

## NEWSLETTER | May 2019

Starlight U.S. Multi-Family (No. 1) Value-Add Fund (the “Fund”) is listed on the TSX Venture Exchange (TSXV: SUVA.A/SUVA.U). The Fund currently owns 1,193 suites in three apartment communities (the “Properties”). The Fund is asset managed by Starlight investments US AM Group LP (the “Manager”). The Fund’s mandate is to invest in a portfolio primarily comprised of value-add, income-producing, multi-family properties that can achieve significant increases in rental rates as a result of undertaking high return, light value-add capital expenditures that are located in growth markets in the United States (“U.S.”). The Fund’s primary objective is to generate stable monthly cash distributions for its unitholders and enhance the value of its assets through active management and implementing value-add capital expenditures.

The Fund continued to accelerate its value-add capital improvement program during the three-months ended March 31, 2019. The Fund has upgraded and re-leased 231 suites to date, achieving average rent increases of \$173 per month for each upgraded suite representing an estimated average return on investment of 25.5%. Now that all common area renovations are complete at all properties, Management is focusing on the renovation of additional suites to continue to increase rental rates.



Landmark at Coventry Pointe (Atlanta, GA 2002 Clubhouse)



Spectra South (Phoenix, AZ 2007 Renovated Suite)

### Significant Events

On April 12, 2019, the Fund refinanced the mortgage at Landmark at Coventry Pointe (“Coventry Pointe”). The proceeds from the refinancing were partially used to fund the acquisition of the remaining 8.50705% interest in Coventry Pointe from an affiliate of the Manager which includes the Fund assuming the vendor’s pro-rata share of liabilities of Coventry Pointe that were outstanding at the time of acquisition. Upon closing of the acquisition, the Fund owned 100% of Coventry Pointe.

## Unit Information and Distributions

### Monthly Distributions

Since inception, the Fund has paid monthly distributions equal to 6.0% on an annualized basis on all outstanding unit classes. There are no Class H Units outstanding.



## U.S. Multi-Family Market Trends

### National Occupancy Levels and Home Ownership Rates

According to the U.S. Bureau of Labor Statistics, the U.S. unemployment rate increased in March 2019 to 3.9%. The Fund's target demographic, the 20 to 34-year-old cohort, has continued to fuel apartment rental demand for newly constructed apartments. According to the U.S. Census Bureau, home ownership was 64.2% in the first quarter of 2019., a drop of 0.6% over the fourth quarter of 2018. Apartment occupancy rates and rental growth continue to be strong with MPF Research ("MPF") reporting first quarter 2019 U.S. apartment occupancy of 95.2%. Year-over-year rent growth was 3.5%.

## Metropolitan Market Information

The Fund owns 1,193 suites in three cities across three States. The following highlights the key macroeconomic and property data in each city and sub-market.

## Atlanta Market Trends

### Strong Employment Growth

According to the U.S. Bureau of Labor Statistics, the Atlanta Metropolitan Area gained 60,300 jobs from March 2018 to March 2019, an increase of 2.2%. The unemployment rate in March 2019 was 3.6% in Atlanta, 30 basis points below the national average of 3.9%.

## Occupancy Projections

According to MPF, first quarter 2019 occupancy levels for Atlanta were 94.7%. Rental growth for the quarter was 2.2%, with year-over-year rent growth of 5.4%. MPF's one-year forecast for Atlanta is for occupancy levels to decrease slightly to 94.0%, with rental growth of 4.5%.

## Atlanta Submarkets

According to MPF, the Atlanta submarket where the Fund has invested – Southeast Gwinnett County – remained strong in occupancy and rental growth for the first quarter of 2019. Northeast Gwinnett County's occupancy rate was 95.1%, with annual rent growth of 3.6%. MPF expects the occupancy rate to decrease slightly over the next year to 94.7%.

## Austin Market Trends

### Strong Employment Growth

According to the U.S. Bureau of Labor Statistics, the Austin Metropolitan Area gained 22,700 jobs from March 2018 to March 2019, an increase of 2.1%. The unemployment rate in March 2019 was 2.7% in Austin, 120 basis points below the national average of 3.9%.

### Occupancy Projections

According to MPF, first quarter 2019 occupancy levels for Austin were 94.4%. Rental growth for the quarter was 2.1%, with year-over-year rent growth of 4.7%. MPF's one-year forecast for Austin is for occupancy levels to decrease slightly to 93.9%, with rental growth of 3.2%.

### Austin Submarkets

According to MPF, the Austin submarket where the Fund has invested – Round Rock/Georgetown – had a first quarter occupancy rate of 94.0%, with an annual rent growth of 4.3%. MPF expects the occupancy rate in Round Rock/Georgetown to stay constant over the next year at 94.0%.

## Phoenix Market Trends

### Strong Employment Growth

According to the U.S. Bureau of Labor Statistics, the Phoenix Metropolitan Area gained 58,500 jobs from March 2018 to March 2019, an increase of 2.8%. The unemployment rate in March 2019 was 4.1% in Phoenix, 20 basis points above the national average of 3.9%.

### Occupancy Projections

According to MPF, first quarter 2019 occupancy levels for Phoenix were 95.7%. Rental growth for the quarter was 2.8%, with year-over-year rent growth of 8.1%. MPF's one-year forecast for Phoenix is for occupancy levels to decrease slightly to 94.9%, with rental growth of 3.5%.

## Phoenix Submarkets

According to MPF, the Phoenix submarket where the Fund has invested – Deer Valley – remained strong in occupancy and rental growth. Deer Valley’s occupancy rate was 96.0%, with an annual rent growth of 8.1%. MPF expects the occupancy rate in Deer Valley to decrease over the next year to 95.1%.

