FINAL TRANSCRIPT

BSR Real Estate Investment Trust

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CORPORATE PARTICIPANTS

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

Dan Oberste
BSR Real Estate Investment Trust — Chief Executive Officer

Tom Cirbus
BSR Real Estate Investment Trust — Chief Financial Officer

Susie Rosenbaum
BSR Real Estate Investment Trust — Chief Operating Officer

CONFERENCE CALL PARTICIPANTS

Jonathan Kelcher
TD Cowen — Analyst

Kyle Stanley
Desjardins — Analyst

Brad Sturges
Raymond James — Analyst

Himanshu Gupta
Scotiabank — Analyst

Jimmy Chen
RBC Capital Markets — Analyst

Matteo Sepac
ATB — Analyst

Matt Kornack
National Bank of Canada — Analyst

Dean Wilkinson
CIBC — Analyst

PRESENTATION

Operator

Good morning. My name is Krista (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the BSR REIT Second Quarter 2026 Financial 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 the number 1 on your telephone keypad. And if you would like to withdraw your question, again, press *, 1.

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 Investor Relations and Marketing, BSR Real Estate Investment Trust

Thank you, Krista, and good day, everyone. Welcome to BSR REIT's conference call to discuss our financial results for the second quarter ending June 30, 2026.

I'm joined on the call today by our Chief Executive Officer, Dan Oberste; 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 August 12, 2026.

Dan, over to you.

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

Thanks, Spencer.

Our second quarter performance reflects the resilience of our portfolio and the continued momentum in our business.

Total portfolio revenue and NOI increased compared to Q2 last year. Sequentially, we generated growth in Same Community occupancy, total occupancy, Same Community revenue, total property NOI, and FFO.

Blended lease trade-outs once again turned positive during Q2 and moved higher in July. We made substantial progress in our organic growth initiatives, including a significant increase in occupancy at our August 2025 Acquisition, compared to Q1, and continued progress on our resident amenities programs.

To highlight a few selected numbers in the second quarter, Same Community occupancy increased to 94.6 percent from 94.3 percent in the first quarter.

Same Community revenue increased 35 basis points versus Q1 of this year.

Trade-outs were 50 basis points positive for the quarter, with continued acceleration to a blended increase of 1 percent for the month of July.

Our retention rate in Q2 was 60.1 percent, an increase of 30 basis points from the end of Q1 and 270 basis points from the end of Q2 last year.

Physical occupancy at our August 2025 Acquisition increased to 91 percent at quarter-end, up nearly 20 percentage points from March 2026.

And we made further progress within our resident amenities programs, including bulk internet and valet trash, which have received a highly positive reception from our residents and are now break-even to FFO accretion in the second quarter.

The economic fundamentals supporting our markets remain strong. Core (phon) apartment deliveries and starts are certainly continuing their predictable decline from peaks exhibited previously in this decade. As a result, in the first half of ‘26, and particularly in the second quarter, we saw apartment demand outpace deliveries. As I’ve noted before, this process has not been as rapid as we’d hoped or expected, but you can see the tangible positive momentum in much of this quarter’s results.

Of course, we aren’t waiting for the rising tide of market demand to drive stronger financial performance on its own. We are driving growth using our strongest asset—our talented people—to source, underwrite, and execute upon platform initiatives, including each of the initiatives we laid out in December of last year.

To provide a brief update on each.

First, the lease-up of our 2025 Acquisition class. With our August ‘25 Acquisition approaching physical stabilization at the end of Q2, we can expect the back half of ‘26 to more fully reflect the concessed but occupied revenue potential of the ‘25 class.

Our focus now turns to the second bite of the apple within this cohort of assets. The opportunity here is best highlighted by looking at our Non-Same Community NOI margin. You’ll note our year-to-date Non-Same Community NOI margin sits at approximately 450 basis points behind our Same Community NOI margin. Therein lies the second bite opportunity.

Between collecting rent on physically occupied assets for an entire quarter or year versus just a portion thereof, burning off concessions, and normalizing the expense picture at each of these five assets, we believe that the Non-Same Community to Same Community NOI margin differential will naturally compress and presents the remaining opportunity in this category.

Second, on our resident amenity programs, currently highlighted by our bulk internet and valet trash initiatives. Bulk internet is running without any issues to speak of. We are live on 6 of our 26 properties and ramping up ahead of schedule; in the ground on 7 additional properties, with the balance slated to begin in the back half of the year. As new properties come online in late Q3 and then in earnest in Q4, we expect material benefits to our other income line item to begin its ramp.

On valet trash, we are now live at eight of our properties, and this resident amenity initiative is currently working to plan.

Finally, platform efficiencies.

