Company's fees earned by and expenses paid to such related parties (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Fees earned / expenses paid to related parties:** | | |
| Advisor: | | |
| Asset management fees [(2)] | $ 3,198 | $ 3,093 |
| Disposition fees [(3)] | 330 | — |
| Overhead allocation [(4)] | 1,050 | 1,124 |
| Internal audit [(4)] | 27 | 22 |
| Manager: | | |
| Property management fees [(2)] | $ 1,558 | $ 1,476 |
| Construction management fees [(1)] | 105 | 194 |
| Construction payroll reimbursements [(1)] | 36 | 41 |
| Operating expense reimbursements [(5)] | 117 | 143 |

(1) Included in Rental Properties, net on the consolidated balance sheets.
(2) Included in Management fees on the consolidated statements of operations and comprehensive income (loss).
(3) Included in Net gains on dispositions of properties on the consolidated statements of operations and comprehensive (loss) income.
(4) Included in General and administrative on the consolidated statements of operations and comprehensive income (loss).
(5) Included in Rental operating expenses on the consolidated statements of operations and comprehensive income (loss).

## NOTE 13 - EQUITY

### Preferred Stock

The Company’s charter authorizes the Company to issue 10.0 million shares of its $0.01 par value preferred stock. As of March 31, 2019 and December 31, 2018, no shares of preferred stock were issued and outstanding.

### Common Stock

As of March 31, 2019, the Company had an aggregate of 70,252,333 shares of its $0.01 par value common stock outstanding as follows (dollars in thousands):

| | Shares Issued | Gross Proceeds |
|---|---|---|
| Shares issued through private offering | 1,263,727 | $ 12,582 |
| Shares issued through primary public offering [(1)] | 62,485,461 | 622,077 |
| Shares issued through stock distributions | 2,132,266 | — |
| Shares issued through distribution reinvestment plan | 14,663,316 | 150,733 |
| Shares issued in conjunction with the Advisor's initial investment, net of 4,500 share conversion | 15,500 | 155 |
| Total | 80,560,270 | $ 785,547 |
| Shares redeemed and retired | (10,307,937) | |
| Total shares issued and outstanding as of March 31, 2019 | 70,252,333 | |

(1) Includes 276,056 shares issued to the Advisor.

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**Convertible Stock**

As of March 31, 2019 and December 31, 2018, the Company had 49,972 shares of $0.01 par value convertible stock outstanding of which the Advisor and affiliated persons own 49,063 shares and outside investors own 909 shares. The convertible stock will convert into shares of the Company's common stock upon the occurrence of (a) the Company having paid distributions to common stockholders that in the aggregate equal 100% of the price at which the Company originally sold the shares plus an amount sufficient to produce a 10% cumulative, non-compounded annual return on the shares at that price; or (b) if the Company lists its common stock on a national securities exchange and, on the 31st trading day after listing, the Company's value based on the average trading price of its common stock since the listing, plus prior distributions, combine to meet the same 10% return threshold.

Each of these two events is a "Triggering Event." Upon a Triggering Event, the Company's convertible stock will, unless its advisory agreement has been terminated or not renewed on account of a material breach by its Advisor, generally be converted into a number of shares of common stock equal to 1 / 50,000 of the quotient of:

(A) the lesser of

  (i) 25% of the amount, if any, by which

    (1) the value of the Company as of the date of the event triggering the conversion plus the total distributions paid to its stockholders through such date on the then-outstanding shares of its common stock exceeds

    (2) the sum of the aggregate issue price of those outstanding shares plus a 10% cumulative, non-compounded, annual return on the issue price of those outstanding shares as of the date of the event triggering the conversion, or

  (ii) 15% of the amount, if any, by which

    (1) the value of the Company as of the date of the event triggering the conversion plus the total distributions paid to its stockholders through such date on the then-outstanding shares of its common stock exceeds

    (2) the sum of the aggregate issue price of those outstanding shares plus a 6% cumulative, non-compounded, annual return on the issue price of those outstanding shares as of the date of the event triggering the conversion, divided by

(B) the value of the Company divided by the number of outstanding shares of common stock, in each case, as of the date of the event triggering the conversion.

As of March 31, 2019, no Triggering Event has occurred.

**Redemption of Securities**

During the three months ended March 31, 2019, the Company redeemed shares of its outstanding common stock as follows (in thousands, except per share data):

| Period | Total Number of Shares Redeemed (1) | | Average Price Paid per Share |
|---|---|---|---|
| January 2019 | — | $ | — |
| February 2019 | — | $ | — |
| March 2019 | 788,871 | $ | 10.29 |
| | 788,871 | | |

(1) All redemptions of equity securities by the Company during the three months ended March 31, 2019 were made pursuant to the Company's share redemption program.

All redemptions requests tendered were honored during the three months ended March 31, 2019.

The Company will not redeem in excess of 5% of the weighted-average number of shares outstanding during the 12 -month period immediately prior to the effective date of redemption. The Company's board of directors will determine at least quarterly whether it has sufficient excess cash to repurchase shares. Generally, the cash available for redemptions will be limited to proceeds from the Company's distribution reinvestment plan plus, if the Company has positive operating cash flow from the previous fiscal year, 1% of all operating cash flow from the previous year.

The Company currently redeems shares at a purchase price of $10.29 per share, which is equal to 95% of the current net asset value per share redeemed, except for redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility.

The Company's board of directors, in its sole discretion, may suspend, terminate or amend the Company's share redemption program without stockholder approval upon 30 days' notice if it determines that such suspension, termination or amendment is in the Company's best interest. The Company's board may also reduce the number of shares purchased under the share redemption program if it determines the funds otherwise available to fund the Company's share redemption program are needed for other purposes. These limitations apply to all redemptions, including redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility.

