STR2 Q3 2023 Shareholder Letter

November 15th, 2023

STR 2 more than doubled its properties accepting bookings QoQ, now sitting at 17 through the end of Q3 and another ~33 in the pipeline at various stages. We expect most of these homes to be live and operational in Q4, or at a minimum, ready for peak season, which starts to take form in January 2024. This quarter also marks our first distribution of this portfolio.

In STR 1, our first portfolio, Q3 and Q4 represent our lowest seasonality while Q1 and Q2 represent our peak season. While they aren't identical, we expect to see similar spreads here when it comes to expected revenues, cash flows etc.

Below, you'll find portfolio metrics as usual, with in depth reporting, insights, and more. You can also find raw, row level data on key metrics at the property level using this link as well. As always, we'll continue to be strategic as this growth continues. The best is yet to come.

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	$27,066,725
Occupancy for the Quarter	75% vs the 54% in the Market **(+39% more)**
Average Daily Rate (ADR)	$448
RevPar for the Quarter	$331 vs $223 for market **(+48%)**
Gross Rental Revenue This Quarter	$333,423 vs $260,837 expected **(+28%)**
Market Rental Revenue	$214,967 vs Us **(+55%)**
OpEx Ratio for the Quarter	45%
Net Operating Income	$173,057
Distributable Cash Flow	$93,757

***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 Matrix

This is a general representation of peaks and valleys of seasonality in the STR space and what to expect for performance. Yet another reason why diversification via a portfolio is powerful and a strength of this model.

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

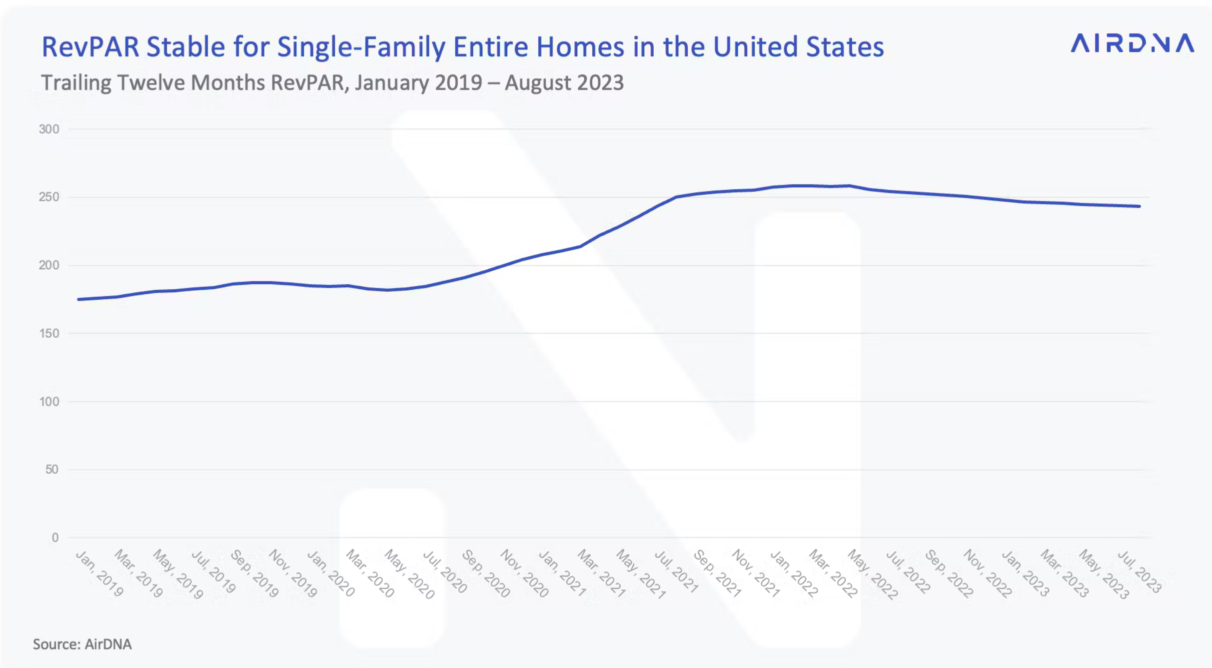
Revenue, RevPar, Occupancy & ADR

We generated $333,423 in revenue in Q3, 28% more revenue than projected and 55% more than the market. We're pacing 27% ahead of seasonality when it comes to revenue, showcasing strong demand for our homes.

We drove 39% more occupancy than market (75% vs 54%) while pricing above the market at the 104th percentile at a $448 ADR (average daily rate) compared to market at $432.

RevPar, which measures how much revenue is earned each day of the period, whether the day is booked or unbooked, was $331 vs the market average of $232. We're seeing 43% premiums compared to the market.

RevPar nationally is fairly stable and our RevPar this quarter was 32% higher than the national market average.



NOI, OpEx, DSCR, and Cash Flows

We'll distribute $93,757 to investors this quarter and expect this to continue to increase as we get into our peak months starting in Q1 and increase velocity with more properties going live (~33 more or so in the pipeline at various stages).

Net Operating Income grew to $173,057 for the quarter while our DSCR (Debt Service Coverage Ratio, which is Net Operating Income divided by cost of debt) remains incredibly strong, ranging between 2.5x and 3.5x across the portfolio on an annual basis. Our annual target remains 2x or better.

OpEx continues to be the long-term focus to optimize expenses and further increase profitability. A key initiative here is our boots on the ground infrastructure which is finally beginning to recognize the benefits of economies of scale.

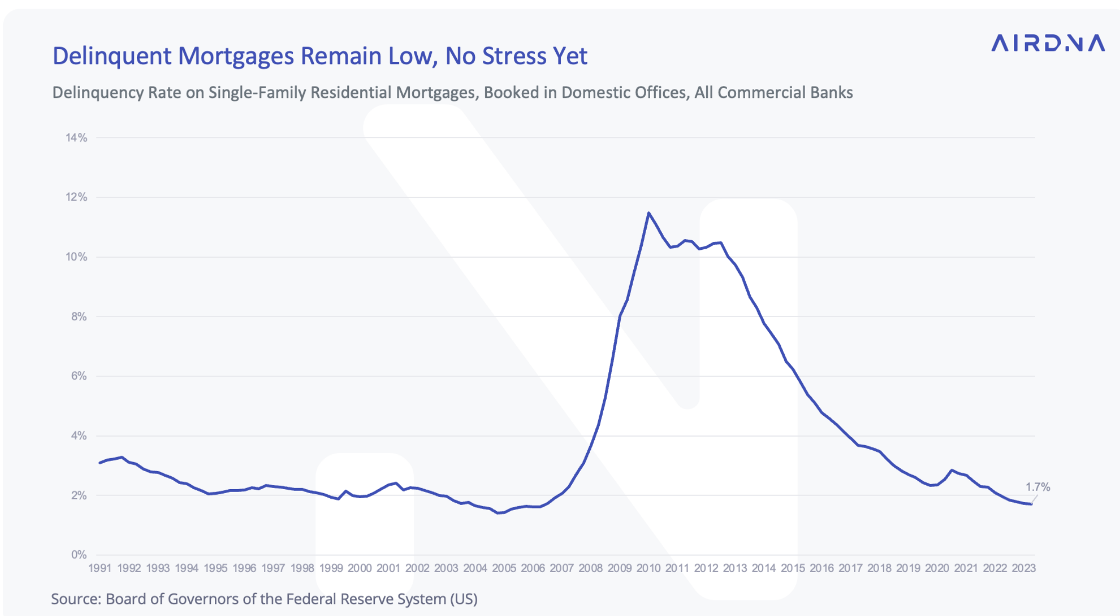
Fixed Debt & Reserves

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.

Our reserves sit at around roughly 3-6% of invested capital. We do expect this number to fluctuate up or down as the market fluctuates.

We're also not seeing foreclosures, or delinquencies in the broader real estate market. Per AirDNA, we are sub or around ~2% which is historically one of the lowest ever in the last 30 years.



Market News

We're starting to see more and more institutionalization of the space and a recent WSJ article about the private equity group TPG and its interest and recent purchases this year of short term rentals continues to reinforce this thesis. In addition, Revedy, which has underwritten over $30B in short term rental specific assets has survey 200+ institutional investors and most are:

"convinced of the staying power and future institutionalization of the asset class, but we are likely 12-24 months away from significant institutional investment."

Per Revedy, these are the factors holding large institutions from entering the market of STRs:

1. Lack of operator track record, i.e., 24-month historical performance on owned portfolios of 20+ assets that can show TTMs with >10% unlevered yields;
2. Uncertainty around exit cap rates on portfolios of short-term rentals (although we are starting to see a few groups who are exiting properties on a cap rate basis between 5.5 - 7.5%);
3. Current drop in RevPAR/ADR/occupancy statistics across markets and the overall headline concerns with oversupply;
4. Operating efficiency is an issue as operators lack the "clustered" supply, especially those across multiple markets, driving up the costs to manage assets (for example, think about the efficiencies of cleaning 20 hotel units in the same building vs. 20 homes across multiple neighborhoods in a market);
5. Overall challenges in the capital markets and access to debt at attractive rates;
6. Relative opportunities in public markets, e.g., REITs pricing at implied 9 caps

Our portfolio with 120+ aggregate properties across all SMAs with continued stabilization should continue to feed and deliver on the narrative that institutional investors are looking for in both return profile, density and RevPar growth relative market (as mentioned earlier in performance). Points 5-6 are a matter of market conditions and we are positioned to hold out and operate with fixed rate debt for 10+ years if needed.

In short, we're already on the journey in building what they're looking for and will be in a position to meet their thesis and potential buy-box when they're ready.

Because of the above, we're encouraged with the interest of these large institutional investors as they may very well be the eventual buyers/partners of this portfolio we're building.

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 stage or continue to hold for cash flows

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

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.