We successfully implemented our assistant community manager centralization effort during the second quarter, which will generate an annualized expense savings for the rate of $0.02 of FFO per unit, while concurrently enhancing efficiency of operations.

While these initiatives are still in the early stages, we are making excellent progress, and the results so far only reinforce our confidence in the broader value-creation opportunities across our portfolio. We are confident that we will achieve our targeted incremental growth of $0.13 to $0.22 per unit by early ‘28, excluding the impacts of changes in market rents, expenses, interest rates, et cetera.

All in all, our long-term growth story is fully intact. We have an outstanding property portfolio in top-tier markets that is performing at a high level, and we’re adding further value through our platform-induced growth initiatives.

We fully expect our business momentum to continue to grow in the quarters ahead, as rental markets steadily improve, and we make further progress in our operational enhancements. We are increasingly confident that we are positioned to drive strong returns for our unitholders.

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

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

Thanks, Dan.

Our financial performance in the second quarter was, as a whole, in line with internal expectations and continued to reflect improvement on a sequential quarterly basis.

While the pace of this quarter-over-quarter improvement was at the low end of our target range in Q2, primarily driven by modestly slower-than-expected top line rental growth, the market fundamentals supporting our business recovery continued to strengthen.

Beginning with leasing, effective rates on new leases declined by 2.4 percent in the quarter, while renewals increased by 2.9 percent, resulting in a 0.5 percent increase in blended rates. That return to positive rate growth represented an improvement of 1.5 percent in the blended rate compared to the first quarter and underlies the improved supply-demand picture in our core Texas markets.

Further, in July, rates on new leases declined by 90 basis points, while renewals increased by 2.2 percent, resulting in a 1.0 percent increase in blended rates. We are encouraged by the continued momentum in trade-outs over the summer, as April, May, June, and July each got sequentially better on a blended basis.

Same Community revenue in Q2 was $26.4 million, a decrease of 1 percent compared to last year. This was primarily due to a reduction of $0.3 million from lower average occupancy, which was 94.6 percent versus 95.6 percent, and $0.2 million from lower average monthly in-place rent. The decrease was partially offset by an increase in other property income of $0.2 million, which was driven by an increase in the utility reimbursements and resident amenity programs.

Sequentially, Same Community revenue of $26.4 million for Q2 2026 increased 35 basis points compared to Q1, primarily due to higher average occupancy, which was 94.6 percent versus 94.3 percent, as well as higher average monthly in-place rent.

Total portfolio revenue of $34.2 million in Q2 increased 1.5 percent compared to last year. The increase was primarily the result of $4 million of revenue generated from our 2025 Property Acquisitions, partially offset by the loss of $3.2 million from our 2025 Property Dispositions, and $0.3 million reduction from Same Community Properties.

Sequentially, total portfolio revenue of $34.2 million increased 1.1 percent from Q1, primarily due to the performance of the 2025 Acquisitions.

Same Community NOI for Q2 2026 of $13.9 million decreased 2.8 percent from last year. This was primarily attributable to, one, the decrease in revenue I just described; two, timing related to the real estate tax funds received in Q2 of last year, as Q2 last year received an outsized amount of refunds; and three, an improvement in property insurance expense of $0.1 million after another fantastic year for our annual property insurance renewal, which went effective in April.

Sequentially, Same Community NOI decreased 1.4 percent from Q1 2026, primarily attributable to the lower property tax refunds received of $0.2 million.

Total portfolio NOI for Q2 2026 of $17.9 million increased 0.5 percent from last year. The increase was the result of a $2 million contribution from our Property Acquisitions, offset by the $1.5 million lost due to our 2025 Dispositions, and a $0.4 million reduction from the Same Community Properties.

Sequentially, total portfolio NOI for Q2 2026 of $17.9 million increased 1.9 percent from Q1 2026. The increase was primarily the result of the increase in total portfolio revenue, in addition to a $0.2 million increase in prior-year property tax refunds received from the Property Dispositions, partially offset by the decrease in Same Community NOI.

As Dan alluded to in his remarks, total portfolio NOI will continue to improve as we graduate from a focus on physical occupancy to a focus on full economic stabilization of our Non-Same Community Properties, as demonstrated by the Non-Same Community NOI margin opportunity.

Below NOI, G&A expenses were essentially flat year over year and down 6.6 percent sequentially from Q1. As we communicated last quarter, legal and professional costs were elevated in Q1 and normalized in Q2.

Finally, Q2 net finance costs were up 35 percent year over year and 3.7 percent sequentially. The year-over-year comparison is extremely noisy because recall the second quarter last year was our primary transition quarter and, thus, the portfolio was not carrying full leverage for the quarter. Sequentially, net finance costs are up, due entirely to interest rate resets, which occurred in our derivative portfolio.