**Distributions**

For the three months ended March 31, 2019, the Company paid aggregate distributions of $10.6 million, including $4.3 million of distributions paid in cash and $6.3 million of distributions reinvested in shares of common stock through the Company's distribution reinvestment plan, as follows (in thousands):

| Record Date | Per Common Share | Distribution Date | Distributions reinvested in Shares of Common Stock | Net Cash Distribution | Total Aggregate Distribution |
|---|---|---|---|---|---|
| January 30, 2019 | $ 0.05 | January 31, 2019 | $ 2,108 | $ 1,414 | $ 3,522 |
| February 27, 2019 | 0.05 | February 28, 2019 | 2,100 | 1,431 | 3,531 |
| March 28, 2019 | 0.05 | March 29, 2019 | 2,090 | 1,413 | 3,503 |
| | $ 0.15 | | $ 6,298 | $ 4,258 | $ 10,556 |

## NOTE 14 - FAIR VALUE MEASURES AND DISCLOSURES

In analyzing the fair value of its investments accounted for on a fair value basis, the Company follows the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company determines fair value based on quoted prices when available or, if quoted prices are not available, through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The fair value of cash, tenant receivables and accounts payable, approximate their carrying value due to their short nature. The hierarchy followed defines three levels of inputs that may be used to measure fair value:

*Level 1* - Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2* - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

*Level 3* - Unobservable inputs that reflect the entity’s own assumptions about the assumptions that market participants would use in the pricing of the asset or liability and are consequently not based on market activity, but rather through particular valuation techniques.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter; depending on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. However, the Company expects that changes in classifications between levels will be rare.

Derivatives (interest rate caps), which are reported at fair value in the consolidated balance sheets, are valued by a third-party pricing agent using an income approach with models that use, as their primary inputs, readily observable market parameters. This valuation process considers factors including interest rate yield curves, time value, credit and volatility factors. (Level 2)

The following table presents information about the Company's assets measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **March 31, 2019** | | | | |
| Assets: | | | | |
| Interest rate caps | $ — | $ 23 | $ — | $ 23 |
| | $ — | $ 23 | $ — | $ 23 |
| **December 31, 2018** | | | | |
| Assets: | | | | |
| Interest rate caps | $ — | $ 28 | $ — | $ 28 |
| | $ — | $ 28 | $ — | $ 28 |

The following table presents the carrying amount and estimated fair value of the Company’s loan held for investment, net, and mortgage notes payable-outstanding borrowings (in thousands):

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Loan held for investment, net | $ 798 | $ 946 | $ 793 | $ 948 |
| Mortgage notes payable- outstanding borrowings | $ (791,488) | $ (776,248) | $ (847,525) | $ (840,914) |

The fair value of the loan held for investment, net was estimated using rates available to the Company for debt with similar terms and remaining maturities. (Level 3)

The carrying amount of the mortgage notes payable presented is the outstanding borrowings excluding premium or discount and deferred finance costs, net. The fair value of the mortgage notes payable was estimated using rates available to the Company for debt with similar terms and remaining maturities. (Level 3)

## NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES

***Risk Management Objective of Using Derivatives***

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s investments and borrowings.

As a condition to certain of the Company’s financing facilities, from time to time the Company may be required to enter into certain derivative transactions as may be required by the lender. These transactions would generally be in line with the Company’s own risk management objectives and also serve to protect the lender.

***Cash Flow Hedges of Interest Rate Risk***

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company entered into a total of 19 interest rate caps that were designated as cash flow hedges. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2019, such derivatives were used to hedge the variable cash flows, indexed to USD-LIBOR, associated with existing variable-rate loan agreements. During the three months ended March 31, 2019 and 2018, the Company had losses of $172,410 and $37,000, respectively, due to amortization of premiums paid for interest rate caps.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. During the next 12 months, the Company estimates that an additional $202,660 will be reclassified as an increase to interest expense.

The following table presents the Company's outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk as of March 31, 2019 (dollars in thousands):

| Interest Rate Derivative | Number of Instruments | Notional Amount | Maturity Dates |
| --- | --- | --- | --- |
| Interest Rate Caps | 19 | $ 499,721 | April 1, 2019 to April 1, 2023 |

***Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet***

The following table presents the fair value of the Company’s derivative financial instruments on the consolidated balance sheets as of March 31, 2019 and December 31, 2018 (in thousands):

| Asset Derivatives | | | | Liability Derivatives | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| March 31, 2019 | | December 31, 2018 | | March 31, 2019 | | December 31, 2018 | |
| Balance Sheet | Fair Value | Balance Sheet | Fair Value | Balance Sheet | Fair Value | Balance Sheet | Fair Value |
| Prepaid expenses and other assets | $ 23 | Prepaid expenses and other assets | $ 28 | — | $ — | — | $ — |

**NOTE 16 - OPERATING EXPENSE LIMITATION**

Under its charter, the Company must limit its total operating expenses to the greater of 2% of its average invested assets or 25% of its net income for the four most recently completed fiscal quarters, unless the conflicts committee of the Company’s board of directors has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expenses for the four quarters ended March 31, 2019 were in compliance with the charter-imposed limitation.

**NOTE 17 - SUBSEQUENT EVENTS**

On April 12, 2019, the Company's Board of Directors declared a $0.05 per share cash distribution to its common stockholders of record at the close of business on each of the following record dates: April 29, 2019, May 30, 2019, and June 27, 2019. Such distributions were paid or will be paid on April 30, 2019, May 31, 2019, and June 28, 2019, respectively.

The Company has evaluated subsequent events and determined that no events have occurred, other than those disclosed above or elsewhere in the financial statements, which would require an adjustment to or additional disclosure in the consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the accompanying financial statements of Resource Real Estate Opportunity REIT, Inc. and the notes thereto. See also “Cautionary Note Regarding Forward-Looking Statements” preceding Part I, as well as the notes to our financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations provided in our Annual Report on Form 10-K for the year ended December 31, 2018. As used herein, the terms “we,” “our” and “us” refer to Resource Real Estate Opportunity REIT, Inc., a Maryland corporation, and, as required by context, Resource Real Estate Opportunity OP, LP, a Delaware limited partnership, and to their subsidiaries.

### Overview

We were formed on June 3, 2009. Resource Real Estate Opportunity Advisor, LLC (the “Advisor”), an indirect wholly-owned subsidiary of Resource America, Inc. (“RAI”) has been engaged to manage our day-to-day operations.

RAI is a wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate investment management and services company engaged in a broad range of activities. C-III controls our Advisor and Resource Real Estate Opportunity Manager, LLC (the "Manager"), our property manager. C-III also controls all of the shares of common stock held by the Advisor.

