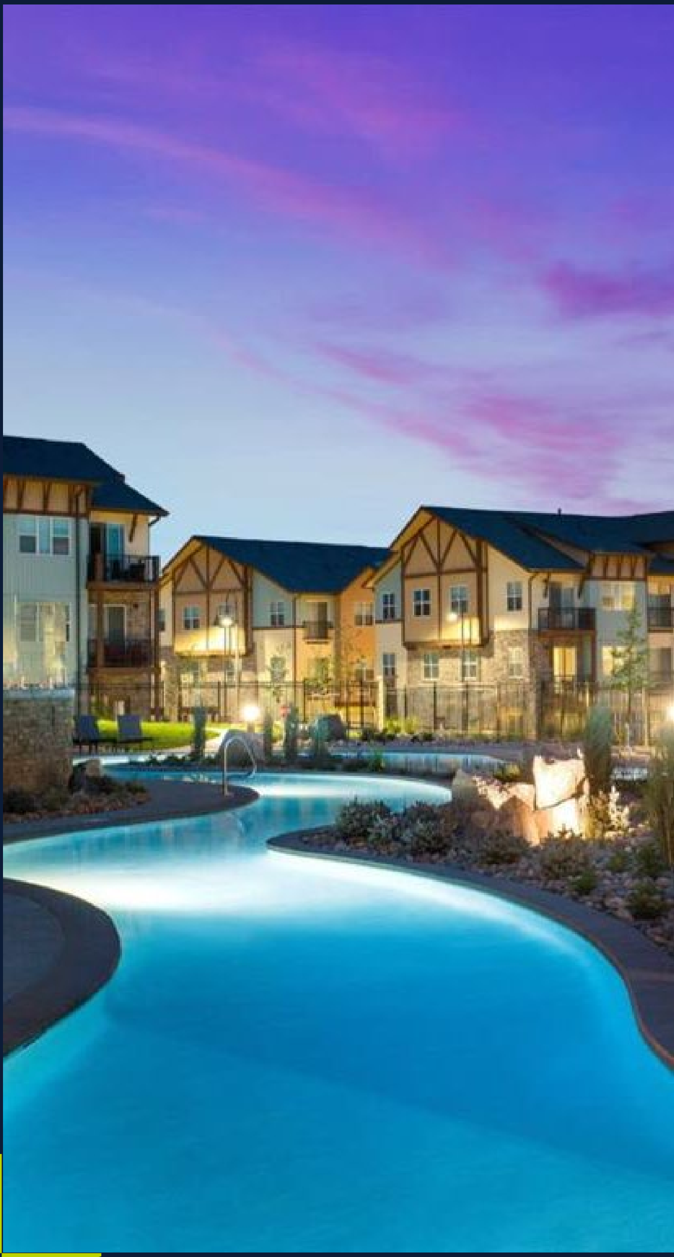
Starlight U.S. RESIDENTIAL

Newsletter

Starlight U.S. Multi-Family (No. 2) Core Plus Fund



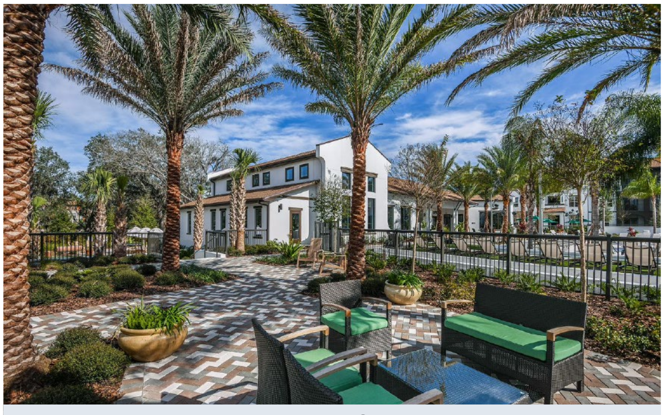
Montane Apartments (Denver, CO)