All in all, FFO in Q2 ‘26 was $7.1 million or $0.18 per unit, compared to $9.2 million or $0.21 per unit last year. The decrease was primarily driven by three items: first, the change in Same Store NOI; second, increased finance costs; which all was partially offset by, third, the ramping momentum in our Non-Same Community portfolio.

Sequentially, FFO in Q2 ‘26 was $7.1 million or $0.18 per unit, compared to $6.9 million or $0.18 per unit in Q1 of 2026. Once again, the slight increase in FFO was driven primarily by momentum in our Non-Same Community portfolio, offset by financing costs.

On AFFO, the same drivers apply that I just mentioned on FFO. However, unique to AFFO, Q2 of this year saw an outsized spend in recurring CapEx, driven by a delay in Q1 spending, primarily related to the host of weather events that occurred in the first quarter and, thereby, delayed spending in this category.

In addition, given the heavy concessionary environment we faced in the second half of 2025 for our lease-up properties, our straight-line rental revenue adjustment was positive this quarter as those concessions have released over time.

On the balance sheet, the REIT's debt-to-gross book value as of June 30, 2026, was 51.7 percent compared to 51.2 percent at the end of 2025. This amounts to $732.2 million of debt outstanding with a weighted average interest rate of 4.1 percent, a weighted average term to maturity of 3.9 years, and total liquidity of $39.7 million at quarter-end.

Finally, on guidance, you will note we updated our Same Community portfolio guidance to reflect the modestly slower pace of top line recovery relative to our expectations at the beginning of the year. We've also updated our expense guidance to reflect the significant savings we are experiencing in line items, relative to expectations. Net-net, we do not expect any overall change in our initial Same Community NOI guidance.

Secondly, and as we mentioned in the earnings release, while our August 2025 Acquisition continued to make significant leasing progress during the second quarter, reaching 91 percent physical occupancy at quarter-end, stabilization is occurring slightly later than originally anticipated.

As a result, and given the compounding effect of being behind our initial expectations, we have revised our FFO per unit and AFFO per unit 2026 guidance ranges down slightly to reflect the operational reality at that asset.

At its core, our real estate business remains very healthy and largely in line with expectation, as we continue building revenue from our lease-up activity and begin experiencing the effects of the economic stabilization of our Non-Same Community assets, albeit slightly later than originally anticipated at one asset. We will, of course, continue to update this guidance as needed throughout the balance of the year.

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

Dan Oberste

Thanks, Tom.

As we close out our prepared remarks, I'd like to emphasize the underlying message of Tom's last point.

While the pace of lease-up at one property—that is, our August 2025 Acquisition—is running approximately a month or so behind our initial '26 expectations, the remaining 96 percent of our portfolio remains largely on track with our initial expectations.

Though rental revenue momentum is slightly behind our initial outlook for the year, there is significant momentum down the P&L. Our resident amenities programs are fueling expected growth in other income. Centralization efforts are saving operating and personnel costs. Tom mentioned the positive news related to insurance and taxes. Our platform efficiency initiatives are taking hold, just to name a few.

So, while the top-line market improvement is obviously not yet at the level we all would like, we are as excited as we've ever been about the medium to long-term outlook in our portfolio.

As we've said in the past, we can't control the rental market, but we can control our platform performance and the experience our residents have in our communities every day.

And I can tell you that the BSR team is performing as our investors expect, and we will efficiently and methodically drive the growth from this portfolio that our investors deserve.

When you add this visible growth to the slowly budding turnaround in rental rates, resulting from improving supply-demand fundamentals, and the inherent economic stabilization we will experience in the coming quarters, we are well positioned to generate consistent, superior returns for our unitholders.

That concludes our prepared remarks today.

Tom, Susie, and I would now be pleased to answer your questions. Operator, please open the line for questions.

Q&A

Operator

Thank you. If you would like to ask a question, please press *, 1 on your telephone keypad to raise your hand and join the queue. And if you would like to withdraw that question, again, press *, 1.

Your first question comes from the line of Jonathan Kelcher with TD Cowen. Please go ahead.

Jonathan Kelcher — TD Cowen

Thanks. Good morning. First question, just on the blended rents. If I look back, I think they were positive in Q3 of last year. Like, how confident are you that we're at the beginning of an upward trend here? Or you think we may still be sort of plus or minus 0 percent for a couple of quarters?

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

Hey, Jonathan. Yeah. Overall, at a high level, we think the market is healthy and that rents will continue to improve. You may see us, in the third quarter, pull back a little bit, specifically to raise occupancy, which is the other lever we choose. But overall, I think that what we're seeing right now in July, things are looking good.

Jonathan Kelcher

Okay. So it's probably pretty close to plus or minus 0 percent in Q3 and then, hopefully, trending up from there. Is that how I can interpret that?