We have acquired a diversified portfolio of U.S. commercial real estate and real estate-related debt. Our portfolio consists of commercial real estate assets, principally (i) multifamily rental properties purchased as non-performing or distressed loans or as real estate owned by financial institutions and (ii) multifamily rental properties to which we have or can add value with a capital infusion (referred to as “value add properties”). However, we are not limited in the types of real estate and real estate-related assets in which we may invest or whether we may invest in equity or debt secured by real estate and, accordingly, we may invest in other real estate assets or debt secured by real estate assets.

The primary portion of our initial public offering commenced on June 16, 2010 and closed on December 13, 2013. We continue to offer shares to our existing stockholders pursuant to our distribution reinvestment plan. We describe these offerings further in “Liquidity and Capital Resources” below.

### Results of Operations

As of March 31, 2019, we owned interests in a total of 29 multifamily properties. We also owned one performing loan. Since our inception, we have acquired interests in 54 multifamily properties. As of March 31, 2019, we had sold our interests in 25 of those properties.

Our management is not aware of any material trends or uncertainties, favorable, or unfavorable, other than national economic conditions affecting our targeted portfolio, the multifamily residential housing industry and real estate generally, which may reasonably be expected to have a material impact on either capital resources or the revenues or incomes to be derived from the operation of such assets or those that we expect to acquire.

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**Three Months Ended March 31, 2019 Compared to the Three Months Ended March 31, 2018:**

The following table sets forth the results of our operations (in thousands):

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| **Revenues:** | | |
| Rental income | $ 32,252 | $ 30,416 |
| Utility income | 2,299 | 1,994 |
| Other ancillary fees | 585 | 487 |
| Interest and dividend income | 94 | 74 |
| Total revenues | 35,230 | 32,971 |
| **Expenses:** | | |
| Rental operating - expenses | 6,869 | 6,850 |
| Rental operating - payroll | 3,556 | 3,379 |
| Rental operating - real estate taxes | 4,384 | 3,855 |
| Subtotal - Rental operating expenses | 14,809 | 14,084 |
| Acquisition costs | — | 9 |
| Management fees | 4,756 | 4,569 |
| General and administrative | 2,772 | 2,843 |
| Loss on disposal of assets | 151 | 108 |
| Depreciation and amortization expense | 13,597 | 14,337 |
| Total expenses | 36,085 | 35,950 |
| Loss before net gains on dispositions | (855) | (2,979) |
| Net gain on disposition of property | 34,575 | — |
| Income (loss) before other income (expense) | 33,720 | (2,979) |
| **Other income (expense):** | | |
| Interest expense | (11,075) | (8,123) |
| Insurance proceeds in excess of cost basis | 536 | 153 |
| Total other income (expense) | (10,539) | (7,970) |
| **Net income (loss) attributable to common stockholders** | $ 23,181 | $ (10,949) |

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The following table presents the results of operations separated into three categories: the results of operations of the 27 properties and one performing loan that we owned for the entirety of both periods presented, properties purchased or sold during either of the periods presented, and company level revenues and expenses for the three months ended March 31, 2019 and 2018 (in thousands):

| | For the Three Months Ended March 31, 2019 | | | | For the Three Months Ended March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Properties owned both periods | Properties purchased/sold during either period | Company level | Total | Properties owned both periods | Properties purchased/sold during either period | Company level | Total |
| **Revenues:** | | | | | | | | |
| Rental income | $ 28,709 | $ 3,543 | $ — | $ 32,252 | $ 27,052 | $ 3,364 | $ — | $ 30,416 |
| Utility income | 1,808 | 491 | — | 2,299 | 1,723 | 271 | — | 1,994 |
| Other ancillary fees | 486 | 99 | — | 585 | 404 | 83 | — | 487 |
| Interest and dividend income | 56 | 1 | 37 | 94 | 42 | — | 32 | 74 |
| Total revenues | 31,059 | 4,134 | 37 | 35,230 | 29,221 | 3,718 | 32 | 32,971 |
| **Expenses:** | | | | | | | | |
| Rental operating - expenses | 5,679 | 1,190 | — | 6,869 | 5,598 | 1,249 | 3 | 6,850 |
| Rental operating - payroll | 2,966 | 590 | — | 3,556 | 2,847 | 532 | — | 3,379 |
| Rental operating- real estate taxes | 3,980 | 404 | — | 4,384 | 3,561 | 294 | — | 3,855 |
| Subtotal - Rental operating expenses | 12,625 | 2,184 | — | 14,809 | 12,006 | 2,075 | 3 | 14,084 |
| Acquisition costs | — | — | — | — | 9 | — | — | 9 |
| Management fees | 1,387 | 171 | 3,198 | 4,756 | 1,298 | 178 | 3,093 | 4,569 |
| General and administrative | 794 | 173 | 1,805 | 2,772 | 745 | 189 | 1,909 | 2,843 |
| Loss on disposal of assets | 100 | 51 | — | 151 | 95 | 13 | — | 108 |
| Depreciation and amortization expense | 12,537 | 1,060 | — | 13,597 | 13,176 | 1,161 | — | 14,337 |
| Total expenses | 27,443 | 3,639 | 5,003 | 36,085 | 27,329 | 3,616 | 5,005 | 35,950 |
| Loss before net gains on dispositions | 3,616 | 495 | (4,966) | (855) | 1,892 | 102 | (4,973) | (2,979) |
| Net gain on disposition of property | — | 34,575 | — | 34,575 | — | — | — | — |
| Income (loss) before other (expense) income | 3,616 | 35,070 | (4,966) | 33,720 | 1,892 | 102 | (4,973) | (2,979) |
| **Other (expense) income:** | | | | | | | | |
| Interest expense | (8,551) | (2,524) | — | (11,075) | (7,348) | (775) | — | (8,123) |
| Insurance proceeds in excess of cost basis | 523 | 13 | — | 536 | 71 | 82 | — | 153 |
| Total other (expense) income | (8,028) | (2,511) | — | (10,539) | (7,277) | (693) | — | (7,970) |
| **Net (loss) income attributable to common stockholders** | $ (4,412) | $ 32,559 | $ (4,966) | $ 23,181 | $ (5,385) | $ (591) | $ (4,973) | $ (10,949) |

