Q4 2022 Shareholder Letter

January 30th, 2023

Q4 was *another* quarter of records (and significant growth). Thank you for being an incredible partner and investor with us and our team.

Overall, we continue to invest in people, technology and infrastructure heavily. More importantly, it's paying off in leaps and bounds.

- We crossed $1M in booked revenue through Q3. In Q4 alone, we saw over $841,000 in realized revenue. Acceleration is occurring and our profitability increased by 1% QoQ.
- Last quarter we shared we were trending about ~20% above projections. Since then, we've picked up even more, currently we're trending about ~27% above projections.
    - That 7% bump is a 25.9% acceleration after gathering additional data given seasonality. We're forecasted right now to beat our property projections by over ~30% as we continue to stabilize.
- Live properties (ones accepting bookings) delivered over ~4% CoC just for Q4.
    - Assuming our entire portfolio was live today and performing similarly, we'd be on a ~16% annual return just from cash flows. This does <u>not</u> factor in seasonality and is a rather simplistic view of this metric. To <u>not</u> speculate, we can confidently share that we've continued to outperform and considering the bookings already on the calendar, we predict that performance will continue.
- We hired a new Head of Asset Management and a new Head of Operations.

Lastly, we've announced STR Fund 2!

Fund 2 is identical to Fund 1. Just bigger, better, and with a much larger headstart across the board when it comes to markets, data, people, technology, and infrastructure. We invite you to participate in Fund 2.

Below, you'll find all metrics as usual, with in depth reporting on the market, the portfolio and other thoughts from managing a $37M+ STR portfolio. As always, we'll continue to be strategic with investments as this growth continues. Cheers! 🥂

Sief Khafagi

Sief Khafagi
Principal

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Key Metrics

What to Know: *We optimize for a balance of Cash-on-Cash (CoC) and Internal Rate of Return (IRR). CoC is your yield. IRR is your total, all-inclusive return on capital invested, including both cash yield and equity gain. CoC will serve as the short-term return on capital while total IRR serves as the true barometer of a return because it factors everything inclusively, including time.*

✅ Portfolio Overview

Occupancy	76.31%
Average Daily Rate (ADR)	$475.81
Our Rental Revenue this Quarter vs last Quarter	$841,270 **(+113%)**, previously $394,675
Market Rental Revenue	$491,148, **+71%** vs market
Net Operating Margin (before debt)	60.4% **(+1%),** previously 59.6%

***These are the metrics that generally we target as key performance indicators of our portfolio. Increases are either quarter over quarter or vs market. Occupancy and ADR are seasonally adjusted so comparing quarter over quarter (up or down) is useless.*

✅ Asset Level Internal Rate of Return (IRR)

Trending Asset IRR (based on 8 exits)	42.94% (*based on exits*)
Target IRR	17% to 24%
Target Equity Multiple	2x and up over a projected 4-6 year hold

***Trending is exclusively based on actuals, target is based on goals and projections from pro forma and underwriting.*

✅ Equity & Capital

Total Capital	$37,494,553 **(+87%)**, previously $20,104,000
Capital Allocated	100% **(+0%)**, previously 100%
Distributions this Quarter	$261,594 **(+24.7%)**, previously $209,673
Net Rental Income (non-exits)	$276,709 **(+103.4%)**, previously $136,034

***This fund is now closed and will not accept new investments. Fund 2, is now open. Capital allocated includes properties under contract, some of which may or may not close. Distributions include the sum of all net returns, net of all expenses/fees to investors.*

✅ Pipeline Overview

Total Properties (including past exits in this fund)	81 **(+62%)**, previously 50
Properties Under Contract	13
Properties in Reno/Design/Set Up	21
Live Properties	39 **(+85%)**, previously 21
Exited Properties	8 **(+0%)**, previously 8
Markets Entered	10, previously 9

***Total Properties includes exited properties. Number of markets entered includes all markets we've acquired at least 1 property. Live properties are active STRs accepting bookings.*

71%
more revenue than market

113%
more revenue QoQ

You might remember this image from our last update… Wethersfield, pictured above, is on pace for a $30,000+ March. Hello high season!

Overview

For this quarter, we'll distribute $261,594 to investors. This is *25% higher* than last quarter. More importantly, net rental income from the short-term rentals themselves (we didn't exit any assets and don't plan to anytime soon) was up another 103% QoQ.