Susie Rosenbaum

I mean, well, if you look specifically at the BSR portfolio, yeah, we may—

Jonathan Kelcher

Yeah.

Susie Rosenbaum

—choose to lower rates a little bit in Q3 to bring up occupancy. But overall, the net effect is more rental revenue, right, and then—

Jonathan Kelcher

Yeah.

Susie Rosenbaum

—yeah, with a higher upswing in Q4.

Jonathan Kelcher

Okay. Thanks. Thanks for that. And then just secondly, on the guidance. The expense growth came down, the midpoint came down 250 basis points, which is quite a bit. Can you maybe give a little bit more colour on what's driving that?

Susie Rosenbaum

Sure. So guidance-wise, the main driver is The Ownsby here, right, when it comes to rental revenue. Concessions are simply—well, we expected concessions to still be in the Solana market. They didn't come down at the pace we were initially anticipating when we issued our guidance for 2026. So what we expected was probably around eight weeks free. And what we're seeing is the equivalent of about 12 weeks free, when you consider what people are throwing in, 10 weeks free and maybe a $1,500 gift card.

So if you look at that, there's a four-week gap that we have to account for now that we're dealing with our competitors in the Solana market, which caused the majority of the write-down related to The Ownsby for the second half of the year.

The other piece is much smaller, related to the Same Store portfolio. We still have pressure in those markets, too. There's still concessions, and they also didn't come down quite as much as we expected. So let me reiterate here, they are coming down, and that's like, maybe, a $14 gap when we look at net effective rent per unit for the rest of the year.

Dan Oberste

And, Jonathan, this is Dan. As I mentioned earlier, if we move further down the P&L and speaking specifically to OpEx, the main drivers of our OpEx reductions were real estate tax decreases and a positive insurance renewal.

We are seeing some green shoots related to platform centralization that we spoke about last quarter. We think that's worth probably a penny in the back half of the year, and it's going to continue to drive OpEx compression, which makes us feel comfortable lowering that guidance at the midpoint, as you mentioned.

And then I would say there's about a dozen or two other positive variances that we're seeing; namely, bad debt is sitting right around 0.5 percent of collected revenue. Now traditionally in this asset class, we would underwrite 0.8 percent. That would be for Class A suburban multifamily. I've seen it go as high as 1.75 percent in a Class C or B-minus assets in a recessionary environment, but I haven't really ever seen it go down to 0.5 percent.

I think that's a trend that caught a lot of apartment operators by surprise this year. It's a good, positive surprise that our residents are paying. And I think the macro—there's been a bunch of macro data in the last month, more or less saying residents or individuals are choosing which moats to pay their debts on and leaving the rest for consumer spending kind of decreases.

So there's probably 12 or 13 positive variances that we're watching. Payroll, bad debt, insurance, and taxes are probably leading those positive variances in OpEx for us and instills the confidence that we can provide in lowering the expense guidance for the year.

Jonathan Kelcher

Okay. That's helpful. And just on payroll, are you guys fully staffed on the operations right now?

Dan Oberste

We are. And as Susie mentioned last quarter, with the portfolio centralization efforts, the podding, this is something you're seeing kind of throughout the apartment operators; the ability to use a little bit of technology and some superior leasing efforts to kind of make your property sites a little bit more efficient on the inside, meaning your property leasing personnel. So we're enjoying some expense savings from that, much like our competitors.

Susie talked about, last quarter, how we were initiating that project in the second quarter. That's now complete. I don't think the second quarter evidences the annualized expense savings, but the remainder of the year will.

Susie Rosenbaum

That's right.

Jonathan Kelcher

Okay. Thanks. I'll turn it back.

Operator

Your next question comes from the line of Kyle Stanley with Desjardins. Please go ahead.

Kyle Stanley — Desjardins

Thanks. Good morning, everyone. Just looking at some of your leasing spread disclosure, and the answer, you may have already given here. But in Dallas, the new leasing spreads were actually below Austin this quarter. Just looking for a bit of colour there. It does seem like there's obviously some decent strength in Austin, so maybe a bit of an update there?

And then, maybe, what's driving that difference? Is it really kind of The Ownsby, as you've already talked about, just submarket specific? Just looking for what's going on in those two markets.

Susie Rosenbaum

Yeah. Sure. So Austin, things are looking great in Austin. As you've seen, each quarter, the rates for new leases continue to go up, and we're excited about that. Concessions are coming down in Austin. While they still exist, overall, though, they're coming down.

What we're seeing right now is six to eight weeks free in Round Rock, where it used to be 10 to 12 weeks. We have two properties there. In the (unintelligible) submarket, we've still got 8 to 10 weeks free. And in Cedar Park, there's 8 to 10 weeks free. So all good things to say about the trends we're seeing in Austin.