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**Revenues:** The $1.7 million increase in rental revenues for the 27 properties we owned during both the three months ended March 31, 2019 and March 31, 2018 reflects the implementation of our investment strategy to increase monthly rental income after renovating and stabilizing operations and was primarily comprised of:

| Multifamily Community | Rental Increase (in thousands) | Increase in Occupancy | Increase in Effective Monthly Revenue Per Unit (in dollars) |
|---|---|---|---|
| The Bryant at Yorba Linda | $ 281 | 3.1% | $ 187 |
| Green Trails Apartments | 173 | 0.8% | 130 |
| Heritage Pointe | 147 | 1.7% | 98 |
| Village of Bonita Glen | 134 | 1.6% | 133 |
| The Estates at Johns Creek | 105 | 2.8% | 45 |
| Providence in the Park | 105 | 1.0% | 58 |
| Meridian Pointe | 101 | 1.6% | 82 |
| Skyview Apartment Homes | 95 | 3.7% | 99 |
| South Lamar Village | 88 | 2.7% | 115 |
| Verona Apartment Homes | 76 | 2.6% | 60 |
| All other, net | 352 | | |
| | $ 1,657 | | |

**Expenses:** Our total rental operating expenses for the 27 properties we owned during both three month periods presented increased by approximately $619,000 during the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, primarily driven by an increase of $419,000 in real estate tax expense, which is partially due to higher real property assessments. Additionally, real estate tax expense for the first quarter of 2018 was driven lower by a large real estate tax refund for Sunset Ridge related to prior years that was settled in January 2018.

Total depreciation and amortization expense is comprised of the depreciation on our rental properties and amortization of intangible assets related to in-place leases, which are amortized over a period of approximately six to eight months after acquisition. The increases (decreases) in the components of depreciation and amortization during the three months ended March 31, 2019, as compared to the three months ended March 31, 2018, were as follows (in thousands):

| | Properties owned both periods | Properties purchased/sold during either period | Total |
|---|---|---|---|
| Depreciation | $ 441 | $ (101) | $ 340 |
| Amortization of intangibles | (1,080) | — | (1,080) |
| | $ (639) | $ (101) | $ (740) |

The overall increase in depreciation was due to the three property acquisitions as well as $20.5 million in capital improvements since March 31, 2018 made in accordance with our planned renovations. The overall decrease in amortization of intangibles was due to the amortization of in-place leases during the three months ended March 31, 2018 on the three properties purchased during the twelve months ended December 31, 2017, all of which were fully amortized during the twelve months ended December 31, 2018.

Net gain on disposition of property increased by $34.6 million for the three months ended March 31, 2019, which had one disposition, as compared to the three months ended March 31, 2018, which had no dispositions, as detailed below (in thousands):

| | | | | Net Gain on Disposition of Property |
|---|---|---|---|---|
| Multifamily Community | Location | Sale Date | Contract Sales Price | Three Months Ended March 31,2019 |
| *2019 Dispositions:* | | | | |
| Williamsburg | Cincinnati, OH | March 8, 2019 | $ 70,000 | $ 34,575 |

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Interest expense increased by $3.0 million for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018, which is due to an increase of $72.3 million in additional outstanding borrowings obtained subsequent to March 31, 2018 as well as rising interest rates. Additionally, approximately $1.1 million of the increase relates to loan-related costs due to the sale of Williamsburg in March 2019.

**Liquidity and Capital Resources**

We have derived the capital required to purchase real estate investments and conduct our operations from the proceeds of our private and public offerings, secured financings from banks or other lenders, proceeds from the sale of real estate, and cash flows generated from our operations.

We initially allocated a portion of the funds we raised in our initial public offering to a reserve to support the maintenance and viability of the properties we have acquired and those properties that we may acquire in the future in order to preserve capital for our investors. If these allocated amounts and any other available income become insufficient to cover our operating expenses and liabilities, it may be necessary to obtain additional funds by borrowing, refinancing properties or liquidating our investment in one or more properties, debt investments or other assets we may hold. We cannot assure you that we will be able to access additional funds upon acceptable terms when we need them.

Capital *Expenditures*

We deployed a total of $2.9 million during the three months ended March 31, 2019 for capital expenditures. The properties in which we deployed the most capital during the three months ended March 31, 2019 are listed separately and the capital expenditures made on all other properties are aggregated in "All other properties" below (in thousands):

| **Multifamily Community** | **Capital deployed during the three months ended March 31, 2019** | **Remaining capital budgeted** |
|---|---|---|
| The Bryant at Yorba Linda | $ 450 | $ 5,004 |
| The Westside Apt Homes | 335 | 379 |
| Bristol Grapevine | 286 | 1,528 |
| Heritage Pointe | 252 | 1,505 |
| Courtney Meadows | 199 | 3,101 |
| Providence in the Park | 197 | 1,886 |
| Williamsburg | 194 | — |
| Terraces at Lake Mary | 176 | 2,216 |
| Addison at Sandy Springs | 170 | 1,859 |
| The Estates At Johns Creek | 108 | 293 |
| All other properties | 538 | 5,719 |
| | $ 2,905 | |

*Initial Public Offering*

The primary portion of our initial public offering closed on December 13, 2013. On December 26, 2013, the unsold primary offering shares were deregistered and, on December 30, 2013, the registration of the shares issuable pursuant to the distribution reinvestment plan was continued pursuant to a Registration Statement on Form S-3. A new Registration Statement on Form S-3 was filed in May 2016 to continue the distribution reinvestment plan offering. We continue to offer up to $120.0 million of shares of common stock pursuant to our distribution reinvestment plan under which our stockholders may elect to have distributions reinvested in additional shares at $10.29 per share ($10.26 per share prior to March 25, 2019) which is 95% of our current estimated value per share.

*Gross Offering Proceeds*

As of March 31, 2019, shares of our $0.01 par value common stock have been issued as follows (dollars in thousands):

| | Shares Issued | Gross Proceeds |
|---|---|---|
| Shares issued through private offering | 1,263,727 | $ 12,582 |
| Shares issued through primary public offering (1) | 62,485,461 | 622,077 |
| Shares issued through stock distributions | 2,132,266 | — |
| Shares issued through distribution reinvestment plan | 14,663,316 | 150,733 |
| Shares issued in conjunction with the Advisor's initial investment, net of 4,500 share conversion | 15,500 | 155 |
| Total | 80,560,270 | $ 785,547 |
| Shares redeemed and retired | (10,307,937) | |
| Total shares issued and outstanding as of March 31, 2019 | 70,252,333 | |

(1) Includes 276,056 shares issued to the Advisor.

