

BSR Real Estate Investment Trust**Q3 2025 Financial Results Conference Call**

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PRESENTATION

Operator

Good morning. My name is Tina (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the BSR REIT Third Quarter 2025 Fiscal Results Conference Call.

All lines have been placed on mute to prevent any background noise.

After management's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then 1 on your telephone keypad. If you would like to withdraw your question, press the `, then 2. Thank you.

I would now like to turn the conference over to Spencer Andrews, Vice President of Investor Relations and Marketing. Please go ahead, sir.

Spencer Andrews — Vice President of Marketing and Investor Relations, BSR Real Estate Investment Trust

Thank you, Tina, and good morning, everyone. Welcome to BSR REIT's conference call to discuss our financial results for the third quarter ending September 30, 2025.

I'm joined on the call today by our CEO, Dan Obertse; our Chief Financial Officer, Tom Cirbus; and our Chief Operating Officer, Susie Rosenbaum, who are all available to answer your questions after our prepared remarks.

Before we begin, I want to remind listeners that certain statements made on this conference call about future events are forward-looking in nature. Any such information is subject to risks, uncertainties, and assumptions that could cause actual results to differ materially.

In addition, we will reference certain non-GAAP financial measures that we believe are useful supplemental information about our financial performance.

For more information, please refer to the cautionary statements on forward-looking information and a description of our non-GAAP financial measures in our news release and MD&A dated November 5, 2025.

Dan, over to you.

Dan Oberste — President and Chief Executive Officer, BSR Real Estate Investment Trust

Thanks, Spencer.

The third quarter represented a significant inflection point for BSR as the REIT completed its redeployment of capital midway through the quarter, continued the integration of our newly acquired assets, and, frankly, powered through a softer leasing environment than most anticipated.

Despite some continued challenges in the macro-level operational backdrop, the REIT's capital allocation and stewardship has positioned our unitholders for upcoming growth.

The results will speak for themselves, as they have many times in the past, when we have executed similar capital allocation decisions; a most recent example being our cancellation of approximately 20 million units, or 39 percent of the outstanding units in the REIT since 2022.

To that end, in the third quarter, Same Community NOI increased 2.7 percent compared to Q3 last year.

Same Community weighted average occupancy was 94.3 percent.

Our retention rate was 58.2 percent at quarter-end, a further 80 basis-point expansion from 57.4 percent at the end of Q2.

Leasing momentum at Austin lease-up Aura 35Fifty continued, with occupancy reaching 86.6 percent at quarter-end, up from 59.7 percent at the end of Q2.

We also experienced continued green shoots on the rate front.

Blended Same Community rental rates increased 0.4 percent over prior leases, representing the first time that blended rental rates have increased since the third quarter of 2024.

And we acquired The Ownsby for \$87.5 million during the quarter. The Ownsby, which comprises 368 apartment units, is located in the Dallas suburb of Celina, which was the fastest-growing city in the US in 2023, and grew by a further 19 percent in the 12 months ending July of 2024.

The fundamentals of our business are undeniable. Though continuing to percolate a little longer than originally anticipated, supply will materially exit the picture in the relative near term.

As I highlighted last quarter, CoStar and several other data providers have adjusted their expectations for new deliveries from Q4 '25 through '27, which should ultimately yield additional elasticity and pricing power for our apartment units. Therefore, we believe that this is just the beginning of a period of consistent growth in rental rates.

Above and beyond rental rates, we have significant internal growth opportunities in front of us, given the going-in occupancy of the assets we acquired in 2025. As our team stabilizes these new properties and optimizes our existing best-in-class Texas portfolio, unitholders stand to benefit.

I'll now invite Tom to review our third quarter financial results in more detail. Tom?

Tom Cirbus — Chief Financial Officer, BSR Real Estate Investment Trust

Thanks, Dan.

Our operational performance in the third quarter was in line with management's expectations as our blended trade-outs continued to improve and, as Dan highlighted, turned positive in the quarter. Blended rates increased 40 basis points in the third quarter, which follows a 3.2 percent and 0.7 percent decline in Q1 and Q2 respectively.

Clearly, we are seeing the results of the market absorption of previous deliveries.