Now Dallas, as I just spoke about, we do have additional supply, primarily in the northern Dallas submarkets. That's Frisco, McKinney, Prosper, and Celina. We've got three properties there and, specifically, The Ownsby that we've talked about. There, the concessions have lasted a little bit longer and still remain at about 12 weeks, when you consider everything the other operators are throwing in.

Kyle Stanley

Okay. That makes sense. And, I mean, I think it goes to what you said in your prepared remarks about closing the margin gap between the Non-Same Store and the Same Store.

But as you look into the second half and then into, maybe, the spring leasing season next year, how quickly do you expect to be able to roll off the incentives? I know and, obviously, it's incredibly difficult to forecast, but if you're at between 8 and 12 weeks, depending on market today, how quickly can we see that roll off, in your view?

Susie Rosenbaum

Yeah. Okay. Well, specifically with our August Acquisition, that one—because the larger concessions have remained intact, that one's going to take, probably, another year to 14 months because we haven't started the process of burning off the concessions like we'd hoped to at this point. With the remainder maybe a little bit shorter, those are running right on track, as we projected.

Kyle Stanley

Okay. Okay. That's it for me. I'll turn it back. Thanks.

Operator

Your next question comes from the line of Brad Sturges with Raymond James. Please go ahead.

Brad Sturges — Raymond James

Hey, there. Just to touch on the ancillary revenue opportunity and just wanted to, I guess, understand a bit more about how to think about the ramp-up or the cadence on ancillary revenue coming online in the back half year and into '27 as new properties get added to your valet trash and bulk internet programs.

Tom Cirbus

Yeah. Brad, it's Tom. So I think about it this way. Just to give you an example, and as a reminder on that initiative, 6 of 26 assets are live today. Five of them, we installed last year. One was a test asset that's been live for a while. So let's say five went live. They went live somewhere between late November and March of this year. As a blended group, that portfolio of assets is now 37 percent penetrated and probably ramping a little ahead of schedule. We like the pace at which that's happening.

And as a reminder, it's a function of the rent roll turning. Right? We don't push this amenity to every resident day one. We let the tenant turn or the rent roll turn for them to renew. So it just takes—it's a function of time. That's the general pace at which you're seeing. So we've leased up a third of the portfolio over the course of the last, call it, four to five months, right, on a blended basis. I'd expect that to continue to happen.

As an update on the balance of the portfolio, 16 or so properties will come live between the end of the third quarter here and the end of the year. And those will all continue to ramp going into 2027, likely on the same pace, hopefully, if not faster.

Some of the assets, we hope to get online sooner rather than later. Obviously, it's to our great benefit to get it online as fast as possible. So that's how I would think about the pace of it.

Brad Sturges

Okay. I appreciate that. My other question would be just on was looking at your interest rate swap schedule in terms of just thinking about the counterparty options where you could get called out. Just where would—if you did get called out of swaps, where would be market rates today, if you had to enter into new swaps?

Tom Cirbus

Yeah. So the best thing to look at there is we have a sub-event in the press release. We did a swap late last week, actually, in early August here. The replacement rate—we expect to get called out of a couple in January. The replacement rate was 3.1495 percent, so 3.15 percent. So we took a substantial amount of the expected cancellation, if you will, risk off the table earlier this month.

If we wanted to do the same thing on the back half, the rate is very similar, and we're continuing to evaluate the best alternative there for the back-half-of-the-year swaps as well.

Brad Sturges

Perfect. Thank you.

Operator

Your next question comes from the line of Himanshu Gupta with Scotiabank. Please go ahead.

Himanshu Gupta — Scotiabank

Thank you and good afternoon. Dan, you mentioned no change to $0.13 to $0.22 of incremental FFO, what you mentioned in December. So that included $0.03 to $0.04 on platform growth. So just wondering, are you still thinking of doing a JV? Or any update in that regard?

Tom Cirbus

So, Himanshu, I'll take that. The platform growth continues. We're confident in that. When we talked in December, we talked about JVs and a whole bunch of other things that we could do, absolutely, as it related to the platform.

Where we're seeing success already rolled out on the platform side is the centralization initiative Susie and Dan talked about earlier. I think that we expect that to do, on an annualized basis, $0.02 of FFO savings. We also are currently in the final steps of negotiating for technology enhancements here in-house, which will yield an additional similar amount of savings, $0.001 to $0.002 of savings.

So on the platform growth side, though, we don't have the headline thing that you might have anticipated there. We're achieving it through different means, as we mentioned originally we could achieve that. So I think we've delivered on a lot of that, albeit not having realized the full annualized impact quite yet.