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*Mortgage Debt*

The following table presents a summary of our mortgage notes payable, net (in thousands):

| | March 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **Collateral** | **Outstanding Borrowings** | **Premium (Discount)** | **Deferred finance costs, net** | **Carrying Value** | **Outstanding Borrowings** | **Premium (Discount)** | **Deferred finance costs, net** | **Carrying Value** |
| Vista Apartment Homes | $ 14,532 | $ — | $ (95) | $ 14,437 | $ 14,603 | $ — | $ (104) | $ 14,499 |
| Cannery Lofts | 13,100 | — | (129) | 12,971 | 13,100 | — | (136) | 12,964 |
| Trailpoint at the Woodlands | 17,965 | — | (146) | 17,819 | 18,046 | — | (154) | 17,892 |
| Verona Apartment Homes | 32,970 | — | (405) | 32,565 | 32,970 | — | (419) | 32,551 |
| Skyview Apartment Homes | 28,400 | — | (352) | 28,048 | 28,400 | — | (364) | 28,036 |
| Maxwell Townhomes | 12,997 | — | (74) | 12,923 | 13,069 | — | (81) | 12,988 |
| Pinehurst | 7,192 | — | (99) | 7,093 | 7,220 | — | (105) | 7,115 |
| Evergreen at Coursey Place | 26,014 | 50 | (48) | 26,016 | 26,146 | 55 | (54) | 26,147 |
| Pines of York | 14,344 | (158) | (30) | 14,156 | 14,422 | (173) | (33) | 14,216 |
| The Estates at Johns Creek | 47,314 | — | (141) | 47,173 | 47,576 | — | (170) | 47,406 |
| Perimeter Circle | 26,115 | — | (344) | 25,771 | 26,115 | — | (356) | 25,759 |
| Perimeter 5550 | 20,630 | — | (315) | 20,315 | 20,630 | — | (327) | 20,303 |
| Aston at Cinco Ranch | 22,379 | — | (138) | 22,241 | 22,497 | — | (152) | 22,345 |
| Sunset Ridge 1 | 18,665 | 104 | (81) | 18,688 | 18,788 | 121 | (96) | 18,813 |
| Sunset Ridge 2 | 2,815 | 14 | (13) | 2,816 | 2,831 | 16 | (13) | 2,834 |
| Calloway at Las Colinas | 33,493 | — | (162) | 33,331 | 33,681 | — | (177) | 33,504 |
| South Lamar Village | 11,839 | — | (16) | 11,823 | 11,909 | — | (29) | 11,880 |
| Heritage Pointe | 25,222 | — | (232) | 24,990 | 25,360 | — | (242) | 25,118 |
| The Bryant at Yorba Linda | 66,883 | — | (247) | 66,636 | 67,092 | — | (301) | 66,791 |
| Point Bonita Apartment Homes | 26,012 | 1,286 | (221) | 27,077 | 26,121 | 1,359 | (233) | 27,247 |
| The Westside Apartments | 36,427 | — | (329) | 36,098 | 36,624 | — | (341) | 36,283 |
| Tech Center Square | 11,883 | — | (124) | 11,759 | 11,933 | — | (132) | 11,801 |
| Williamsburg | — | — | — | — | 53,995 | — | (582) | 53,413 |
| Retreat at Rocky Ridge | 11,346 | — | (174) | 11,172 | 11,375 | — | (183) | 11,192 |
| Providence in the Park | 46,929 | — | (412) | 46,517 | 47,000 | — | (434) | 46,566 |
| Green Trails Apartment Homes | 61,500 | — | (532) | 60,968 | 61,500 | — | (559) | 60,941 |
| Meridian Pointe | 39,500 | — | (472) | 39,028 | 39,500 | — | (495) | 39,005 |
| Terraces at Lake Mary | 32,250 | — | (304) | 31,946 | 32,250 | — | (318) | 31,932 |
| Courtney Meadows Apartments | 27,100 | — | (298) | 26,802 | 27,100 | — | (311) | 26,789 |
| Addison at Sandy Springs | 22,750 | — | (280) | 22,470 | 22,750 | — | (292) | 22,458 |
| Bristol at Grapevine | 32,922 | — | (350) | 32,572 | 32,922 | — | (365) | 32,557 |
| | $ 791,488 | $ 1,296 | $ (6,563) | $ 786,221 | $ 847,525 | $ 1,378 | $ (7,558) | $ 841,345 |

For maturity dates, related interest rates, monthly debt service, and monthly escrow payments, see Note 9 of the notes to our consolidated financial statements.

As of March 31, 2019, the weighted average interest rate of all our outstanding indebtedness was 4.43%.

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Based on current lending market conditions, we expect that the debt financing we incur, on a total portfolio basis, will not exceed 55% to 65% of the cost of our real estate investments (before deducting depreciation or other non-cash reserves) plus the value of our other assets (63% as of March 31, 2019). We may also increase the amount of debt financing we use with respect to an investment over the amount originally incurred if the value of the investment increases subsequent to our acquisition and if credit market conditions permit us to do so. Our charter limits us from incurring debt such that our total liabilities may not exceed 75% of the cost (before deducting depreciation or other non-cash reserves) of our tangible assets, although we may exceed this limit under certain circumstances. We expect that our primary liquidity source for acquisitions and long-term funding will include proceeds from dispositions and, to the extent we co-invest with other entities, capital from any future joint venture partners. We may also pursue a number of potential other funding sources, including mortgage loans, portfolio level credit lines and government financing.

*Operating Costs*

In addition to making investments in accordance with our investment objectives, we expect to use our capital resources to make payments to our Advisor and its affiliates. We make payments to our Advisor and its affiliates in connection with the acquisition of real estate investments and for the management of our assets and costs incurred by our Advisor and its affiliates in providing services to us. We describe these payments in more detail in Note 12 of the notes to our consolidated financial statements.

Under our charter, we are required to limit our total operating expenses to the greater of 2% of our average invested assets or 25% of our net income for the four most recently completed fiscal quarters, as these terms are defined in our charter, unless the conflicts committee of our board of directors has determined that such excess expenses were justified based on unusual and non-recurring factors. Operating expense reimbursements for the four fiscal quarters ended March 31, 2019 did not exceed the charter-imposed limitation.

