Front Yard Residential Corp
Form 10-Q
May 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER: 001-35657

Front Yard Residential Corporation
(Exact name of registrant as specified in its charter)

MARYLAND	46-0633510
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

c/o Altisource Asset Management Corporation
5100 Tamarind Reef
Christiansted, United States Virgin Islands 00820
(Address of principal executive office)

(340) 692-1055
(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

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

Large Accelerated Filer	o	Accelerated Filer	x
Non-Accelerated Filer	o (Do not check if a smaller reporting company)	Smaller Reporting Company	o
		Emerging Growth Company	o

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. o

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

As of May 2, 2018, 53,492,137 shares of our common stock were outstanding.

Front Yard Residential Corporation
March 31, 2018
Table of Contents

(table of contents)

References in this report to “we,” “our,” “us” or the “Company” refer to Front Yard Residential Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “AAMC” refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this Quarterly Report on Form 10-Q contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipa “believes,” “estimates,” “predicts” or “potential” or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this report reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Factors that may materially affect such forward-looking statements include, but are not limited to:

- our ability to implement our business strategy;
- our ability to make distributions to our stockholders;
- our ability to acquire assets for our portfolio, including difficulties in identifying single-family rental assets to acquire;
- our ability to sell non-rental real estate owned properties on favorable terms and on a timely basis or at all;
- the impact of changes to the supply of, value of and the returns on single-family rental assets;
- our ability to complete proposed transactions in accordance with anticipated terms and on a timely basis or at all;
- our ability to successfully integrate newly acquired properties into our portfolio of single-family rental properties;
- our ability to predict our costs;
- our ability to effectively compete with our competitors;
- our ability to deploy our cash, the proceeds from financing activities or non-rental real estate owned asset sales to target assets in a timely manner;
- changes in the market value of our acquired real estate owned and single-family rental properties;
- changes in interest rates;
- our ability to obtain and access financing arrangements on favorable terms or at all;
- our ability to maintain adequate liquidity;
- our ability to retain our engagement of AAMC;
- the failure of Altisource Portfolio Solutions S.A. or Main Street Renewal, LLC to effectively perform their obligations under their respective agreements with us;
- our failure to maintain our qualification as a REIT;
- our failure to maintain our exemption from registration under the Investment Company Act;
- the impact of adverse real estate or housing markets;
- the impact of adverse legislative, regulatory or tax changes; and
- general economic and market conditions.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see Part II, Item 1A in this Quarterly Report on Form 10-Q and “Item 1A. Risk factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

(table of contents)

Part I

Item 1. Financial Statements (Unaudited)

Front Yard Residential Corporation
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	March 31, 2018 (unaudited)	December 31, 2017
Assets:		
Real estate held for use:		
Land	$321,656	$322,062
Rental residential properties	1,394,118	1,381,110
Real estate owned	50,782	64,036
Total real estate held for use	1,766,556	1,767,208
Less: accumulated depreciation	(90,251)	(73,655)
Total real estate held for use, net	1,676,305	1,693,553
Real estate assets held for sale	45,344	75,718
Mortgage loans at fair value	10,274	11,477
Cash and cash equivalents	115,068	113,666
Restricted cash	40,983	47,822
Accounts receivable, net	21,894	19,555
Prepaid expenses and other assets	11,249	12,758
Total assets	$1,921,117	$1,974,549
Liabilities:		
Repurchase and loan agreements	$1,253,720	$1,270,157
Accounts payable and accrued liabilities	54,496	55,639
Related party payables	4,027	4,151
Total liabilities	1,312,243	1,329,947
Commitments and contingencies (Note 7)	—	—
Equity:		
Common stock, $0.01 par value, 200,000,000 authorized shares; 53,492,137 shares issued and outstanding as of March 31, 2018 and 53,447,950 shares issued and outstanding as of December 31, 2017	535	534
Additional paid-in capital	1,181,019	1,181,327
Accumulated deficit	(572,680)	(537,259)
Total equity	608,874	644,602
Total liabilities and equity	$1,921,117	$1,974,549

See accompanying notes to condensed consolidated financial statements.