Himanshu Gupta

Got it. Thank you. And, I mean, just to be clear, so if you hit that $0.75 in 2026, so we are talking like incremental 30 percent FFO in the next two years to get to the midpoint of this?

Tom Cirbus

Incremental—I'm sorry. What? You broke up for a second.

Himanshu Gupta

Yeah. So I think what I'm saying is the midpoint of that is $0.175, which is almost 30 percent—

Tom Cirbus

Yeah.

Himanshu Gupta

—higher than your 2026 ending FFO. So we will see that level of growth in the next two years?

Tom Cirbus

Yeah. We feel great about everything we guided to in December. We're more confident today than we were in December that we're going to deliver on all prongs of those.

So I've given updates on two of the three. Why don't I just round it out with a third? On the third, we said that we had about a $4.5 million revenue opportunity to put people in beds to just occupy units. This is what we did. To date, we've realized, call it, just south of $3 million of that revenue opportunity, $2.9 million. So about $0.06 to $0.08 of that has already been realized and is in the bag.

Now, again, it's realized on an annual basis, if you compare our September month-end results to our June month-end results. That does not mean it's reflected, obviously, in our full quarter results. That's ramped over time. So the midpoint of the guidance, we feel really good about in all three categories.

The annualization effect will obviously take time. It's not going to happen between now and next quarter. It's going to take a year or so, which is why we had to give the horizon of guidance that we did. But we feel really good about it.

Now, again, the one caveat being all that excluded the impacts of market rents and interest rates and blah, blah, blah, blah, blah, blah, blah. But on those three prongs alone, we feel great about those drivers driving that amount of growth by early-ish 2028.

Himanshu Gupta

Thank you, Tom. No. A great update and really good progress in all those initiatives. Thank you so much, and I'll turn it back.

Tom Cirbus

Thanks, Himanshu.

Operator

Your next question comes from the line of Jimmy Chen with RBC Capital Markets. Please go ahead.

Jimmy Chen — RBC Capital Markets

Thanks. Just a follow-up on the swap question. It is pretty material. So like, if I look at the early 2027, there's a whole bunch with early termination. So I think what you said was, using the current 3.15 percent, that would be a good way to—like that's the rate reset on that time. That's what we should be modelling, assuming everything else stays the same.

Tom Cirbus

That's right, Jimmy. So there's three swaps that have a cancellation option in early 2027. There's about $200 million—or, sorry—$197 million that will come due between January and February of 2027.

Jimmy Chen

Right.

Tom Cirbus

We expect it cancelled on all of those. So you should, from a modelling perspective, cancel those swaps at that time, like they go away, and they are replaced at that point with the 3.1495 percent swap.

Jimmy Chen

Yeah. Got it. Thank you. And in terms of the rent concessions, I'm sure there's math that I could do. But would you be able to quantify the amount of concessions that's currently embedded in the current revenue?

Susie Rosenbaum

Yeah. Sure, Jimmy. So the places that—the place, obviously, that we're still giving concessions would be our August 2025 Acquisition, and they're on certain one- and two-bedroom floor plans. Excuse me. We're offering eight weeks free and four weeks free on three bedrooms. The other asset would be the one located in McKinney, where we're offering $1,000.

Jimmy Chen

Okay. If you were to take—okay. So it's really only on the newer assets. I guess, if I were to just look at the current revenue, what percentage of that revenue would you say that the concessions would be?

Susie Rosenbaum

Yeah. So the concessions are embedded in the trade-out data, too. Let me point that out when we're looking at rental rates.

And, yeah, so I can't give you a specific dollar amount. I don't have that in front of me right now. But I think you can look at the trade-outs and take that into account, when you're seeing the increases we're getting or the declining decreases, that the concessions are baked in there.

Jimmy Chen

Okay. And the current rent that you report, again, that's net of the concession. Right?

Susie Rosenbaum

Correct.

Jimmy Chen

Okay. Okay. That's it for me. Thanks.

Operator

Your next question comes from the line of Matteo Sepac with ATB. Please go ahead.

Matteo Sepac — ATB

Hey. Good afternoon. I'm just asking one on behalf of Sai. With the AvalonBay and EQR merger, have you seen any impact on the broader transaction market?

Dan Oberste

With which merger? I'm sorry.

Tom Cirbus

AVB-EQR.

Matteo Sepac

Yeah—yeah. The AVB-EQR one.

Dan Oberste

Oh, broader impact on the—well, no, I don't think we've seen any impact on the broader market related to AVB-EQR.

I do think we've seen some interesting information out of Camden, most recently, with their rotation out of the coast and into the Sun Belt where the returns are sunnier. And I think they've done a pretty good job of communicating kind of their exit economics and their entry points, but not necessarily from AVB-EQR. No.