**Distributions**

For the three months ended March 31, 2019, we paid aggregate distributions of $10.6 million, including $4.3 million of distributions paid in cash and $6.3 million of distributions reinvested in shares of common stock through our distribution reinvestment plan, as follows (in thousands, except per share data):

| Record Date | Per Common Share | Distribution Date | Distributions reinvested in Shares of Common Stock | Net Cash Distribution | Total Aggregate Distribution |
|---|---|---|---|---|---|
| January 30, 2019 | $ 0.05 | January 31, 2019 | $ 2,108 | $ 1,414 | $ 3,522 |
| February 27, 2019 | 0.05 | February 28, 2019 | 2,100 | 1,431 | 3,531 |
| March 28, 2019 | 0.05 | March 29, 2019 | 2,090 | 1,413 | 3,503 |
| | $ 0.15 | | $ 6,298 | $ 4,258 | $ 10,556 |

Distributions paid, distributions declared and sources of distributions paid were as follows for the three months ended March 31, 2019 (dollars in thousands):

| | Distributions Paid | | | | Distributions Declared | | Sources of Distributions Paid | | |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | Cash | Distributions Reinvested (DRIP) | Total | Cash Provided By (Used In) Operating Activities | Total | Per Share | Operating Activities Amount Paid/Percent of Total | Debt Financing Amount Paid/Percent of Total | Property Dispositions Amount Paid/Percent of Total |
| First Quarter | $4,258 | $ 6,298 | $10,556 | $ (3,413) | $10,556 | $0.15 | $0 / 0% | $0 / 0% | $10,556 / 100% |

Cash distributions paid since inception were as follows (in thousands, except per share data):

| Fiscal Year Paid | Per Common Share | Distribution reinvested in shares of Common Stock | Net Cash Distribution | Total Aggregate Distribution |
|---|---|---|---|---|
| 2012 | $ 0.15 | $ 1,052 | $ 841 | $ 1,893 |
| 2013 | 0.41 | 9,984 | 4,757 | 14,741 |
| 2014 | 0.48 | 22,898 | 9,959 | 32,857 |
| 2015 | 0.60 | 28,959 | 13,257 | 42,216 |
| 2016 | 0.60 | 28,497 | 14,508 | 43,005 |
| 2017 | 0.60 | 27,114 | 15,919 | 43,033 |
| 2018 | 0.60 | 25,931 | 16,548 | 42,479 |
| 2019 | 0.15 | 6,298 | 4,258 | 10,556 |
| | $ 3.59 | $ 150,733 | $ 80,047 | $ 230,780 |

Our net income attributable to common stockholders' for the three months ended March 31, 2019 was $23.2 million and net cash used in operating activities was $3.4 million. Our cumulative cash distributions and net loss attributable to common shareholders from inception through March 31, 2019 were $230.8 million and $125.8 million, respectively. We have funded our cumulative distributions, which includes net cash distributions and distributions reinvested by stockholders, with cash flows from operating activities, proceeds from dispositions of properties and joint venture interests and proceeds from debt financing. To the extent that we pay distributions from sources other than our cash flow from operating activities or proceeds from dispositions of properties and joint venture interests, we will have fewer funds available for investment in commercial real estate and real estate-related debt and the overall return to our stockholders may be reduced.

**Funds from Operations, Modified Funds from Operations and Adjusted Funds from Operations**

Funds from operations attributable to common stockholders, or FFO, is a non-GAAP financial performance measure that is widely recognized as a measure of REIT operating performance. We use FFO as defined by the National Association of Real Estate Investment Trusts to be net income (loss), computed in accordance with GAAP excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property (including deemed sales and settlements of pre-existing relationships), plus depreciation and amortization on real estate assets, and after related adjustments for unconsolidated partnerships, joint ventures and subsidiaries and noncontrolling interests. We believe that FFO is helpful to our investors and our management as a measure of operating performance because it excludes real estate-related depreciation and amortization, gains and losses from property dispositions, and extraordinary items, and as a result, when compared year to year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which are not immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate and intangibles diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, is helpful for our investors in understanding our performance. Factors that impact FFO include start-up costs, fixed costs, delay in buying assets, lower yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. In addition, FFO will be affected by the types of investments in our targeted portfolio which will consist of, but are not limited to: i) multifamily rental properties purchased as non-performing or distressed loans or as real estate owned by financial institutions and (ii) multifamily rental properties to which we can add value with a capital infusion (referred to as “value add properties”).

Since FFO was promulgated, GAAP has adopted several new accounting pronouncements, such that management and many investors and analysts have considered the presentation of FFO alone to be insufficient. Accordingly, in addition to FFO, we use modified funds from operations attributable to common stockholders, or MFFO, as defined by the Investment Program Association, or IPA. MFFO excludes from FFO the following items:

(1) acquisition fees and expenses (incurred prior to January 1, 2018, as explained below);

(2) straight-line rent amounts, both income and expense;

(3) amortization of above- or below-market intangible lease assets and liabilities;

(4) amortization of discounts and premiums on debt investments;

(5) impairment charges;

(6) gains or losses from the early extinguishment of debt;

(7) gains or losses on the extinguishment or sales of hedges, foreign exchange, securities and other derivatives holdings except where the trading of such instruments is a fundamental attribute of our operations;

(8) gains or losses related to fair-value adjustments for derivatives not qualifying for hedge accounting, including interest rate and foreign exchange derivatives;

(9) gains or losses related to consolidation from, or deconsolidation to, equity accounting;

(10) gains or losses related to contingent purchase price adjustments; and

(11) adjustments related to the above items for unconsolidated entities in the application of equity accounting.

We believe that MFFO is helpful in assisting management assess the sustainability of operating performance in future periods.