(table of contents)

Front Yard Residential Corporation
Condensed Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

	Three months ended March 31,	
	2018	2017
Revenues:		
Rental revenues	$39,765	$25,618
Change in unrealized gain on mortgage loans	—	(51,865)
Net realized gain on mortgage loans	—	35,550
Net realized gain on sales of real estate	—	19,956
Interest income	—	79
Total revenues	39,765	29,338
Expenses:		
Residential property operating expenses	16,792	18,259
Real estate depreciation and amortization	19,190	15,174
Acquisition fees and costs	33	167
Selling costs and impairment	7,575	14,220
Mortgage loan servicing costs	355	6,245
Interest expense	16,063	15,572
Share-based compensation	(414)	1,914
General and administrative	2,673	2,322
Management fees to AAMC	3,790	4,815
Total expenses	66,057	78,688
Operating loss	(26,292)	(49,350)
Net loss on real estate and mortgage loans	(1,634)	—
Other income	576	—
Loss before income taxes	(27,350)	(49,350)
Income tax expense	—	7
Net loss	$(27,350)	$(49,357)
Loss per share of common stock - basic:		
Loss per basic share	$(0.51)	$(0.92)
Weighted average common stock outstanding - basic	53,454,063	53,646,291
Loss per share of common stock - diluted:		
Loss per diluted share	$(0.51)	$(0.92)
Weighted average common stock outstanding - diluted	53,454,063	53,646,291
Dividends declared per common share	$0.15	$0.15

See accompanying notes to condensed consolidated financial statements.

(table of contents)

Front Yard Residential Corporation
Condensed Consolidated Statements of Stockholders' Equity
(In thousands, except share and per share amounts)
(Unaudited)

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Equity
December 31, 2017	53,447,950	$ 534	$ 1,181,327	$ (537,259)	$ 644,602
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	44,187	1	106	—	107
Dividends on common stock ($0.15 per share)	—	—	—	(8,071)	(8,071)
Share-based compensation	—	—	(414)	—	(414)
Net loss	—	—	—	(27,350)	(27,350)
March 31, 2018	53,492,137	$ 535	$ 1,181,019	$ (572,680)	$ 608,874

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Equity
December 31, 2016	53,667,631	$ 537	$ 1,182,245	$ (319,714)	$ 863,068
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	26,703	—	48	—	48
Repurchases of common stock	(166,579)	(2)	(2,330)	—	(2,332)
Dividends on common stock ($0.15 per share)	—	—	—	(8,173)	(8,173)
Share-based compensation	—	—	1,914	—	1,914
Net loss	—	—	—	(49,357)	(49,357)
March 31, 2017	53,527,755	$ 535	$ 1,181,877	$ (377,244)	$ 805,168

See accompanying notes to condensed consolidated financial statements.
3

(table of contents)

Front Yard Residential Corporation
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three months ended March 31, 2018	2017
Operating activities:		
Net loss	$(27,350)	$(49,357)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net loss (gain) on real estate and mortgage loans	1,634	(3,641)
Real estate depreciation and amortization	19,190	15,174
Selling costs and impairment	7,575	14,220
Share-based compensation	(414)	1,914
Amortization of deferred financing costs	1,357	2,331
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,510)	(1,208)
Prepaid expenses and other assets	(1,264)	(903)
Accounts payable and accrued liabilities	(1,565)	1,030
Related party payables	(124)	(175)
Net cash used in operating activities	(4,471)	(20,615)
Investing activities:		
Investment in real estate	(4,293)	(28,225)
Investment in renovations	(7,493)	(13,453)
Real estate tax advances	(91)	(752)
Mortgage loan resolutions and dispositions	1,671	117,690
Mortgage loan payments	85	3,694
Disposition of real estate	35,799	75,888
Acquisition related deposits	—	(315)
Investment in derivative financial instrument	(936)	—
Net cash provided by investing activities	24,742	154,527
Financing activities:		
Proceeds from exercise of stock options	107	181
Payment of tax withholdings on share-based compensation plan awards	—	(133)
Repurchase of common stock	—	(2,332)
Dividends on common stock	(8,021)	(8,050)
Repayments of other secured debt	—	(61,882)
Proceeds from repurchase and loan agreements	—	6,099
Repayments of repurchase and loan agreements	(17,575)	(93,786)
Payment of deferred financing costs	(219)	(1,743)
Net cash used in financing activities	(25,708)	(161,646)
Net change in cash, cash equivalents and restricted cash	(5,437)	(27,734)
Cash, cash equivalents and restricted cash as of beginning of the period	161,488	129,223
Cash, cash equivalents and restricted cash as of end of the period	$156,051	$101,489

See accompanying notes to condensed consolidated financial statements.