More broadly, the REIT's Same Community revenue was \$26.5 million in Q3 2025, a decline of 1 percent from last year. This was primarily driven by the negative trade-outs we have experienced up to the third quarter, which resulted in a 1.2 percent year-over-year decline in average monthly in-place leases.

That decline was partially offset by an increase in other property income driven by enhanced resident participation in our credit building service, an increase in utility reimbursements, and an increase in properties receiving valet trash service over the prior year.

We're thrilled to see these internalization activities help drive results and believe it is a case study of the value-add potential embedded in our portfolio.

It's worth noting that there are several of these internalization activities, including expansions of our valet trash and bulk internet initiatives, which will provide meaningful acceleration to expected organic growth and will begin to materialize in 2026 and beyond.

Same Community NOI for Q3 2025 was \$14.4 million, a 2.7 percent increase from Q3 2024. Our acceleration in Same Community NOI was mainly driven by a 5 percent decline in Same Community expenses, the primary drivers of which were a \$0.6 million decrease in real estate taxes and a \$0.2 million decrease in property insurance.

Below NOI, G&A improved by approximately \$0.1 million, or approximately 5 percent, and net finance costs declined 2.7 percent, largely due to our net paydown of debt following our 2025 disposition and acquisitions activities.

In total, FFO in Q3 was \$0.19 per unit, compared to \$0.23 per unit last year.

On an AFFO basis, total AFFO per unit was \$0.17 per unit, compared to \$0.21 per unit last year.

The year-over-year declines in FFO and AFFO per unit are primarily driven by, one, the time lapse in redeploying our disposition proceeds into new acquisitions; and two, the occupancy concentration of our development and new acquisitions, which we expect to stabilize to similar levels of our Same Community properties in the coming quarters.

In addition, during the third quarter, the REIT declared cash distributions totalling \$0.14 per unit, a 2.5 percent year-over-year increase.

Turning to our balance sheet.

The REIT's debt-to-gross book value as of September 30, 2025, was 51.3 percent. This amounts to \$726.6 million of debt outstanding, with a weighted average interest rate of 4.0 percent, 99 percent of which is either fixed or economically hedged to fixed rates.

On the liquidity front, total liquidity was \$63.4 million as of September 30th, including cash and cash equivalents of \$6.6 million and \$56.8 million available under our revolving credit facility.

As usual, we have the ability to obtain additional liquidity by adding properties to the current borrowing base of the facility.

During the quarter, we amended our 3.27 percent \$105 million interest rate swap to lower the fixed interest rate to 3.1 percent and extend the counterparty optional termination date to January 1, 2027.

Note that, as I highlighted last quarter, we have undergone some material changes to our derivative book this year as we were called out of in-the-money swaps. Accordingly, ongoing finance costs will reflect the higher cost replacement of these derivative instruments, particularly evident when viewed on a per-unit basis.

However, as a reminder, our use of swaps to hedge our interest rate exposure was laddered by design when we initiated this program. We continuously monitor and adjust various hedges with a goal of achieving the best cost of capital for the REIT.

Finally, our financial and operating results continue to be affected by very recent property acquisitions, lease-ups, and the replacements of swaps. So, with so many moving pieces, we are continuing our suspension of more detailed annual guidance at this time.

I will now turn it back to Dan for his closing remarks.

Dan Oberste

Thanks, Tom.

As we quickly approach the holiday season, I will remind everyone that 2025 has been a transformative year for the REIT.

We've sold 10 fully stabilized apartment communities at extremely attractive pricing to best-in-class buyers, once again, underlining the veracity of our NAV.

In turn, we have traded those 10 stabilized communities for recently developed assets with higher embedded growth potential, while increasing our relative concentration to Houston.

With the acquisitions of The Ownsby and Venue Craig Ranch in Dallas, Forayna Vintage Park and Botanic Living in Houston, and the lease-up of Aura 35Fifty in Austin, we have now added a tremendous new cohort of assets to the REIT. These new communities will help us capitalize on the improving market fundamentals and generate sustained cash flow growth that results in increased value for unitholders.

While we have now redeployed our 2025 disposition proceeds, it doesn't mean we're out of the acquisition business. We continue, as always, to examine acquisition opportunities in markets where the external growth environment is improving.

However, we're not in the business of taking unnecessary risks with our investors' capital. To that end, we want to see a future return profile in excess of our weighted average cost of capital.

