STR2 Q1 2024 Shareholder Letter

May 1st, 2024

Portfolio Overview

What to Know: *We optimize for a balance of Cash-on-Cash (CoC) and Internal Rate of Return (IRR), over a long period of sustainable equity growth. 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.*

Total Capital	$37,819,481
Occupancy for the Quarter	80% vs the 54% in the Market **(+48% more)**
Average Daily Rate (ADR)	$594
RevPar for the Quarter	$481 vs $353 for market **(+36%)**
Gross Rental Revenue This Quarter	$1,840,240 vs $1,320,488 expected **(+39%)**
Market Rental Revenue	$1,157,233 vs Us **(+59%)**
OpEx Ratio for the Quarter	37%
Net Operating Income	$1,096,976
Distributable Cash Flow	$685,431

***These are metrics that we generally target as KPIs. Increases or decreases are either quarter over quarter or vs market. Metrics are seasonally adjusted as the short-term rental market. Most if not all metrics may not reflect 100% accuracy if revenue, expenses, or reallocation (or other) of capital falls between 2 quarters, it may be categorized in one or the other (recognized or not). We expect we'll introduce new and/or different metrics over time as properties go 100% online, including projected portfolio value. NOI does not factor in overhead expenses of the PropCo. All metrics may be weighted or unweighted. We make no representations using this data.*

Seasonality, KPIs & Strategy

This is a general representation of peaks and valleys of seasonality in this portfolio. One of the benefits of diversification in the STR space is reduced volatility and increased efficiencies. In this portfolio we expect a slightly higher uptick in cash flows in the first half of the year compared to the second half of the year.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

We generated over $1.8M in revenue, about ~$700k more than market and ~$500k more than expected. Revenue increased by about $950k alone QoQ. RevPar, which measures how much revenue is earned each day of the period, whether the day is booked or unbooked, was $481 vs the market average of $353. We're seeing 36% premiums compared to the market given our homes are more in demand and compete with a much smaller subset of supply in each of our markets.

We drove 48% more occupancy than market and had lower pricing power at the 93rd percentile at a $594 ADR (average daily rate) compared to market at $641 primarily weighted down by assets with less than ideal booking lead time. This was fully expected. RevPar, a measure of both occupancy and daily rate, exceeded the market by 36%, including those with less booking lead time so we feel confident there as those ramp.

We **continue** to win across the digital sphere: search, clicks, conversion, rank, optimization, and more. It may not come as a surprise that Google, Airbnb, and other OTAs have a user journey they want a user (aka you and I) to experience. That journey is one we understand quite well.

Our strategy and current focus is to ramp up projects, improve launch times, and eventually streamline operations, reducing our expense ratio when able and finding the best blend of profitable bookings vs supply and demand. We've made investments in tools and infrastructure in an effort to best predict and track 100s of data points. Sometimes we find ourselves coining industry first terms and methodologies that are logical but haven't yet been tested in the marketplace.

We continue to remain opportunistic and will be for the foreseeable future when it comes to exit, although we believe we are likely several years away from a potential exit. As a reminder, 100% of our debt is fixed for at least 10+ years (up to 30 years) across a non-cross collateralized portfolio with geographical and seasonal diversification.

NOI, OpEx, DSCR, and Cash Flows

We'll distribute right over $685,000 to investors this quarter and as we get into the summer months of 2024, we'll be continuing our peak season as well. Distributions more than doubled QoQ from Q4 to Q1 and that's after they tripled from Q3 to Q4. While we don't expect that to continue forever, we are seeing faster than expected ramp times on projects and more "home runs" in this fund given our previous track record of launching dozens of homes and learning from those properties. We've also taken steps to improve a couple of "straggler" properties given what we've learned studying other data points with small continuous improvements.

During the period, 94% of our assets delivered a positive return, with the unweighted average being a 2.59% quarterly cash-on-cash per asset and the range of assets between a -1.9% on the low end and a 6.1% on the high end during the period.

While we'll realize Net Operating Income of right under $1.1M for the quarter which is just under 2x QoQ. To further improve this, our largest focus continues to be on improving our expense ratio which has continuously held under 40%. Some of our tests and hypotheses in Q4 held, while others did not. It's a constant test not only at the asset level but also during different seasonal parts of the year.

In addition, we experienced yearly expenses like community dues and overhauled our supply (and re-supply) infrastructure with different vendors. We made other improvements in security and utility efficiency as we've identified that as an opportunity to drive costs down and with AirBnB's continued focus on quality and product, we upgraded our security and monitoring infrastructures. Lastly, we're launching additional preventative maintenance partnerships in core markets to test if those approaches lead to less "surprises" and overall lower OpEx costs.

An optimal OpEx is sub 35% and our goal is to continue to aim for this number and explore its sustainability over an extended period of time. Our target OpEx will range between 32% - 42% on a fully stabilized portfolio, although this is subject to change as the labor/materials markets also change as we've seen in the last 24 months.

Our unrealized equity gains continue to bear fruit with increased valuations of our real estate holdings (based on what we're able to identify qualitatively in the market), a better product to deliver optimal cash flows over a long period of time (we have an 8+ year outlook) and reducing the likelihood of additional capex inefficiencies in the future.

Not to mention an experience that 10s of thousands of guests will continue to come back for. This ultimately leads to a stronger positioned portfolio and more optionality at our eventual exit.

Taxes (K1s), Fixed Debt & Reserves

All of our debt we hold is fixed, minimum 10 year loan terms (up to 30 year 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. Our reserves continue to sit around 3-5% of invested capital. We do expect this number to fluctuate up or down as the market fluctuates and will continue to consider whether increasing or reducing our current reserves in 2024 and 2025 as a part of our continued contingency planning efforts makes sense. We're not seeing foreclosures, or delinquencies in the broader residential real estate market.

We are awaiting final word from our CPA/CFO Advisory partners on when we can get K1s out in the coming weeks/months. We appreciate your patience during this anomaly of a year.

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.

During our hold period, we project these phases to look something like this:

- Ramp = the beginning, onboarding, and launching of all homes
- Stabilization / Optimization = the collect cash flows and optimize day by day
- Wind Down = the time to exit opportunistically or continue to hold for cash flows

We're currently in the **Ramp phase.**

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.

SS2 is the manager.

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.

Lastly, you can also find raw, row level data on key metrics at the property level using this link as well.