(table of contents)

Front Yard Residential Corporation
Condensed Consolidated Statements of Cash Flows (continued)
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2018	2017
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$14,727	$13,362
Income taxes	—	1
Non-cash investing and financing transactions:		
Seller financing of assets acquired	—	79,879
Transfer of mortgage loans (from) to real estate owned, net	(137)	30,553
Transfer of mortgage loans at fair value to mortgage loans held for sale	—	352,677
Changes in accrued capital expenditures	(748)	1,582
Changes in receivables from mortgage loan resolutions and dispositions, payments and real estate tax advances to borrowers, net	(523)	4,519
Changes in receivables from real estate owned dispositions	(648)	(8,950)
Dividends declared but not paid	8,069	8,463

See accompanying notes to condensed consolidated financial statements.
5

(table of contents)

Front Yard Residential Corporation
Notes to Condensed Consolidated Financial Statements
March 31, 2018
(Unaudited)

1. Organization and Basis of Presentation

Front Yard Residential Corporation ("we," "our," "us," or the "Company") is a Maryland real estate investment trust ("REIT") focused on acquiring, owning and managing single-family rental ("SFR") properties throughout the United States. We conduct substantially all of our activities through our wholly owned subsidiary, Front Yard Residential, L.P., and its subsidiaries.

We employ a diversified SFR property acquisition strategy that includes acquiring large portfolios and smaller pools of SFR properties from a variety of market participants. As of March 31, 2018, we had a rental portfolio of approximately 12,000 homes. In addition, we had a small portfolio of mortgage loans and non-rental real estate owned ("REO") properties remaining from our previous mortgage loan portfolio acquisitions. We are currently in the process of liquidating these assets in order to create additional liquidity and purchasing power to continue building our rental portfolio.

We are managed by Altisource Asset Management Corporation ("AAMC" or our "Manager"). As we do not have any employees, AAMC provides us with dedicated personnel to administer our business and perform certain of our corporate governance functions. AAMC also provides portfolio management services in connection with our acquisition and management of SFR properties and the ongoing management of our remaining residential mortgage loans and REO properties. See Note 8 for a description of this related-party relationship.

We have property management contracts with two separate third-party service providers for, among other things, leasing and lease management, operations, maintenance, repair, property management and property disposition services in respect of our SFR and REO portfolios. We also have servicing agreements with two separate mortgage loan servicers with respect to the servicing of the remaining mortgage loans in our portfolio.

Basis of presentation and use of estimates

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All wholly owned subsidiaries are included, and all intercompany accounts and transactions have been eliminated.

The unaudited interim condensed consolidated financial statements and accompanying unaudited condensed consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by Securities and Exchange Commission ("SEC") rules and regulations. These condensed consolidated financial statements should be read in conjunction with our annual consolidated financial statements included within our 2017 Annual Report on Form 10-K, which was filed with the SEC on March 1, 2018.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Recently issued accounting standards

Adoption of recent accounting standards

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, Compensation - Stock Compensation (Topic 718). The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December

(table of contents)

15, 2017. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. Our adoption of this amendment on January 1, 2018 did not have a significant effect on our condensed consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). ASU 2017-05 clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term “in substance nonfinancial asset,” in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20. This amendment also clarifies that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent company may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. ASU 2017-05 is effective for periods beginning after December 15, 2017. Our adoption of this amendment on January 1, 2018 did not have a significant effect on our condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The amendments in ASU 2016-16 eliminate the exception of recognizing, at the time of transfer, current and deferred income taxes for intra-entity asset transfers other than inventory. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. Our adoption of this amendment on January 1, 2018 did not have a significant effect on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under Topic 230. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Our adoption of this amendment on January 1, 2018 did not have a significant effect on our condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Our adoption of this amendment on January 1, 2018 did not have a significant effect on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which effectively delayed the adoption date of ASU 2014-09 by one year. In 2016 and 2017, the FASB issued accounting standards updates that amended several aspects of ASU 2014-09. ASU 2014-09, as amended, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Management performed an analysis of our gains and losses arising from real estate sales (the sole component of our revenue within the scope of ASU 2014-09). We determined that our policy for recognition of gains and losses on real estate sales prior to our adoption is consistent with the updated revenue recognition requirements of ASU 2014-09, as amended. Therefore, our adoption of ASU 2014-09 effective January 1, 2018 had no significant impact on our previous revenue recognition practices, and our application of the modified retrospective method of adoption resulted in no adjustments to comparative information or cumulative adjustments to any beginning balances in the current period. As our mortgage loan and related REO activities are no longer a core part of our operations, we determined to prospectively classify net gains and losses from sales of real estate and resolutions and dispositions of mortgage loans as a component of other income, outside of operating income or loss, which is consistent with the guidance of ASU 2014-09.