As explained below, management's evaluation of our operating performance excludes the items considered in the calculation based on the following economic considerations. Many of the adjustments in arriving at MFFO are not applicable to us. Nevertheless, we explain below the reasons for each of the adjustments made in arriving at our MFFO definition:

- *Acquisition expenses.* In evaluating investments in real estate, including both business combinations and investments accounted for under the equity method of accounting, management's investment models and analysis differentiate costs to acquire the investment from the operations derived from the investment. Under current GAAP, acquisition costs related to business combinations are expensed and are capitalized for asset acquisitions. Prior to January 1, 2018, all of our acquisitions were accounted for as business combinations and their related costs were expensed. On January 1, 2018, we adopted Financial Accounting Standards Board Accounting Standards Update 2017-01, and we anticipate that most property acquisitions will be treated as asset acquisitions and the related costs will be capitalized. Acquisition costs will continue to be funded from both the proceeds of debt financing and the proceeds of property dispositions, not from cash flows from operations. We believe that by excluding expensed acquisition costs, MFFO provides useful supplemental information that is comparable for each type of real estate investment and is consistent with management's analysis of the investing and operating performance of our properties. Acquisition expenses include those costs paid to our Advisor or third parties.
- *Adjustments for straight-line rents and amortization of discounts and premiums on debt investments*. In the proper application of GAAP, rental receipts and discounts and premiums on debt investments are allocated to periods using various systematic methodologies. This application will result in income recognition that could be significantly different than underlying contract terms. By adjusting for these items, MFFO provides useful supplemental information on the realized economic impact of lease terms and debt investments and aligns results with management's analysis of operating performance.
- *Adjustments for amortization of above or below market intangible lease assets*. Similar to depreciation and amortization of other real estate related assets that are excluded from FFO, GAAP implicitly assumes that the value of intangibles diminishes predictably over time and that these charges be recognized currently in revenue. Since real estate values and market lease rates in the aggregate have historically risen or fallen with market conditions, management believes that by excluding these charges, MFFO provides useful supplemental information on the performance of the real estate.
- *Impairment charges, gains or losses related to fair-value adjustments for derivatives not qualifying for hedge accounting and gains or losses related to contingent purchase price adjustments*. Each of these items relates to a fair value adjustment, which is based on the impact of current market fluctuations and underlying assessments of general market conditions and specific performance of the holding which may not be directly attributable to current operating performance. As these gains or losses relate to underlying long-term assets and liabilities, management believes MFFO provides useful supplemental information by focusing on the changes in our core operating fundamentals rather than changes that may reflect anticipated gains or losses. In particular, because GAAP impairment charges are not allowed to be reversed if the underlying fair values improve or because the timing of impairment charges may lag the onset of certain operating consequences, we believe MFFO provides useful supplemental information related to current consequences, benefits and sustainability related to rental rate, occupancy and other core operating fundamentals.
- *Adjustment for gains or losses related to early extinguishment of hedges, debt, consolidation or deconsolidation and contingent purchase price*. Similar to extraordinary items excluded from FFO, these adjustments are not related to continuing operations. By excluding these items, management believes that MFFO provides supplemental information related to sustainable operations that will be more comparable between other reporting periods and to other real estate operators.

By providing MFFO, we believe we are presenting useful information that also assists investors and analysts in the assessment of the sustainability of our operating performance. We also believe that MFFO is a recognized measure of sustainable operating performance by the real estate industry. MFFO is useful in comparing the sustainability of our operating performance with the sustainability of the operating performance of other real estate companies that are not as affected by other MFFO adjustments.

As an opportunity REIT, a core element of our investment strategy and operations is the acquisition of distressed and value-add properties and the rehabilitation and renovation of such properties in an effort to create additional value in such properties. As part of our operations, we intend to realize gains from such value-add efforts through the strategic disposition of such properties after we have added value through the execution of our business plan. As we do not intend to hold any of our properties for a specific amount of time, we intend to take advantage of opportunities to realize gains from our value-add efforts on a regular basis during the course of our operations as such opportunities become available, in all events subject to the rules regarding "prohibited transactions" of real estate investment trusts of the Internal Revenue Code. Therefore, we also use adjusted funds from operations attributable to common stockholders, or AFFO, in addition to FFO and MFFO when evaluating our operations. We calculate AFFO by adding/subtracting gains/losses realized on sales of our real properties from MFFO. We believe that AFFO presents useful information that assists investors and analysts in the assessment of our operating performance as it is reflective of the impact that regular, strategic property dispositions have on our continuing operations.

Neither FFO, MFFO nor AFFO should be considered as an alternative to net income attributable to common stockholders, nor as an indication of our liquidity, nor are any of these measures indicative of funds available to fund our cash needs, including our ability to fund distributions. Accordingly, FFO, MFFO and AFFO should be reviewed in connection with other GAAP measurements. Our FFO, MFFO and AFFO as presented may not be comparable to amounts calculated by other REITs.

The following section presents our calculation of FFO, MFFO and AFFO and provides additional information related to our operations (in thousands, except per share amounts).

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2019** | **2018** |
| Net income (loss) attributable to common stockholders – GAAP | $ 23,181 | $ (10,949) |
| Net gain on disposition of property | (34,575) | — |
| Depreciation expense | 13,594 | 13,254 |
| FFO attributable to common stockholders | 2,200 | 2,305 |
| Adjustments for straight-line rents | 50 | (79) |
| Amortization of intangible lease assets | 3 | 1,083 |
| Realized loss on change in fair value of interest rate cap related to extinguishments | 109 | — |
| Debt premium amortization | (83) | (91) |
| Acquisition costs | — | 9 |
| MFFO attributable to common stockholders | 2,279 | 3,227 |
| Net gain on disposition of property | 34,575 | — |
| AFFO attributable to common stockholders | $ 36,854 | $ 3,227 |
| Basic and diluted net (loss) income per common share - GAAP | $ 0.33 | $ (0.15) |
| FFO per share | $ 0.03 | $ 0.03 |
| MFFO per share | $ 0.03 | $ 0.05 |
| AFFO per share | $ 0.52 | $ 0.05 |
| Weighted average shares outstanding [1] | 70,557 | 71,439 |

(1) None of the 49,972 shares of convertible stock are included in the diluted earnings per share calculations because the necessary conditions for conversion have not been satisfied as of March 31, 2019 or March 31, 2018.

**Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and cost and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to certain accrued liabilities. We base our estimates on historical experience and on various other assumptions that we believe reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a discussion of our critical accounting policies and estimates, see the discussion in our Annual Report on Form 10-K for the year ended December 31, 2018 under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies."

**Off-Balance Sheet Arrangements**

As of March 31, 2019 and December 31, 2018, we did not have any off-balance sheet arrangements or obligations.