August 14, 2024

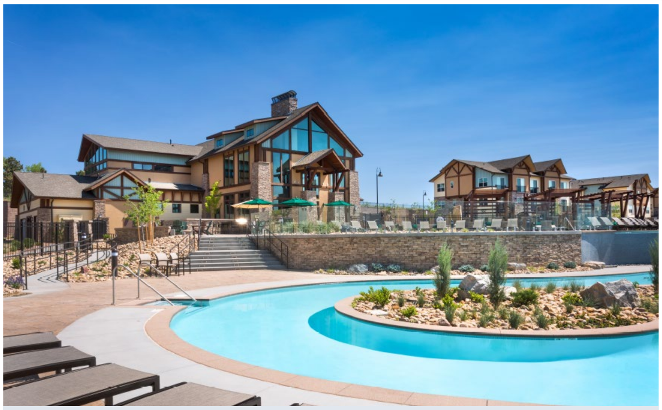
Newsletter | August 2024

Starlight U.S. Multi-Family (No. 2) Core Plus Fund (the “Fund”) is listed on the TSX Venture Exchange (TSXV: SCPT.A and SCPT.U). The Fund currently owns 995 suites in three apartment communities, Hudson at East (“Hudson”), Montane Apartments (“Montane”) and Summermill at Falls River (“Summermill”, and collectively, the “Properties”) and is asset managed by Starlight Investments US AM Group LP (the “Manager”). The Fund was established in February 2021 to indirectly acquire, own, and operate a portfolio primarily comprised of light value-add income-producing Class “A”, institutional quality multi-family real estate communities constructed in 1990 or later, located in Arizona, California, Colorado, Florida, Georgia, Idaho, Nevada, North Carolina, Oregon, South Carolina, Tennessee, Texas, Utah and Washington (the “Primary Markets”).

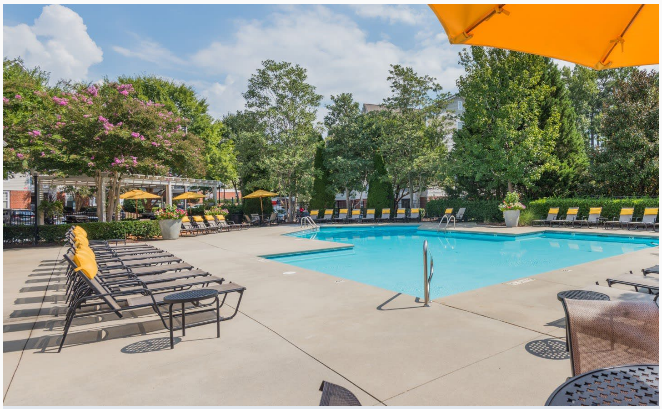
The Fund’s core plus strategy is focused on achieving increases in rental rates through high return, light value-add capital expenditures to rental suites, clubhouses and amenities in targeted, geographic locations experiencing compelling demand increases due to population and employment growth, as well as lifestyle preferences. The light value-add strategy also includes active asset management utilizing reputable, best-in-class United States (“U.S.”) based third-party property managers to implement net operating income (“NOI”)[1] growth by maximizing rental rates and ancillary revenue opportunities with rigorous operational controls to manage and reduce costs. The Fund’s presentation currency is U.S. dollars. Unless otherwise stated, dollar amounts expressed are in U.S. dollars.



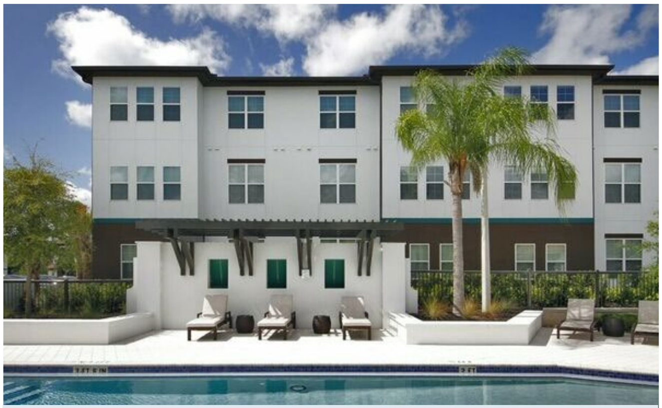
Hudson at East (Orlando, FL)



Montane Apartments (Denver, CO)



Summermill at Falls River (Raleigh, NC)



Hudson at East (Orlando, FL)

[1]This metric is a non-IFRS measure. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS. See “Disclaimer” for further details on non-IFRS financial measures.

Significant Events

The Fund achieved economic occupancy[1] of 94.6% during the three months ended June 30, 2024 ("Q2-2024") and a 1.8% increase in Average Monthly Rent ("AMR")[1] from Q2-2023 to Q2-2024.

The Fund completed 22 in-suite value-add upgrades at Summermill during Q2-2024, which generated an average rental premium of $206 and an average return on cost of approximately 15.0%.

On April 29, 2024, Starlight U.S. Multi-Family (No.2) Core Plus GP, Inc., as general partner of the Fund approved amending the one-year extension term to March 31, 2025, to provide the Fund with the opportunity to capitalize on anticipated improvements to the real estate investment market.

As at August 13, 2024, the Fund had collected 98.4% of rents for Q2-2024, with further amounts expected to be collected in future periods, demonstrating the Fund's high quality resident base and operating performance.

U.S. Multi-Family Market Trends

Since March 2022, the U.S. Federal Reserve has raised the Federal Funds Rate by approximately 525 basis points to slow inflation. As of June 2024, year over year inflation was 3.0% (flat from 3.0% in June 2023) and the U.S. unemployment rate was 4.1% (an increase from 3.6% in June 2023).