Before wrapping up, I would like to call your attention to the fact that BSR was recently named one of the best places to work in multifamily for the fourth consecutive year. This is a tremendous achievement and speaks to the culture and team we have built at BSR as we approach our 70th year in the real estate business.

We're proud of our management platform and firmly believe that it represents the secret sauce that brings us the best team in the business.

That concludes our prepared remarks this morning. Tom, Susie, and I would now be pleased to answer your questions.

Operator, please open the line for questions.

Q&A

Operator

Thank you, sir. And everyone, once again, that is *, 1 if you have a question today.

The first question will come from Tom Callaghan from BMO Capital Markets.

Tom Callaghan — BMO Capital Markets

Thanks, operator. Good morning, everyone.

Maybe just to start, nice to see the blended lease spreads turn positive there this quarter. Just wondering if you can add some colour in terms of the cadence of those spreads and what you saw on the market really over the course of the quarter, just given, I think, it does imply a bit of a slowdown from the July levels that you talked about last call.

Susie Rosenbaum — Chief Operating Officer, BSR Real Estate Investment Trust

Sure. Yeah, I'm happy to answer.

So, as you're aware, we've got two levers that we can pull when it comes to maximizing cash flow for the portfolio. And what we did is we—those levers are obviously occupancy and rate. And what you saw was, we pushed rates in both July and August. And then we saw occupancy slightly drop in September, which made sense because the kids had gone back to school and you have less people looking for an apartment. So, you've got some seasonality blended in, which is completely normal.

We're still in that 94 percent to 96 percent occupancy, which I've said before is our sweet spot.

Tom Callaghan

Got it. That's helpful. And that was actually going to be my next question there, just in terms of kind of that push versus pull on occupancy and rate. How are you thinking about that into Q4 and 2026?

Tom Cirbus

Yeah, I mean, I'll jump in. And we're thinking through all the budgeting things real time here, Tom. And so, let me say, it's one of those things where the data providers, we could sit here and quote it to you, are all over the map and I don't know that that's a productive exercise. We have our best data providers of our in-house team working through it real time.

So, we don't have a great forward-look answer there. What I tell you is at our Analyst Day here in December, we're looking to give you more colour there. So, let me punt to then.

Tom Callaghan

Okay. That sounds good. I look forward to that. Maybe one last one for me is just on capital allocation.

Dan, you did mention in the press release, you're now fully redeployed in terms of the 2025 disposition capital. So, I guess just in that vein, how should investors think about your approach to early capital allocation over the next 12 months?

And part and parcel of that is just balance sheet leverage. Are you comfortable with where that is right now? Or do you have kind of a target in mind?

Dan Oberste

Yeah, Tom. We like the players we've got on the field in our portfolio right now. We bought the five assets that we've talked about in our prepared remarks. And you're seeing the performance and the lease-up expectations in some cases, in Austin, exceeding our lease-up velocity expectations and in others, pretty much leasing up as we underwrote and expected.

I think the team should focus right now on the occupancy potential from here on out and its potential to generate revenue. That's priority number one. And our investors are in luck because that's something we've been doing going on 70 years. So, we feel pretty confident that we'll be able to obtain the revenue generated from those lease-ups.

When we think about additional acquisitions, step one is we always underwrite our properties on their return on fair market value, and we rank them from one to 26. If we see a rotation opportunity, I think you've seen us take advantage of those opportunities in the past.

Number two, if we see there's an opportunity to deploy capital through leverage, equity, or other creative means to drive a higher return for our investors, I think you've seen us work in creative and predictable patterns in the past to deliver those returns.

But back to our current portfolio, we like the team we have on the field. We like the five new players that we've put on our team this year. Operationally, I think we do what we're equipped to do, which is be a manager, and I think that's how we can maximize returns.

We don't have any near-term plans to use credit to acquire, nor do we have near-term plans to rotate, I would say, through the end of the year. As the year approaches, or if anything changes in our portfolio, we certainly take advantage of rotation acquisition opportunities, as well as other opportunities fuelled by one or all means of capital.

Tom Callaghan

Okay. That's great. Appreciate all the colour, guys.

Operator

Kyle Stanley from Desjardins has the next question.