**Subsequent Events**

On April 12, 2019, our Board of Directors declared a $0.05 per share cash distribution to common stockholders of record at the close of business on each of the following record dates: April 29, 2019, May 30, 2019, and June 27, 2019. Such distributions were paid or will be paid on April 30, 2019, May 31, 2019, and June 28, 2019, respectively.

We have evaluated subsequent events and determined that no events have occurred, other than those disclosed above, which would require an adjustment to or additional disclosure in the consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from our financial instruments primarily from changes in market interest rates. We do not have exposure to any other significant market risks. We monitor interest rate risk as an integral part of our overall risk management, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations. Our operating results are affected by changes in interest rates, primarily changes in LIBOR as a result of borrowings under our outstanding mortgage loans.

We enter into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we entered into a total of 19 interest rate caps that were designated as cash flow hedges during the years 2013 through 2022. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

As of March 31, 2019 and December 31, 2018, we had $575.6 million and $630.5 million, respectively, in variable rate outstanding borrowings. If interest rates on the variable rate outstanding borrowings had been 100 basis points higher during the three months ended March 31, 2019 and the year ended December 31, 2018, our annual interest expense would have increased by approximately $1.5 million and $5.9 million, respectively.

In addition, changes in interest rates affect the fair value of our fixed rate outstanding borrowings. As of March 31, 2019 and December 31, 2018, we had $215.9 million and $217.0 million, respectively, in fixed rate outstanding borrowings. As of March 31, 2019 and December 31, 2018, our fixed rate outstanding borrowings had an estimated aggregate fair value of $213.3 million and $211.9 million, respectively. Fair value is computed using rates available to us for debt with similar terms and remaining maturities. If interest rates had been 100 basis points higher as of March 31, 2019 and December 31, 2018, the fair value of these fixed rate outstanding borrowings would have decreased by $4.5 million and $4.9 million, respectively.

## ITEM 4. CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our principal executive officer and principal financial officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of March 31, 2019.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Unregistered Sale of Equity Securities

All securities sold by us during the three months ended March 31, 2019 were sold in an offering registered under the Securities Act of 1933, as amended (the "Securities Act").

### Redemption of Securities

During the three months ended March 31, 2019, we redeemed shares of our common stock as follows:

| Period | Total Number of Shares Redeemed (1) | Average Price Paid per Share | Year-to-Date Number of Shares Purchased as Part of a Publicly Announced Plan or Program (2) | Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program |
|---|---|---|---|---|
| January 2019 | — | $ — | — | (3) |
| February 2019 | — | $ — | — | (3) |
| March 2019 | 788,871 | $ 10.29 | 788,871 | (3) |
| | 788,871 | | | |

(1) All redemptions of equity securities in the three months ended March 31, 2019 were made pursuant to our share redemption program. All redemption requests tendered were honored during the three months ended March 31, 2019.

(2) The share redemption program commenced on June 16, 2010 and was subsequently amended on September 29, 2011 and March 28, 2018.

(3) We currently limit the dollar value and number of shares that may be redeemed under the program as described below.

We will not redeem in excess of 5% of the weighted-average number of shares outstanding during the 12-month period immediately prior to the effective date of redemption. Our board of directors will determine at least quarterly whether it has sufficient excess cash to redeem shares. Generally, the cash available for redemptions will be limited to proceeds from our distribution reinvestment plan plus, if we have positive operating cash flow from the previous fiscal year, 1% of all operating cash flow from the previous year.

Our share redemption program, including redemptions sought upon a stockholder's death or disability or upon confinement of a stockholder to a long-term care facility, will be available only for stockholders who purchase their shares directly from us or the transferees mentioned below, and is not intended to provide liquidity to any stockholder who acquired his or her shares by purchase from another stockholder. In connection with a request for redemption, the stockholder or his or her estate, heir or beneficiary will be required to certify to us that the stockholder acquired the shares to be repurchased either (1) directly from us or (2) from the original investor by way of (i) a bona fide gift not for value to, or for the benefit of, a member of the investor's immediate or extended family (including the investor's spouse, parents, siblings, children or grandchildren and including relatives by marriage), (ii) through a transfer to a custodian, trustee or other fiduciary for the account of the investor or members of the investor's immediate or extended family in connection with an estate planning transaction, including by bequest or inheritance upon death or (iii) operation of law.

We currently redeem shares at a purchase price equal to 95% of the current net asset value per share redeemed, except for redemptions sought upon a stockholder's death, qualifying disability or confinement to a long-term care facility.

Our board of directors, in its sole discretion, may suspend, terminate or amend our share redemption program without stockholder approval upon 30 days' notice if it determines that such suspension, termination or amendment is in our best interest. Our board may also reduce the number of shares purchased under the share redemption program if it determines the funds otherwise available to fund our share redemption program are needed for other purposes. These limitations apply to all redemptions, including redemptions sought upon the stockholder's death, qualifying disability or confinement to a long-term care facility.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) There have been no defaults with respect to any of our indebtedness.

(b) Not applicable.

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**ITEM 6. EXHIBITS**

| **Exhibit No.** | **Description** |
| --- | --- |
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-160463) filed February 9, 2010) |
| 3.2 | Bylaws (incorporated by reference to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-160463) filed February 9, 2010) |
| 4.1 | Form of Distribution Reinvestment Plan Enrollment Form (incorporated by reference to the Company's Registration Statement on Form S-3 (No. 333-211721) filed May 31, 2016) |
| 4.2 | Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (incorporated by reference to Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-11 (No. 333-160463) filed November 12, 2009) |
| 4.3 | Third Amended and Restated Distribution Reinvestment Plan dated March 28, 2018 (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K filed March 29, 2018) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 1350 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 1350 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Second Amended and Restated Share Redemption Program dated March 28, 2018 (incorporated by reference to Exhibit 99.2 to the Company's Annual Report on Form 10-K filed March 29, 2018) |
| 101.1 | Interactive Data Files |

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## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**RESOURCE REAL ESTATE OPPORTUNITY REIT, INC.**

| | |
|---|---|
| May 10, 2019 | By: /s/ Alan F. Feldman<br>ALAN F. FELDMAN<br>Chief Executive Officer<br>(Principal Executive Officer) |
| May 10, 2019 | By: /s/ Steven R. Saltzman<br>STEVEN R. SALTZMAN<br>Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) |