Metropolitan Market Information

The Fund owns 995 suites in three cities across three markets. The following highlights key macroeconomic and property data in each city and submarket.

Denver Market Trends

Employment

According to the U.S. Bureau of Labor Statistics, the unemployment rate in the Denver Metropolitan Area was 4.0% in June 2024, an increase from the March 2024 unemployment rate of 3.9% and slightly below the national average of 4.1%.

Occupancy and Rent

According to RealPage Market Analytics, Q2-2024 occupancy levels for Denver were 93.8%. Quarter over quarter average rents increased by 1.5%, while year over year rents increased by 0.7%. The forecasted occupancy rate for Q2-2025 is expected to increase to 94.8% with rental growth projected to increase by 1.6% over the next year.

Denver Submarkets

According to RealPage Market Analytics, the Denver submarket in which the Fund has invested – Parker/Castle Rock – had a Q2-2024 occupancy rate of 94.7%, with, rents remaining flat year over year. Occupancy rates in this submarket are expected to increase to 95.3% over the next year.

[1]This metric is a non-IFRS measure. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS. See "Disclaimer" for further details on non-IFRS financial measures.

Orlando Market Trends

Employment

According to the U.S. Bureau of Labor Statistics, the unemployment rate in the Orlando Metropolitan Area was 3.5% in June 2024, an increase from 3.3% in March 2024, but below the national average of 4.1%.

Occupancy and Rent

According to RealPage Market Analytics, Q2-2024 occupancy levels for Orlando were 93.7%. Quarter over quarter average rents increased by 1.3% and year over year rents decreased by 3.0%. Orlando's forecasted occupancy rate for Q2-2025 is 93.9%, with rents expected to grow 3.5% over the next year.

Orlando Submarkets

According to RealPage Market Analytics, the Orlando submarket in which the Fund has invested – East Orange County – had a Q2-2024 occupancy rate of 93.6%, with year over year rents decreasing by 3.7%. Occupancy rates in this submarket are expected to slightly decrease to 93.5% over the year.

Raleigh Market Trends

Employment

According to the U.S. Bureau of Labor Statistics, the unemployment rate in the Raleigh Metropolitan Area was 3.6% in June 2024, an increase from 3.3% in March 2024 and below the national average.

Occupancy and Rent

According to RealPage Market Analytics, Q2-2024 occupancy in Raleigh was 93.0%. Quarter over quarter rents decreased by 0.7%, with year over year rents decreasing by 3.3%. The one-year forecast for occupancy suggests a slight increase to 93.7%, with rental growth projected to be 3.5% over the next twelve months.

Raleigh Submarkets

According to RealPage Market Analytics, the Raleigh submarket in which the Fund has invested – Far North Raleigh – had a Q2-2024 occupancy rate of 93.4%, with year over year rents decreasing by 3.7%. Occupancy rates in this submarket are expected to increase to 94.0% over the year.

Interest Rate Update

As at August 13, 10-year U.S. Treasury bonds were yielding approximately 3.85% and the Secured Overnight Financing Rate was approximately 534 basis points.

Property Management

The Fund benefits from the local real estate expertise and market intelligence of best-in-class property managers. The Bainbridge Companies, a third-party manager with local market expertise in Orlando, provides property management for Hudson. Avenue5 Residential, a national third-party manager with local market expertise in Denver and Raleigh, provides property management for Montane and Summermill.

Future Outlook

Since early 2022, concerns over elevated levels of inflation have resulted in a significant increase in interest rates with the U.S. Federal Reserve raising the Federal Funds Rate by approximately 525 basis points. Interest rate increases typically lead to increases in borrowing costs for the Fund, reducing cash flow, given the Fund primarily employs a variable rate debt strategy due to the Fund's three-year term in order to provide maximum flexibility upon the eventual sale of the Properties during or at the end of the Fund's term. Historically, investments in multi-family properties have provided an effective hedge against inflation given the short-term nature of each resident lease which has been demonstrated by the rent growth achieved at the Fund's properties where AMR increased 1.8% from Q2-2023 to Q2-2024. Furthermore, the Fund does have certain interest rate caps, swaps or fixed rate debt in place which protect the Fund from increases in interest rates beyond stipulated levels and for stipulated terms as described in detail in the Fund's condensed consolidated interim financial statements for the three and six months ended June 30, 2024 and the audited consolidated financial statements for the year ended December 31, 2023 which are available at www.sedarplus.ca. The Fund also continues to closely monitor the U.S. employment and inflation data as well as the U.S. Federal Reserve's monetary policy decisions in relation to future interest rates and resulting impact these may have on the Fund's financial performance in future periods.