Kyle Stanley — Desjardins Securities Inc.

Thanks. Morning, everyone. Just going back to the leasing spread front, it was encouraging to see the improvement on the new leasing side in Austin.

Could you just speak to maybe what's driving that improvement in Austin? Is it the mix of leases? Is it maybe less competition in the market today? Just love your thoughts on that.

Susie Rosenbaum

Sure, Kyle. So, exactly. Austin, for the first time in a while, we saw the total percentage of properties offering concessions drop slightly. And so, that certainly would account for the fact that we were able to push rates a little more in Austin than we have in the past.

Dallas-Fort Worth, and Houston were the exact opposite. We saw concessions actually tick up slightly in Dallas and in Houston, as far as properties go that are offering these.

Kyle Stanley

Okay. Perfect. Next, so I think, Tom, you mentioned the kind of look forward and maybe updating us at the Investor Day. Can we expect annual guidance for '26 provided at that point? Or at least getting back to providing annual guidance for the year ahead?

Tom Cirbus

Yeah, Kyle. I think we have every intention of bringing back annual guidance in the future. I think we'll give some forward looks in December, TBD on to what extent, but we're moving in that direction for sure.

Kyle Stanley

Okay, perfect. And then just the last one for me. Dan, you've mentioned the lease-up opportunity of your recently acquired assets and that being a key focus today.

On average, where would the in-place occupancy at those five newly acquired assets or the five new assets in the portfolio, where would that be today?

And how quickly do you expect stabilization to occur over the next several months or quarters?

Dan Oberste

Yes. So, I'll take a first stab on it and then invite Susie to add some more colour and details.

Typically, when we underwrite—well, first of all, where are they ending today? The occupancy on each of those five assets is going to be higher today than it was at September 30th when we reported those numbers.

We see the upside opportunity in occupancy from here on out. We can value that at about \$4.5 million of revenue in 2026.

Now, what margin that revenue falls on, it's naturally going to be higher. I mean, it makes sense that the top end of your stack is at a significantly higher margin than the first lease you get. Whether it's 65 percent, 75 percent, 80 percent margin is what we're working through right now incrementally, as you can understand, the challenges of rotating and then providing guidance on lease-ups, some, well, all of them are exceeding our expectations on occupancy and leasing velocity.

Did that answer the first part of your question?

Kyle Stanley

It did. I guess the one just clarification. The \$4.5 million of revenue, that's incremental to what's already being generated today upon lease-up. Correct?

Dan Oberste

Yeah. That's incremental to what we're probably depicting for September numbers. I mean, we see that as the occupancy. I'm not going to say low-hanging fruit because it's difficult to lease apartments. That's a specialized task. But to our people, they consider that low-hanging fruit because that's what they do every day. Occupancy is something that comes when, as Susie mentioned earlier, you have the product.

Susie, are there any other details that you'd like to add on to that?

Susie Rosenbaum

Yeah. Just, yeah, as you pointed out, so they were 90 percent occupied at the end of the quarter, but as Dan pointed out that doesn't mean that that was 90 percent the entire time. So, we do have a lot of room to pick up there.

I'd like to point out, though, that we would expect three of these assets to be stabilized from an occupancy standpoint by the end of the year and the other two would be in the first half of next year.

But we get two bites at the apple. Here's the thing that's important to remember. Occupancy is number one. But then we still have to or get to burn off concessions, which will also raise rental revenue.

Kyle Stanley

Okay. Thank you for that clarification. Very helpful. I'll turn it back.

Operator

Up next, we'll hear from Sairam Srinivas, Cormark Securities.

Sairam Srinivas — Cormark Securities

Thank you, operator. Good morning, everybody. Just looking at the acquisition market, and you guys have obviously been active in that, are you seeing additional participants now actually come into these assets versus what you would probably see six to eight months before?

Tom Cirbus

Sai, I think the acquisition market is relatively healthy. I think the same participants are happening as were happening six to eight months ago. I think it's a confluence of all the typical parties. I don't think that there's been a material change in the type of buyer over the course of the last six months, but I'd welcome Dan's thoughts as well.

Dan Oberste

No, I think Tom summarized it very well. I mean, the acquisition market continues to present opportunities. And as we see the movement of the interest rate curve from a historically flat curve over the last year or 18 months, or five years, depending on if you're counting, to some volatility on a look forward in the interest rate curve.

