Saying Goodbye to ROI Strategies

After a 12-year run, the ROI Strategies fund has come to a close as of December 31st, 2020. It is bittersweet to see our first fund reach the end of its life cycle, but we are proud of what we accomplished with it and looking forward to focusing more on our current investment options, which we feel have better long-term benefits for everyone. ROI Strategies was a longtime, profitable venture that started out on the steps of the courthouse here in Reno, when we were trying to figure out how to buy homes and flip them. Eventually, we moved into providing Lease-to-Own properties for people who were not able to get financing but wanted to own their home. We expanded that effort to Las Vegas, which has a much bigger population than Reno and were able to partner with a non-profit that helped people achieve homeownership. We were happy to see so many families use our program to settle down in their own homes.

In all, we ended up purchasing, flipping, and selling around 225 homes, with more than 84% of those homes being successfully purchased from ROI Strategies when the tenant families could get approved for financing.

Updates on the Buy and Hold Fund

As of mid-February, **<u>we have more than 1,180 doors under management within the portfolio, totaling $87 million in assets</u>**. Of this $87 million, $48 million is owned by the Buy and Hold Fund, $30 million are titled properties held in investors' names, and the remaining $9 million are purchased properties in various stages from rehab to ready for sale. A portion of those titled properties are 1031 Exchanges, and the rest are cash investors who are using outside financing to leverage their home purchases and increase their investment return.

When we look collectively at all five regions where we own properties (Akron, Toledo, and Cleveland, OH; St. Louis, MO; and Birmingham, AL), **our average occupancy rate is 95%**. We have seen an uptick in occupancy and a very slight uptick in rent collected.

We have some families who were required to not pay rent in order to get some type of rental assistance from various government programs. We have been working with those renters, knowing they were applying for assistance, and finally in January we received some larger sums from those rental assistance programs. <u>That's the good news</u>. We also have a handful of families who are still not able to pay their rent, even on the payment plans we have put together for them. **These situations are rare and our team continues to actively research public housing assistance programs to help our tenants receive any available support.**

Out of the 1,180 doors under management, we have fewer than 20 tenants in the eviction process. As we have reported prior, the eviction process continues to get drawn out because of COVID-19 legislation, so it is taking us longer to collect that rent. The courts in each region are at different stages of handling local evictions. Although they are moving slowly, most regions are still processing evictions. We are planning ahead with the anticipation that the process will continue to move slowly through the first half of 2021.

We know all of this will be temporary, and with the new government stimulus package we may see some of the delinquent rents be collected.

We have talked about this before but it bears repeating: For us, the most important metric to watch is how fast the homes we buy and rehab are rented once they are available on the market. We track this as a "Vacant Rent Ready Ratio" trend, which did tick up a bit late December and early January. However, **the applications picked up very quickly mid-January and there continues to be a very high demand for these affordable homes.** If there has been a silver lining of the pandemic, this would be it. People are relocating out of more expensive metropolitan areas and creating a higher demand for single-family homes in our chosen market, the Midwest. Ultimately, although we did see a small rise, the Vacant Rent Ready Ratio has not had any big shifts, and our data shows that the delinquent rent situation will only be temporary as we get through this.

Even though the economy remains uncertain, we feel positive about everything happening at Hughes Capital. We have many investors choosing to use their investment in the Buy and Hold Fund as a down payment to buy Secured Portfolio homes from us. This allows them to take advantage of today's unbelievably low interest rates and increase their total return up into the 15% to 20% range. Plus, the tax benefits through cost segregation, depreciation, and the interest deduction allow them to not have to pay any taxes on their income for the first 10 to 14 years.

We are also continuing to work on buying affordable housing in the multifamily property asset class. These types of properties that fit our strict criteria are few and far between, but they do exist. We are primarily concentrating on smaller bundle deals in the $3 million range. The financing and tax benefits are excellent for these assets, especially with cost segregation, which creates some very attractive returns. As we add these multifamily properties into the portfolio, it will help with the overall return.

Even though the portfolio's return has been affected by COVID-19 over the last 6 months, **we are pleased with our asset class of affordable workforce housing**, and we continue to remain bullish on the five cities in which we buy. As we continue to add more homes to the portfolio, we should see continued safety from the diversification through our volume of assets.

Until next time,

Steve Sixberry Greg Hughes

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