The Primary Markets have seen an elevated level of new supply delivered during 2023 and 2024 which contributed to the deceleration in rent growth in the Primary Markets during late 2023 and 2024, relative to levels achieved in 2022 and earlier in 2023. Interest rates also continue to remain elevated which, along with higher levels of inflation and a softening in market conditions in late 2023, has significantly disrupted active and new construction of comparable communities in the Primary Markets that would otherwise have been delivered in the second half of 2025 or 2026. This potential reduction in construction may create a temporary imbalance in the supply of comparable multi-suite residential properties in future periods. This imbalance, alongside continued economic strength and solid fundamentals may be supportive of favourable supply and demand conditions for the Properties in future periods and could result in future increases in occupancy and rent growth. The Fund believes it is well positioned to take advantage of these conditions should they transpire given the quality of its Properties and the benefit of having a resident pool employed across a diverse job base.

Contact Information

starlightinvest.com

linkedin.com/company/starlight

Evan Kirsh
President
Starlight U.S. Multi-Family (No. 2)
Core Plus Fund
+1-647-725-0417
ekirsh@starlightus.com

Martin Liddell
Chief Financial Officer
Starlight U.S. Multi-Family (No. 2)
Core Plus Fund
+1-647-729-2588
mliddell@starlightinvest.com

Disclaimer

This Newsletter is intended for informational purposes only and is not, and should not be construed as, an offer to sell or a solicitation of an offer to buy any securities of the Fund, or investment advice to any individual. Particular investments should be evaluated relative to each individual's circumstances and individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Past performance may not be repeated and nothing in this Newsletter should be construed as an indication of future values of the Fund or future returns on any investment in the Fund.

This Newsletter is not intended for distribution in any jurisdiction that would require the filing of a prospectus, registration statement, offering memorandum or similar document under the applicable laws of such jurisdiction or would result in the Fund having any reporting or other obligation in such jurisdiction. Accordingly, neither the Fund nor the Manager has done anything that would permit the possession or distribution of this Newsletter in any jurisdiction where action for that purpose is required.

The Fund's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain terms used in this Newsletter do not have a standardized definition prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other reporting issuers. The Fund uses these measures to better assess the Fund's underlying performance and financial position and provides these additional measures so that investors may do the same. Details on Non-IFRS Measures are set out in the Fund's Management's Discussion & Analysis and are available on the Fund's profile on SEDAR+ at www.sedarplus.ca.

Certain statements contained in this Newsletter constitute forward-looking information within the meaning of Canadian securities laws and which reflect the Fund's current expectations regarding future events, including the overall financial performance of the Fund and its Properties, as well as the impact of elevated levels of inflation and, interest rates.

Forward-looking information is provided for the purposes of assisting the reader in understanding the Fund's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes.

Forward-looking information may relate to future results, the impact of inflation levels and interest rates, the ability of the Fund to make and the resumption of future distributions, the trading price of the Fund's TSX Venture Exchange listed class A units and class U units ("Listed Units") and the value of the Fund's unlisted units, which include all units other than the Listed Units, acquisitions, financing, performance, achievements, events, prospects or opportunities for the Fund or the real estate industry and may include statements regarding the financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, occupancy levels, AMR, taxes, and plans and objectives of or involving the Fund. Particularly, matters described in "Future Outlook" are forward looking information. In some cases, forward-looking information can be identified by terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking statements involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities may not be achieved. Those risks and uncertainties include: the extent and sustainability of potential higher levels of inflation and the potential impact on the Fund's operating costs; the pace at which and degree of any changes in interest rates that impact the Fund's weighted average interest rate may occur; the ability of the Fund to make and the resumption of future distributions; the trading price of the Listed Units; changes in government legislation or tax laws which would impact any potential income taxes or other taxes rendered or payable with respect to the Properties or the Fund's legal entities; the impact of elevated interest rates and high inflation as well as supply chain issues have on new supply of multi-family apartments; the extent to which favorable operating conditions achieved during historical periods may continue in future periods; the applicability of any government regulation concerning the Fund's residents or rents; and the availability of debt financing as loans payable become due during the Fund's term. A variety of factors, many of which are beyond the Fund's control, affect the operations, performance and results of the Fund and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results.

The forward-looking information included in this Newsletter relates only to events or information as of the date on which the statements are made in this Newsletter. Except as specifically required by applicable Canadian securities law, the Fund undertakes no obligation to update or revise publicly any forward-looking information, whether because of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. This newsletter contains statistical data, market research and industry forecasts that were obtained from government and industry publications and reports or are based on estimates derived from such publications and reports and the Manager's knowledge of, and experience in, the markets in which the Fund operates. Actual outcomes may vary materially from those forecast in such publications or reports. While the Fund and its Manager believe this data to be reliable, market and industry data cannot be verified due to limits on the availability and reliability of data inputs and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed.