# Hughes Capital Investor Update

January 2018

## Buy and Hold Fund Deploys Cash Quickly, Shows Very Little Downside Risk

We are projecting that the buy and hold fund will have deployed all of its cash by the end of January. Deal flow has stayed really strong even though we have increased the quality of what we are buying. As the cash becomes deployed and we start receiving cash flow on the properties purchased, the return of the fund will start to increase. **With our rent ratios* being so high at 1.3% to 1.6%, the fund shows very little downside risk.** If we use a typical property with very little leverage (25% or less), it produces 10% to 11% in a <u>net</u> cash flow return to investors which includes projected vacancy. When we do a stress test on that same typical property by decreasing the rent by 20%, the property still produces a net cash flow return of 7% to 8%. Obviously a 20% decrease in rent would be drastic and not expected but if that were to happen, it would still leave us in a strong positive cash flow position for that property. <u>**To get our net cash flow return to a breakeven (a 0% net cash flow), it would take an approximate 60% decrease in rent.**</u>

I had a new investor ask me what the risks are with our fund. I had a hard time answering that for him at the time since I know how much rent we could lose and still have a positive return. <u>I believe our biggest risk is a large decrease in demand in one of our cities for housing.</u> That could happen over time if a city has more people migrating out of it then into it, reducing the population. It could also happen if a very large employer were to leave, such as what has happened in Detroit when the auto industry pulled out. **We have one more important safeguard that protects us: We are geographically diversified so one city doesn't make up our whole portfolio.**

## ROI Trailer Park Purchase on Track

<u>ROI Strategies is still in the process of buying the 185 space trailer park in Columbia, South Carolina.</u> Our appraisal was held up and we are waiting on it. We should have it by the time you are reading this update. Everything else with the purchase appears to be on track.

## Sentinel Playing the Waiting Game

As for Sentinel, we continue to wait on replacements for our loans that need to be replaced. We might start to sound like a broken record since that is all we're waiting on and it may take a few more months to have that completed. **Investors received another distribution last month from other sold loans.**

## More Advance Requests but Stricter Guidelines for Advanced Commission

We have 2 full years under our belt with Advanced Commission, and it is fun to see our stats. In 2016, we received 1,473 applications for advances and we approved 68% of them. In 2017, we received 2,519 applications, and we approved 56% of them. Both numbers are headed in positive directions. We are receiving more applications, meaning **we are generating more interest and have created a loyal following with a portion of them**, and at the same time, we are becoming increasingly pickier about who we will approve for an advance, <u>which results in a better bottom line for us.</u>

## Assuravest Slowly but Surely Working on a Buy-Out

Assuravest is in the process of working out a purchase of our position on the big buy with the hedge fund. **Main Street has a buyer for our position** and we are working with Main Street to finalize that deal. Like always, everything moves at glacier speed in the notes industry. Notes are such a long-term play, there is rarely any urgency on anyone's part to move quickly. <u>It drives Steve and me nuts that we can't make it happen quicker.</u>

*Rent ratio is the rent divided by the home's price. $560 rent / $37,000 home price = 1.51 rent ratio

Until next month,

Steve Sixberry        Greg Hughes