# STR2 Q4 2023 Shareholder Letter

*February 7th, 2024*

Our team continued to stay busy in Q4 launching 19 ***NEW*** properties this quarter putting us at 36 bookable properties through the end of Q4 with another 20+ in the pipeline that have yet to close, launch etc. Placing these in service will also allow us to benefit from the tax benefits of those assets for the 2023 tax year.

Distributions are up more than ~3x QoQ and we expect total distributions to continue to increase QoQ as we stabilize, ramp and onboard net new properties. Operationally we saw one of our strongest OpEx quarters with a sub 35% expense ratio and will continue to monitor improvements here that are sustainable over the long-term.

We appreciate your partnership and as always, we welcome your feedback. Below you'll find an overview of Q4's performance, our current view on strategy and more.


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

Cheers! 🥂

sief khafagi

Sief Khafagi
Principal

## 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 | $34,782,495 |
| Occupancy for the Quarter | 74% vs the 50% in the Market **(+48% more)** |
| Average Daily Rate (ADR) | $522 |
| RevPar for the Quarter | $390 vs $292 for market **(+34%)** |
| Gross Rental Revenue This Quarter | $893,889 vs $649,302 expected **(+38%)** |
| Market Rental Revenue | $551,725 vs Us **(+62%)** |
| OpEx Ratio for the Quarter | 34% |
| Net Operating Income | $561,578 |
| Distributable Cash Flow | $316,864 |

***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 |
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We generated over $893,000+ in revenue in Q4 as we continued to onboard 19 new homes. 17 of those 19 had less than 60 days of "being live" in the period as most of those launches began after November 1st. This is important for driving premium ADRs at optimal occupancy and therefore we expect these homes to contribute a higher weight on a go forward basis in future quarters.

RevPar, which measures how much revenue is earned each day of the period, whether the day is booked or unbooked, was $390 vs the market average of $292. We're seeing 34% 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 while maintaining similar pricing power at the 93rd percentile at a $522 ADR (average daily rate) compared to market at $560.

Driving this performance can be credited to our focus on: 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.

For example, in reviewing 2023 performance across all Techvestor associated assets, we saw up to 4x the views in search, up to ~48% higher conversion rates (aka people clicking into a listing and actually booking) at a ~20% higher premium at times throughout the year. There are hundreds if not thousands of tiny decisions our team (or software) makes from acquisition to operating that allows for this to happen day in and day out.

Our strategy continues to remain steadfast in finding inefficiencies in the real estate market. We focus on identifying the markets with increasing (or lack of competitive) demand that have limited supply of an ideal asset type and reasonable density (aka scale) of actual real estate to bring that supply to market. We bring our operational advantages as an STR to that market to win on multiple fronts while ensuring we can continue to serve over 120,000+ guests across our portfolios sustainably each and every year. These very same guests continue to tell us that these assets are "what an airbnb should be" after visiting.

For exit, we give ourselves options, including the ability to sell tomorrow and the ability to hold for an extended period of time given we have fixed rate debt for 10+ years (most are 30 years) across a non-cross collateralized portfolio with geographical and seasonal diversification. Pair that with a strong team and industry leading advisors, we're well positioned for both adapting and predicting what comes next in the market.

**NOI, OpEx, DSCR, and Cash Flows**

We'll distribute $316,864 to investors this quarter, more than 3x QoQ and we expect to continue to increase this over the coming quarters in 2024 with more properties ramping and going live. During the period, 97% of our assets delivered a positive return, with the unweighted average being a 1.7% quarterly cash-on-cash per asset. Given that ~50% of the portfolio had been live for less than 60 days, this was a win for all of us. Often the most volatility around short term performance is at the onset of launch.

We'll realize Net Operating Income of $561,578 for the quarter and saw a significant improvement in OpEx for the quarter with our first sub 35% quarter. Sub 35% is an optimal goal and we don't expect to be in this range until we're fully stabilized, therefore seeing it this early was a testament to the efforts of our team, infrastructure and ability to improve the bottom line. Our goal is to continue to aim for this number and explore its sustainability over an extended period of time. We expect to see an increase in OpEx in Q1 of 2024 with other dues being paid at the beginning of the year and will continue to monitor its sustainability through peak season. Our target OpEx will range between 32% - 42% on a fully stabilized portfolio. This is subject to change as the labor/materials markets also change as we've seen in the last 24 months.

In Q4, we saw our construction, renovation and design times (essentially the time from close to launch) increase by around 1-2.5 weeks on average depending on market. Part of this was the season (snow for example inhibits our ability to paint an external structure) and part was our increased scope of renovations and design.

While we took on longer scoped projects, our unrealized equity gains continue to bear fruit with increased valuations of our real estate holdings, 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 (most are at 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 nor can we call additional capital.

*We expect to have K1s out no later than March of 2024 for the 2023 tax year. Please ensure your information is up to date in your portal for accuracy and speed.*

**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.