# STR2 Q2 2024 Shareholder Letter

*August 14th, 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 | $43,030,517 |
| Occupancy for the Quarter | 75% vs the 51% in the Market **(+47% more)** |
| Average Daily Rate (ADR) | $579 |
| RevPar for the Quarter | $443 vs $264 for market **(+68%)** |
| Gross Rental Revenue This Quarter | $2,027,273 vs $1,339,245 expected **(+51%)** |
| Market Rental Revenue | $1,093,728 vs Us **(+85%)** |
| OpEx Ratio for the Quarter | 41% |
| Net Operating Income | $1,151,222 |
| Distributable Cash Flow | $635,662 |

***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.

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

We generated over $2M in revenue, about ~$933k more than market and ~$688k more than expected. RevPar, which measures how much revenue is earned each day of the period, whether the day is booked or unbooked, was $443 vs the market average of $264. Our RevPar to market was nearly 2x better QoQ (68% this Q vs 36% last Q) reflecting a resilient portfolio compared to market and significant demand of our homes relative to market.

We drove 47% more occupancy than market and had significant pricing power at the 113th percentile at a $579 ADR (average daily rate) compared to market at $519.

*This represents the best quarter of pricing power and RevPar relative to the market we've ever had in any portfolio in any quarter.*

We **continue** to win across the digital sphere aka search, clicks, conversion, rank, optimization, and more as reflected in our 37% better search to booking conversion rate vs our compset across all properties in all portfolios. This is also further validated in the RevPar performance and pricing power data above.

**NOI, OpEx, Quality, Debt and Cash Flows**

We'll distribute right over $635k to investors this quarter on just over $1.1M in NOI. Our largest focus continues to be on improving our expense ratio which has been higher than expected because of inflation, labor costs, and goods.

Last quarter we also shared what we believed to be changes from our platform partners with a renewed focus on quality and certain changes to the algorithm that influences search, rank, and an increased risk of things like suspensions on platforms (usually a 4-7 day timeframe) for properties that don't comply or meet certain requirements over a specific time period. Over the last few months we've attempted to better understand the new algorithm's changes, adapt in real time, and begin to implement new policies, revenue strategies, and more.

This is common for there to be platform and algorithm changes around reviews, search, ranking etc. Given our listings are historically much more occupied vs market and have dozens more moving pieces (think amenities, things to do, size etc), this has posed a challenge that we didn't expect nor saw coming in regards to quality, expectations and maintenance. Some of these challenges make some markets (or home types) much harder to operate than others in the scope of delivering a top tier experience to guests. There is often a direct correlation between these challenges, quality, and cash flows. Where one gives, the other can take.

We've been implementing new policies, SOPs, and specifics to accommodate these changes and focus areas. In addition, we've built out new tracking tools to "track what they track" so we can increase the likelihood of being proactive vs reactive to things like quality at our homes, more preventative measures around guest communication, cancellation policies, and increased review scores.

We're in the process of visiting the vast majority of live homes in person to explore specific quality and revenue improvements to both the home and the guest experience as owners, something that we've continued to do and found measurable value in. We expect to work through some of our largest markets by mid to late August, in addition to a dozen or more initiatives we're implementing.

We expect to allocate resources (TBD on exact amount) across capital improvements, reserves and any potential upgrades (think adding a pickleball court where we initially didn't) to these homes.

These decisions will have a direct impact on revenue, NOI and future expense ratios. More importantly, we want to ensure we can continue to operate sustainably over an extended period of time, continue revenue superiority, protect our physical assets, drive bottom line NOI and the preventative measures needed to protect both equity and future cash flows, and of course, the guest experience will continue to be our #1 north star/priority.

Lastly, what we're doing is *working* in the marketplace. *Per AirDNA's data, we're driving the 23rd highest revenue per listing in the country.* The 22 above us primarily include luxury, beach, or multi-million dollar properties and far more "lux" locations than ours. We're the only owner-operator in the mix (to our knowledge), vs. the rest, which are property managers.

*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. We're not seeing foreclosures, or delinquencies in the broader residential real estate market.

**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.