The volatility creates opportunities to finance a risk against a desired return. We think there's an improved outlook next year, the following year, and the following year, all the way into '28, for just the fundamentals of the cash flow, the ability of properties to deliver cash flow in our business.

We don't think, and I know our investors can share our opinion, we don't think the markets are accurately underwriting the revenue potential and the upside in net operating income that the sector is probably going to drive. And we empathize with that.

Our partners in the market that are private, that are attempting to sell their projects right now, for the most part, people that are selling have a difficulty in they have a little bit higher leverage—well, significantly higher leverage than us and other public REIT participants have. And that higher leverage and that higher interest burden certainly creates challenges in that private developer earning the cash flow that they had underwritten.

Now, above leverage, I think the operations, if I was—I think many of our operating partners, when you remove interest rate and when you remove cap rate from their underwriting in '21, are experiencing pro forma net operating incomes in line with what they expected their developments to achieve. I think the difficulty that our private sellers are seeing right now is the cap rate placed on that cash flow stream, that net operating income that they underwrote.

It's not that the cap rates have risen beyond—I think our NAV is a great depiction of the market—cap rate for the market. It's that the expectations in '21 and '22 for those private developers who raised private capital were not a 5.1 or a 5.2 exit cap. They probably align more closely to a sub-4 cap.

And so, when you build a property and it operates and the trains come in on time and the revenue and occupancy and the net operating income matches your pro forma, but your reversion cap for

your investment went from a 3.9 percent cap to perhaps a 5 percent cap, that's a significant deterioration in your sales proceeds.

As we discussed in prior quarters, those developers face challenges and they've decided to, in some cases, sell their properties. Some of our good partners have sold properties to us that we are totally excited about from a purchase price standpoint and from an operational standpoint.

Other potential sellers and developers have decided to refinance that risk and wait for better days, which I'm in their camp on because we just bought five properties and we're looking at the same fundamental economics in our markets that those developers are. They might just be willing to take a substantial amount of risk with their private capital investment dollars that maybe in the public markets, we're not comfortable with from a leverage standpoint.

Sairam Srinivas

That makes sense, Dan. And maybe we've spoken about that cliff of supply earlier and how essentially, once that runs out, it actually just plummets all the way down.

When you look at the market right now and what you're seeing post quarter, how much time do you think it actually takes for all that supply to eventually get absorbed and for you to actually come to that precipice where you could probably see rent start jumping again?

Dan Oberste

Yeah, sure. So, if the supply that has occurred in the past is met with the same relative absorption that we've seen this year so far, not very long, Sai. And I want to reiterate that. The first nine months of 2024 was the best first three quarters for apartment absorption in history outside of a little blip in the post-COVID era.

So, if we see that same pace of absorption, then you can count—the supply problem being a problem, you could count that on your watch.

I think—and I think most people think, that with population growth muting a little bit, driven by perhaps a lack of international immigration nationally, that absorption may taper down a little bit in the future. Though it will still well outpace in our markets, and many others, the demand and absorption is going to top supply in these markets for the foreseeable future.

So, I think you could probably continue to see a pace of absorption in line relative with deliveries that you've seen in the first nine months. As you see deliveries drop by 50 percent next year and 40 percent the year after that, you may also see absorption drop just a tad next year and just a tad the year after that from a gross standpoint.

But from a net standpoint, that's an extremely healthy indicator as absorption is set to outpace supply for the foreseeable future.

Sairam Srinivas

That makes sense, Dan. And my last question is, when you look at October last year versus what you've seen the past month, how would you characterize the leasing trends as? And is there a sustained improvement that you're seeing?

Susie Rosenbaum

I think October looks pretty similar right now to what Q3 looked like.

Sairam Srinivas

Thanks, Susie. I've done it back there. Thank you so much for the colour.

Susie Rosenbaum

Right. Thanks.

Operator

Himanshu Gupta from Scotiabank has the next question.

Himanshu Gupta — Scotiabank

Thank you, and good morning, everyone. So, if I look at occupancy, a bit softer in Q3, and I know you did mention some seasonality. And when I look at rental spreads, I think they were a bit better.