We also increased our net operating margin by ~1% from 59.6% to 60.4%, with more room to improve coming as we stabilize.

We took in our largest amount of capital in a quarter, *87% more QoQ*. This was an incredible validation of the strength of this asset class and the confidence investors have in our team, execution, and where we're headed.

You'll notice in the above data that we're also 100% allocated. This was an incredible effort by our team to take in capital and deploy it responsibly.

To put this into perspective, we allocated $20M through 9 months and $17M in less than the 3 months following it. In addition, this means we have more properties than expected to ramp, so we appreciate your patience and partnership as we continue to scale the portfolio. Distributions will begin to normalize on an annualized run rate in Q2 or Q3 as all (or most of the properties) will be live. You'll notice a temporary dip in cash flows relative to past quarters given the influx of new capital, but you'll also see much faster catch up to cash flows once these properties go live.

Our team is tirelessly working to push for speed and quality. As for last quarter's ramp, we launched 85% more properties QoQ, so our pace is increasing (great for cash flow sooner). For a potentially more accurate representation or leading indicator of future cash flows, live properties (meaning a property accepting bookings) returned over ~4% cash flows just for Q4.

Assuming our entire portfolio was live and performed similarly, we'd be on a ~16% annualized rate of return from cash flows, without considering seasonality. Reasonably, and to keep this simple without speculating much, we're confident that our portfolio will continue to outperform our own projections, based on our first hand data thus far.

Lastly, a clear advantage that continues to prove its value, is our vertically integrated approach. Our first hand data, in house design and property management team, and of course, our people, continue to outperform the industry by leaps and bounds. Our OpCo + PropCo model isn't new for the fund world (in fact it's very traditional), but by building it to support our own properties, we've seen incredible increases across the board compared to industry.

We've been prepared to grow and operate at a significant scale for this very reason and this past quarter was a great test of our infrastructure, our investment in great people, and our commitment to technology, data, and execution. I'm incredibly grateful and proud for the effort our team, supported by our investor and fund manager community, has accomplished.

To be eligible for the above distribution, your investment needed to have been completed by the 12/16/22 cutoff date (signed + wired). This past quarter also marked the end of open investments for Fund 1 and we will not be accepting additional capital into Fund 1.

*Fund 2 however, bigger and better, is **now open** for investment.*

What We're Buying and Where

Fund 1, which raised over $37M, is no longer accepting new capital and we'll land roughly around 81 properties in the portfolio. We've already exited 8 of them for a 42% IRR and plan on holding the remaining 73 for cash flow for years to come, unless an exit presents itself earlier than expected.

Of the remaining 73, we have 39 live properties and another ~34, give or take if anything falls out of contract or is added, still to launch. This includes 21 that are already closed and under renovation, design, etc.

We continue to buy heavily in 3 primary states: Arizona, Pennsylvania, and Florida, with several sub markets in each. We've complimented those buys with properties in Georgia, Tennessee, Missouri, Illinois and New York. We're continuously evaluating new markets and are mapping

200+ at any given time to collect data and direction on "where to buy next." As always, you can reference your investor portal for a list of all assets.

Equity vs Debt Ratio

At acquisition across the portfolio, we hold a 23.52% equity position (including our projected LTVs on our properties under contract), vs the 25.10% equity position we held last quarter. To be clear, this does **not** mean our equity dropped or that prices fell.

All this means is we increased our borrowing of debt and lowered the amount of equity (cash) we brought to the table. This does not factor in the extensive value-add (renovations and improvements we've made) or the likely increase in value based on market conditions.

We project we're into the 30s for an equity position when factoring in the forced equity we've added to properties.

All of our debt we hold is fixed, minimum 10 year loan terms with ZERO balloon payments and/or floating rates during the first 10 years.

We have the flexibility, and more importantly **time**, to navigate **IF** needed.

We temporarily increased our reserves to proactively launch the increased volume of properties and this is roughly ~5.5% of invested capital. We do expect this number to come back down and therefore may buy an additional property or two to the portfolio with the additional free cash flow. Given this portfolio is no longer open to new investments, we're taking a slightly conservative approach to cash flow management for the next quarter or two as properties launch. As more and more properties continue to come online, we'll re-evaluate our position.