Matteo Sepac

Okay. Great. That's all for me. I'll turn it back.

Operator

Again, if you would like to ask a question, please press *, 1 on your telephone keypad.

Your next question comes from the line of Matt Kornack with National Bank of Canada. Please go ahead.

Matt Kornack — National Bank of Canada

Hey, guys. Maybe, Dan, if you could expand upon the last question just with regards to the types of cap rates you're seeing in the market at this point and, maybe, the types of buyers as well?

Dan Oberste

Sure, Matt. Narrow interest rates and cap rates continue to persist in our markets. I think, in strong economic times, that's indicative of aggression in the marketplace. Buyers are going to be willing to accept lower yields up front on the promise of improving fundamentals. I don't think we're seeing anything different here. I think that's precisely what's happening in the apartment sector. Cap rate spreads are record lows, and transaction volumes have been pretty strong. And it's particularly the case in the stronger growth markets.

The nature of the buyer has probably changed. I don't think we've seen like the—I don't think we've seen public REITs increase or decrease, kind of, their net acquisition targets. I think there's been a lot of communication and, really, transparency from the public REITs of weighing development yields and going in stabilized cap rate spreads against weighted average cost of capital. And I'll lean heavily on, I think, that effective communication because that's really how we diagnose whether it's a good time to buy or not.

I do think you're seeing some strong individual high-net-worth family support, stronger than usual. And that makes sense. Somebody's got a 1031 they're going to rotate, they're going to buy at a lower cap, and they're going to expect improving fundamentals to create a look-back cap that's within their underwriting thresholds.

As we've said in the past, we're pretty disciplined about our cap rate spreads, what we want to see on acquisition, and what we want to see from a look-back cap rate expansion. Right now, I think acquisition cap rates in our markets relative to our cost of capital, our cost of debt, probably about 60 basis points. We'd obviously like to see that wider before we would want to significantly increase our acquisition appetite.

Matt Kornack

Is there a rule of thumb there? I can understand why current spreads would give you a little indigestion, but what is a good spread?

Dan Oberste

What's a good spread for cap rate relative to debt?

Matt Kornack

Yeah. For you guys, in terms of what your kind of ideal would be.

Dan Oberste

Yeah. I think, for stabilized assets, what we want to see is about a 125-basis-point spread between our going in, un-levered yield, for our cap rate, and our cost of debt, for us to determine that an environment is ripe for stabilized acquisitions, for example, Matt.

The second thing we want to see is an opportunity, whether it's because of organic growth through rate improvement or, as we've depicted in the past, in '19 and '20, through value-add initiatives, to grow that spread by another 100 basis points on a two-year or three-year look back. That would denote a clear path to what I would say is three-year sequential, 5 percent compound annual NOI growth. That's the kind of number we like. I think, for development yields, that spread needs to be a little bit wider for us to be interested.

I would say, given our balance sheet, that's appropriate. That's the capital allocation we've applied to every acquisition that we've done as a public REIT and prior to. It's worked out fairly well.

And when cap rate margins relative to debt costs get tight, we pay attention. Sometimes, it's the fundamental macro. But sometimes, we could be wrong, Matt. I mean, a 60-basis-point cap rate doesn't look too—a spread, to us, doesn't look that appetizing on the acquisition side. Maybe, we could be missing 20 percent revenue growth in '27 and, maybe, we're underwriting to lower revenue growth.

So the current cap rate environment helps us understand how we're underwriting and how we're seeing things, where we're right, and where we could be wrong, challenging some assumptions.

Matt Kornack

That's fair enough. And then—and maybe just quickly on the cost of debt. I think you can impute it from the swap numbers you're talking about. But what is that on an all-in basis, including the spread plus the swap?

Dan Oberste

Yeah. I call that about a 4.75 percent, one-and-a-half-year, two-year fixed rate. We would probably move in and around that, depending on our credit profile and leverage metrics, debt to EBITDA. So that would be a REIT cost of capital.

I think the read-through on the agencies right now—and in the United States, the agencies are a significant support vehicle for financing private capital, private multifamily acquisitions. Agency rates tend to hover between 5.2 percent and 5.6 percent, depending on whether—on your leverage, an 80 percent leverage or a 60 percent leverage, depending on your term and tenure, 7-year, 5-year, 15-year, 20-year, all the way up to 40-year with HUD, 35 and 40-year for HUD.

And then I think also, depending on where in the country you're buying assets, if it has an affordability component, if you're willing to agree with the lender to accept some rent caps, things of that nature. But agency debt, private buyer, looking at 80 percent leverage, 65 percent leverage, 5.2 to 5.75 right now.

Matt Kornack

That's very helpful. Appreciate that colour on both fronts.