So, just wondering, is there like a shift in focus maybe a bit more on rent than defending occupancy in the near term?

Susie Rosenbaum

Yeah. Like I was saying earlier, we did start pushing rent in July and August intentionally. Right? And then we started to see occupancy slightly drop off in September, which is normal with seasonality, but also probably has to do with the fact that we were more aggressive on rates.

We have these two levers that we use to balance our cash flow, which we believe the team is really good at doing. And as long as we're staying in between what we call our sweet spot, 94 percent to 96 percent occupancy, we think we're doing the right thing.

Himanshu Gupta

Got it. Thanks, Susie, for that. And then Houston, I think Dallas as well, you mentioned concessions have picked up a bit. Can you elaborate? I mean, is that a function of job growth being slower than expected? Or some still the lingering impacts from supply?

Susie Rosenbaum

So, with Dallas, mostly, it's the North Dallas market, and that's a supply issue right now. But there are still a lot of people moving into these North Dallas markets as well. So, we know it's going to be

absorbed. The question, as everybody is asking, is just when is that over. But that certainly has to do with the slight uptick in the number of properties offering concessions there.

Himanshu Gupta

Okay. Okay. Fair enough. And maybe my last question would be, I mean, Houston is your largest market, biggest market. Are you comfortable keeping this as your highest-exposure market in the medium term?

And I know Houston has less supply pressures for now. But can Houston outperform rent growth compared to the other markets in the near term—or in the medium term, rather?

Dan Oberste

Yes, certainly, Sai. Houston, this year and next year, we're very comfortable with our market concentration in Houston.

And then our viewpoint that we've made in the past on future rotations is evidenced that—our future acquisitions is evidenced in Q3 is that we plan to backfill and grow probably in Dallas to be in shape to take advantage of some mid-market economics in the latter half of '26, moving into '27, '28.

So, the short answer is absolutely, 100 percent yes, incredibly comfortable with Houston right now for this setup.

And then, again, as you've heard us say before, we get right in the path of growth and, thus, rent increases relative to other markets and occupancy and potential residents and we'll always keep our investors' money in that path.

Himanshu Gupta

All right. Fair enough. Thank you, guys. And I'll turn it back. Thank you.

Operator

Your next question comes from Jonathan Kelcher, TD Cowen.

Jonathan Kelcher — TD Cowen

Thanks. Good morning. Just going back to the five new assets, like, stabilized occupancy, that's 94 to 96 percent. Correct?

Tom Cirbus

Correct.

Jonathan Kelcher

Okay. And then, in order to get there, what are you currently offering on concessions that will hopefully start to burn off next year as you hit the occupancy?

Susie Rosenbaum

Sure, yeah. So, I'm happy to say that in October, we're not offering concessions anymore on the Aura 35Fifty development in Austin. In Dallas, it's still 10 weeks free.

Jonathan Kelcher

Okay. That is helpful. And then, just lastly, the decrease in same property taxes this quarter, were there any one-time property tax rebates in there? Or was it just lower excess values that drove that?

Dan Oberste

It's a combination of both, Jonathan. We saw some opportunities to settle some tax rebate appeals in the quarter, and we accelerated some of those settlements. And I think you've seen us do that in the past. We try to smooth out those settlements for earnings, but we don't let that tail wag the dog. If we see an opportunity to settle sooner than later, we'd certainly take advantage of that. I'd put that in the tune of a couple a hundred-thousand dollars, or a quarter of a penny, a half a penny for the quarter.

We talked about that in the past. So, it comes and goes, but it's generally not incredibly disruptive to the performance kind of on an FFO basis.

Jonathan Kelcher

Okay. That's helpful. I'll turn it back. Thanks.

Operator

Everyone, just a reminder, it is *, 1 if you have a question today.

We'll go next to Jimmy Chen, RBC Capital Markets.

Jimmy Chen — RBC Capital Markets

Thank you. So, just to follow up on the revenue contributions from the five new assets acquired. The \$4.5 million of incremental revenue, so is that relative to the Q3 run rate revenue? Or is that relative to their 2024 contributions when they were acquired?

Dan Oberste

Yeah, I see it as relative to the Q3 revenue. We thought that there would be some questions about the acquisition impact on the run rate, and we do empathize with the choppiness of the return that we generated in the third quarter, and so we really wanted to communicate the revenue upside from Q3. So, that's about \$4.5 million.