(table of contents)

Recently issued accounting standards not yet adopted

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. This ASU is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We expect to adopt this standard on January 1, 2019, and we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments, which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous “incurred loss” methodology was restrictive for an entity's ability to record credit losses based on not yet meeting the “probable” threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This ASU is effective for fiscal years beginning after December 15, 2019. The amendments in ASU 2016-13 should be applied on a modified retrospective transition basis. We expect to adopt this standard on January 1, 2020. While we are still evaluating the overall impact of this ASU, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors is substantially unchanged from prior practice as lessors will continue to recognize lease revenue on a straight-line basis. In September 2017, FASB issued ASU 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 2016-02. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Early adoption is permitted. The amendments in ASU 2016-02 should be applied on a modified retrospective transition basis, and a number of practical expedients may apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. We expect to adopt this standard on January 1, 2019. While we are still evaluating the overall impact of this ASU, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

2. Asset Acquisitions and Dispositions

Real estate assets

Real estate acquisitions

HOME Flow Transaction

On March 30, 2017, we entered into an agreement to acquire up to 3,500 SFR properties (the “HOME Flow Transaction”) from entities (the “Sellers”) sponsored by Amherst Holdings, LLC (“Amherst”), pursuant to which we acquired 3,465 SFR properties in three separate closings during 2017.

In the first closing on March 30, 2017, our indirect wholly owned subsidiary, HOME SFR Borrower II, LLC (“HOME Borrower II”), acquired 757 SFR properties for an aggregate purchase price of $106.5 million. The purchase price was funded with approximately $79.9 million in a seller financing arrangement (the “HOME II Loan Agreement,” see Note 6), representing 75% of the aggregate purchase price, as well as $26.6 million of cash on hand. We capitalized $1.5 million of acquisition fees and costs related to this portfolio acquisition. The value of in-place leases was estimated at $2.4 million based upon the costs we would have incurred to lease the properties and was amortized over the weighted average remaining life of the leases of approximately seven months as of the acquisition date.

In the second closing on June 29, 2017, our indirect wholly owned subsidiary, HOME SFR Borrower III, LLC (“HOME Borrower III”), acquired 751 SFR properties for an aggregate purchase price of $117.1 million. The purchase price was funded with approximately $87.8 million in a seller financing arrangement (the “HOME III Loan Agreement,” see Note 6), representing 75% of the aggregate purchase price, as well as $29.3 million of cash on hand. We capitalized $1.3 million of acquisition fees and costs related to this portfolio acquisition. The value of in-place leases was estimated at $2.0 million based upon the costs we would have incurred to lease the properties and is being amortized over the weighted average remaining life of the leases of approximately nine months as of the acquisition date.

In the third and final closing on November 29, 2017, our wholly owned subsidiary, HOME SFR Borrower IV, LLC (“HOME Borrower IV”) acquired 1,957 SFR properties for an aggregate purchase price of $305.1 million. The purchase price was funded with approximately $228.8 million in two separate seller financing arrangements (the “HOME IV Loan Agreements,” see Note 6), representing 75% of the aggregate purchase price, as well as $76.3 million of cash on hand. We capitalized $1.9 million of acquisition fees and costs related to this portfolio acquisition. The value of in-place leases was estimated at $5.9 million based on the costs we would have incurred to lease the properties and is being amortized over the weighted average remaining life of the leases of approximately seven months as of the acquisition date. In accordance with the related purchase and sale agreement, certain of the properties are subject to potential purchase price adjustments, which will be based on the rental rates achieved for the properties within 24 months after the closing date. Because such future rental rates are unknown, we are unable to predict the ultimate adjustments, if any, that will be made to the initial aggregate purchase price at this time (see Note 7).

For each closing under the HOME Flow Transaction, we allocated the purchase price, including capitalized acquisition fees and costs, based on the relative fair value of the properties acquired.

During the three months ended March 31, 2018, we acquired 35 SFR properties under our other acquisition programs for an aggregate purchase price of $4.3 million.

Real estate dispositions

During the three months ended March 31, 2018 and 2017, we sold 193 and 413 properties, respectively. Net proceeds of these sales were $35.2 million and $66.9 million, respectively, and we recorded $14.3 million and $20.0 million, respectively, of net realized gain on sales of real estate. The 2018 net realized gain amount is recorded as a component of net realized loss on real estate and mortgage loans in our condensed consolidated statement of operations.