Last one for me is a little bit more technical, and I always get it wrong. But the tax refunds, they've been pretty equal between the first two quarters of the year. But last year, you had some pretty sizable ones in the first half of the year, and then they trailed off towards the end. Any colour or guidance in terms of, like, is this $650,000 a good kind of number to use for the rest of the year? Or are you expecting some big ones to come in at some point?

Dan Oberste

No. We think—I mean, we think that's embedded in our expense guidance but, Matt, I think that's a fair number to underwrite for the remainder of the year, probably straddled between quarters. We're not going to—if we see a good appeal that's executable, we're not paying attention to whether it's September 30th or October 1st. We're running the business.

So as we've done in the past, if we've got an outstanding appeal that's not booked in a quarter, we'll make sure and communicate that to our investors so that they know what to expect the following quarter. But as it stands right now, it's been a positive year, year to date, and we're sailing with tailwinds right now for the remainder.

Matt Kornack

Yeah. So the first two quarters, I mean, they were fairly similar. Like, that's a relatively good run rate for property tax net of the refunds?

Dan Oberste

That’s correct.

Matt Kornack

Thanks, Dan. Appreciate it.

Operator

Your next question comes from the line of Dean Wilkinson with CIBC. Please go ahead.

Dean Wilkinson — CIBC

Thanks. Good afternoon, everyone. Dan, maybe a theoretical supply-side question. Obviously, probably doesn’t make a lot of sense to put a shovel in the ground today, but people are still moving there, and everyone wants to be in Texas, myself included. How much runway do you think there is before there might be a speculative supply response? Like, could a strong 2027 have that come back? Or do you think it’s a little longer than that?

Dan Oberste

I’ve seen this in 2009. I’ve seen it in 2015. I think everyone else on the phone, Dean, is rolling their eyes at your philosophical question. I know how much everyone loves hearing my philosophical answers.

But we saw it in 2009 and 2015. I think this cycle is a little bit elevated through some undisciplined supply coming in, in ‘23 and ‘22 and ‘24.

When we think about their markets, supply’s exceeded demand on a trailing-12-month basis for 10 to 15 quarters until recently. Right? I think—

Dean Wilkinson

Yeah.

Dan Oberste

—the first half of the year, we saw absorption and excess of supply. But if you look at that second quarter in most of these growth markets—I'll highlight Dallas, Austin, and Houston, but you can see the same phenomenon in Nashville and Raleigh and a handful of other markets. The absorption in Q2 was essentially 60 percent to 70 percent of the absorption on a trailing-12-month basis, right, including Q2 last year.

So I think that's what happens when supply falls off a cliff. We've seen deliveries fall. I mean, you're seeing it right now. Construction starts plummeted 50 percent to 80 percent from their high-water mark. They're down 78 percent in Dallas—or in Austin. They're down 50 percent in Dallas and 68 percent in Houston.

It takes 26 months to 30 months to build an asset, start leasing it up. We've kind of built one on the water with you, and you got to see it. We announced it in August of '21, started leasing it up in Austin in January of last year. And it took about 12 months to get it to 94 percent occupancy, and now Susie and her team are burning off the concessions.

I think you start taking 78 percent and 50 percent and 68 percent away from those starts, like we've seen in '23, '24, '25, now '26, and you can expect the back part of this decade, there not to be much supply to speak of—much deliveries to speak of.

I think Q2 is a good example, when you saw that rate acceleration in Austin—because we'll pick on Austin a little bit. It's been in the doghouse for a couple of years on account of oversupply. I mean, sequential new leases in Austin increased by 4.14 percent. Average rate improvement in the country improved in Q2 better than any quarter since 2015, COVID notwithstanding, of course.

I think that's the kind of phenomenon that you're going to get out of multifamily. You saw some bad returns in '23, '24. You could predict them. As an investor, you could see them coming, years out. On the other hand, you can also predict the low levels of delivery in '27, at the back half of '26, '28, '29.

And so long as the underlying fundamentals of macro job growth and affordability driving population growth remain, then it's—I can't speak for the nation, but I would say, relatively speaking, these growth markets are going to continue to produce outsized returns.

Dean Wilkinson

And just likely get tighter, and then it'll come back. So it makes sense. That's the question. Thanks, Dan.

Operator

And that does conclude our question-and-answer session. I would now like to turn the conference back over to Dan Oberste for closing comments.

Dan Oberste

That concludes our call today, everyone. Thank you all for joining us. We look forward to speaking with you again following the release of our Q3 results in November.

And for our investors on the line, I'll repeat my invite from last quarter. At any time, please feel free and communicate to management. We're happy to take you on an investor tour of our properties. We've seen several take-ups, since the last time we communicated, to some great success and, I think, some pleased investors.

So, everyone, have a good rest of the week, and we'll see you again in November.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.