And then I'll finish that with, I'd rather take a choppy 15 than a smooth 10, Jimmy.

Jimmy Chen

Sure, sure. And the concessions, can you quantify those as well on those five assets? I guess, as they burn off, would that be in addition to the \$4.5 million?

Tom Cirbus

Yes, the \$4.5 million just assumes that we put people in vacant units today.

So, there's a bunch of upside, which we're not ready to quantify sitting here today, in addition to the \$4.5 million, for all the ancillary things that Susie's team does really well, including, but not limited to, the burn off of concessions that is the second bite at the apple in whatever, eight to 16 months or whatever the numbers are.

Jimmy Chen

Okay. So, if I heard correctly, in Dallas, you're offering about two-and-a-half months free rent. So we could ballpark it from that standpoint?

Dan Oberste

Yeah, I think that's fair, Jimmy.

Jimmy Chen

Yeah, okay. And then the leasing spreads, the softer leasing environment, I don't think you're the only ones seeing that. So, yes, there's some seasonality, there's some rate push. But what do you think that is attributable to, this softer leasing environment?

Dan Oberste

We think it's entirely attributable to macroeconomic volatility, which is why we didn't acquire until, I'll say, after the end of April, when you think about when we started closing on these assets.

So, I think the tepid response by the customer right now, driven by volatility in the macroeconomic environment, whether it's tariffs, whether it's Federal Reserve banking policy, has a whole lot to do with politics and global politics and United States politics. I think we've all seen that.

We were cautious when we decided to acquire assets coming out of the AvalonBay transaction. We're very cautious with our investors' monies. We underwrote in a very cautious manner.

So, I think that might be what's driving the overall macro environment, but it doesn't necessarily surprise us from our returns against our expectations.

Jimmy Chen

Okay. And, sorry, last question. Tom, you mentioned all these swaps. And so, how should we model the interest expense going forward?

Tom Cirbus

Yeah. So, similar to what Dan was saying earlier, I'll empathize that it's a little bit challenging to do because the third quarter numbers do have some relative uncomparability (sic) there in the sense of, don't forget that we have two, really, five—our '25 acquisition class are all in some form of stabilization that are carrying the full expense load and thereby being a little bit of a drag on earnings.

Now, that said, as it relates to the swap book more generally, we've continued to monitor that. And you saw us this quarter increase the tenure on one of the cancellation options out another year and to the REIT holders' benefit by a lower rate.

Jimmy Chen

So, if I want to read that, this quarter looks about right for the next quarter or two?

Dan Oberste

Yeah, I think that's fair, Jimmy. But with that said, our REIT has historically taken the view of about 80 percent hedged to fixed rates and 20 percent exposure to the short end of the curve. That's been what we've discussed with our investors since our IPO.

Now, as you know, in March of '22, in that quarter right after, that second quarter of '22, we began increasing our fixed debt to 100 percent of hedging. Now, our investors have enjoyed the cash flow benefit of this decision for the last three years.

Now, we kind of see the opportunity in the interest climate moderating, and that affords us the opportunity to accretively decrease our hedging exposure back to what we think is fair, which is about 80, from its current position at 99.

Now, this may create a little bit of complexity in the forecasting of interest expense in Q4 and Q1, but we think any disruption is to the benefit of our investors. And we believe that the decision is going to – what to do with the \$102 million of call options in January and February will impact Q4 in the positive, if possible, and Q1 and Q2 in the positive.

But I think I would model a little bit more short-term exposure to our hedges. And we see the opportunity to do so. And by short-term, I mean zero to two years, not 30 days.

Jimmy Chen

Right. Okay. Thank you.

Operator

And, everyone, at this time, there are no further questions.

I'll hand the call back to Dan Oberste for any additional or closing remarks.

Dan Oberste

Thank you for listening, everyone, and we hope you enjoyed the call. If you have any additional questions, management's available at your convenience to discuss.

We look forward to seeing some of you at our Investor and Analyst Presentation Day in early December during Nareit in Dallas.

Otherwise, have a good rest of the month. Thank you very much.

Operator

Once again, everyone, this does conclude today's conference. We would like to thank you all for your participation. You may now disconnect.