Mortgage loans

Mortgage loan dispositions and resolutions

During the three months ended March 31, 2018 and 2017, we resolved 12 and 78 mortgage loans, respectively, primarily through short sales, refinancing and foreclosure sales. In addition, during the three months ended March 31, 2017, we sold 556 mortgage loans to third party purchasers. Net proceeds of these sales and resolutions were $1.1 million and $124.7 million, respectively, and we recorded $(0.5) million and $35.6 million of net realized (loss) gain on mortgage loans, respectively. The 2018 net realized loss amount is recorded as a component of net loss on real estate and mortgage loans in our condensed consolidated statement of operations.

Transfers of mortgage loans to real estate owned

During the three months ended March 31, 2018, we transferred two mortgage loans to REO, which were offset by two reversions of REO properties to mortgage loans, at an aggregate fair value based on broker price opinions (“BPOs”) of $(0.1) million. During the three months ended March 31, 2017, we transferred an aggregate of 195 mortgage loans to REO at an aggregate fair value based on BPOs of $28.7 million. Such transfers occur when the foreclosure sale is complete; however, subsequent to a foreclosure sale, we may be notified that the foreclosure sale was invalidated for certain reasons. In connection with these transfers to REO, we recorded $0.1 million and $9.5 million in change in unrealized gain on mortgage loans, respectively, that resulted from marking the properties to their most current market value. The 2018 change in unrealized gain amount is recorded as a component of net loss on real estate and mortgage loans in our condensed consolidated statement of operations.

The following table presents the components of net gain (loss) on real estate and mortgage loans during the three months ended March 31, 2018 and 2017 ($ in thousands):

	Three months ended March 31,	
	2018	2017
Change in unrealized gain on mortgage loans due to:		
Conversion of mortgage loans to REO, net	$137	$9,486
Change in fair value, net	63	560
Reclassification to realized gain or loss	(15,708)	(61,911)
Total change in unrealized gain on mortgage loans	(15,508)	(51,865)
Net realized (loss) gain on mortgage loans	(470)	35,550
Net realized gain on sales of real estate	14,344	19,956
Net (loss) gain on real estate and mortgage loans	$(1,634)	$3,641

3. Real Estate Assets, Net

Real estate held for use

As of March 31, 2018, we had 12,213 single-family residential properties held for use. Of these properties, 11,090 had been leased, 493 were listed and ready for rent, 230 were in unit turn status and 141 were in varying stages of renovation. With respect to the remaining 259 REO properties, we will make a final determination whether each property meets our rental profile.

As of December 31, 2017, we had 12,241 single-family residential properties held for use. Of these properties, 10,850 had been leased, 591 were listed and ready for rent, 340 were in unit turn status and 194 were in varying stages of renovation. With respect to the remaining 266 REO properties, we were in the process of determining whether these properties would meet our rental profile.

During the three months ended March 31, 2018, we recognized no impairment on real estate held for use. During the three months ended March 31, 2017, we recognized $2.3 million of impairment on real estate held for use, all of which related to our properties under evaluation for rental strategy.

Real estate held for sale

As of March 31, 2018 and December 31, 2017, our real estate held for sale included 203 and 333 REO properties, respectively, with an aggregate carrying value of $45.3 million and $75.7 million, respectively. Management determined to divest these properties because they do not meet our residential rental property investment criteria.

During the three months ended March 31, 2018 and 2017, we recognized $5.9 million and $2.1 million, respectively, of net impairment on our real estate held for sale.

(table of contents)

4. Mortgage Loans

The following table sets forth information related to our mortgage loans at fair value, the related unpaid principal balance and market value of underlying properties by delinquency status as of March 31, 2018 and December 31, 2017 ($ in thousands):

	Number of Loans	Fair Value and Carrying Value	Unpaid Principal Balance	Market Value of Underlying Properties
March 31, 2018				
Current	16	$ 1,437	$ 2,139	$ 3,102
30 days past due	2	307	400	575
60 days past due	1	51	138	79
90 days past due	18	265	5,793	4,790
Foreclosure	62	8,214	17,950	19,683
Mortgage loans at fair value	99	$ 10,274	$ 26,420	$ 28,229
December 31, 2017				
Current	17	$ 1,528	$ 2,380	$ 3,156
30 days past due	1	51	139	70
60 days past due	3	304	344	630
90 days past due	23	720	7,674	6,498
Foreclosure	67	8,874	18,813	20,820
Mortgage loans at fair value	111	$ 11,477		