Fund Lifecycle

When we think about performance, we model a bell curve. A bell curve has a ramp, stabilized median, and then a wind down.

In our projected 5-year hold, we project these phases to look something like this:

- Ramp = Months 0 - 18
- Stabilization / Optimization = Months 12 - 48
- Wind Down = Months 36 - 72

We're currently in the **ramp** phase of Fund 1 and project to be there for the next 3-6 months. Live properties are also stabilizing much faster than projected.

Tax Benefits & Depreciation

K-1s, including paper losses on those K-1s will be sent out no later than mid March as currently planned. We're working aggressively to get you this information from our CPA and CFO partners asap.

We are NOT seeing an "Airbnb Bust"

If only we had a penny for each time we heard about the "bust" in the STR space… here, here, here and here to name a few, we'd be rolling in the dough as they call it. Or for us, what about bookings?

Now, we believe the STR market is getting an increase in supply (and hint, that's a good thing) because the operators in this space are mom and pops, continuously with poor design, operations, and lack of scalability. As a reminder, we are the institutional option in this space. More importantly, it shows in the numbers.

Our homes drove on average, equally weighted, about $10k more in revenue per door in Q4 than the market. And that's JUST for the quarter, including seasonality. In short, that's a lot of additional revenue and cash flow our team was able to unlock vs projections.

41%	350k
more occupancy than market	more in revenue than market

We continued to excel in pricing, yield, and stabilization, all equal parts in optimizing returns. Perhaps most notable, we're currently forecasted to beat our conservative revenue projections by over 30% and that's without optimized stabilization.

Our Biggest Win this Quarter was Talent

We could not be here today without the incredibly talented people we have on our team. Each and every person continues to grow, develop, and unlock new insights into the world of STRs.

In Q4, we added 2 notable hires, our new Head of Asset Management & our new Head of Operations as well as a new advisor.

Mick, our lead on Asset Management, previously led revenue at Vacasa, the only true STR company to go public. There he managed risk, reduced operational inefficiencies to drive profitability and of course, drove top line yield strategy. Here, he'll own day-to-day asset management and much of the same as he did at Vacasa.

Josh, our lead on Operations, was our lead on some of our southeast projects and given the success we've been having, it was an easy decision to bring Josh onboard. He brings tremendous experience in scaling single family homes as an asset class with stints at DR Horton and Dream Finders Homes (DFH on the NYSE) where he successfully led a $350M fund on operational challenges of the SFR asset class.

Jamie Lane, the VP of Research & Data at AirDNA has also joined our advisory as our commitment to data-driven decisions strengthens. We continue to add strategic partners and leaders to our team and through advisory as a competitive advantage.

Partnerships Continue to Expand

Q4 was a record shattering quarter for capital and continued to strengthen investor confidence. Investors and fund managers committed 87% more than we had previously raised in the last 3 quarters combined.

We're grateful, confident, and ecstatic to continue scaling with our partners who believe in this emerging asset class.

Debt & Equity Markets Opening Up

We continue to be in deep discussions with several lending partners on additional capital stack advantages, including the ability to refinance into cheaper debt via portfolio loans and other options.

Separately, we're also in discussions with parties who are eagerly interested in potentially purchasing our Fund 1 homes in the future. These buyers thus far have been exactly what we expected: large private equity groups seeking yield.

While it's too soon to tell, and we have zero interest in selling this early unless it's an incredibly favorable outcome, we continue to see confidence in this asset class among large institutions who become educated via our data and performance *increase substantially.*

Additional Disclosure

In Q4, we transitioned all our applicable entities from Wyoming to Delaware for better protection, more favorable business practices, and other factors as advised by several legal partners. There is no further action needed on your part as an investor or fund manager (more of an FYI).

Capital & Company

Our companies continue to efficiently serve our communities and investors.

Techvestor is our proprietary tech enabled platform we've built to support scaling the best STR portfolio we can envision.

Superhost Labs is our property management & brand/media affiliate that drives all the operations (OpCo) that you see today, and in the future, potentially our disposition partner as we continue to build the turnkey STR ecosystem.

S&S Max Holdings is our manager and operator of this offering.

Your Investor Portal

You can see all metrics, photos (befores and afters), and even Matterports (walk the properties visually) inside your portal at techvestor.investnext.com.