## Investment Market Update

Commercial real estate investment demand continues to be strong nationally. There is significant demand from real estate private equity firms that have recently raised funds. Capitalization rates for suburban, Class “A”, multi-family real estate products in the Fund’s metropolitan markets are approximately 4.25% to 5.0%, depending on the quality and location of the apartment community.

Ten Year U.S. Treasury bonds were yielding approximately 2.5% as at May 7, 2019. Lender spreads have compressed to offset increases in treasury yields and all-in interest rates continue to remain low versus historical levels with debt readily available at lower leverage levels.

## Property Improvements

The Fund is currently working on several value enhancing initiatives at the Properties.

At Spectra South, the Fund is continuing its ongoing suite upgrade program targeting unrenovated suites with an enhanced scope that includes plank flooring, lighting, and kitchen upgrades, including quartz countertops. The second-generation program is expected to provide further rent premiums to the phase one upgrades and reposition the suites at the top of the market.

At The Landing at Round Rock, all major common area renovations are substantially complete. The Fund is completing suite upgrades on an ongoing basis which includes plank flooring, stainless steel appliances, upgraded lighting, refinished kitchen cabinets, upgraded kitchen sinks and faucets, and the addition of quartz countertops in kitchens and bathrooms, and is achieving substantial rental premiums.

At Coventry Pointe, upgrades to the main clubhouse, including the leasing office, were completed in Q1 2019. The Fund is continuing its ongoing suite upgrade program that includes new plank flooring, stainless steel appliances, refinished kitchen cabinets, quartz countertops, backsplashes and upgraded lighting in the kitchens as well as upgraded sinks and faucets in the kitchens and bathrooms with new hardware. New signage and model units are targeted for completion in Q2 2019.

The planned suite upgrades at the Properties are expected to continue to generate significant increases in rental rates and attractive returns on the capital invested.

## Property Management and Rental Rates

### Property Management

The Fund benefits from the local real estate expertise and market intelligence of best-in-class property managers. Alliance Residential Company, the seventh largest third-party manager in the U.S., provides property management for Spectra South. Roscoe Properties Inc., a third-party manager in the U.S. with local market expertise and experience, provides property management for The Landing at Round Rock. The Worthing Companies, a third-party manager in the U.S. with local market expertise in Atlanta, provides property management for Coventry Pointe.

### Utilization of Yield Management Software

The Manager continues to utilize yield management software at all of its Properties. This software provides updated pricing on a daily basis, optimizing asking rents and renewal rents in real time, based on supply and demand for different suite types. This rental rate optimization system is similar to those employed by the hotel and airline industries to manage their room rates and flight prices.

## Ancillary Services Update

The Manager continues to maximize ancillary revenue by ensuring all ancillary rates are at market levels. Privacy yards for select ground floor suites are being installed at The Landing at Round Rock which generates approximately \$100 per month of additional ancillary income per yard. At Coventry Pointe, the Fund has introduced reserved parking spaces which generates a rental premium of \$25 per space per month. As well, all of the Properties offer trash pick-up services.

## Outlook

The Manager believes its portfolio will continue to see strong demand for residential rental accommodation based on the quality of its apartment communities, low unemployment rates and strong job growth. The performance of the U.S. economy and local markets continue to support improved multi-family real estate fundamentals. In addition, the Fund continues its value-enhancing capital expenditure program at the Properties which combined with active asset management initiatives is anticipated to drive strong occupancy, rental and net operating income growth. The Fund expects to continue to produce consistent investment returns for unitholders while carrying out its value enhancing capital initiatives.

For more information visit [www.starlightus.com](http://www.starlightus.com) or contact:

#### **Evan Kirsh**, *President*

Starlight U.S. Multi-Family (No. 1) Value Add  
1400 – 3280 Bloor St. West, Centre Tower  
Toronto, ON M8X 2X3

**T.** (647) 725-0417

**E.** [ekirsh@starlightus.com](mailto:ekirsh@starlightus.com)

#### **Martin Liddell**, *Chief Financial Officer*

Starlight U.S. Multi-Family (No. 1) Value Add  
1400 – 3280 Bloor St. West, Centre Tower  
Toronto, ON M8X 2X3

**T.** (647) 729-2588

**E.** [mliddell@starlightinvest.com](mailto: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 Discussion & Analysis and are available on the Fund's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

This Newsletter contains statements that may constitute forward-looking information within the meaning of Canadian securities laws and which reflect current expectations of the Fund's management regarding future events, including statements concerning: the payment of distributions; the value of the Properties; the trading price of units; national and local real estate market conditions and economic variables; rental rates; occupancy rates; currency exchange rates; the potential results from yield management software; and type, timing and cost of capital improvements.

The forward-looking statements involve risks and uncertainties, including those discussed in the Fund's materials filed with the Canadian securities regulatory authorities from time to time at [www.sedar.com](http://www.sedar.com), which could cause the actual results and performance of the Fund to differ materially from the forward-looking statements contained in this Newsletter. Those risks and uncertainties include, among other things, risks related to: the reliance on the Manager; the experience of the Fund's officers and directors; real estate ownership; substitutes for residential real estate rental suites; government regulation; financing; interest rate fluctuations; reliance on property management; competition for real property tenants; fluctuations in capitalization rates; U.S. market factors; and currency exchange rates.

Information contained in forward-looking information is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the inventory of multi-family real estate properties; the availability of mortgage financing and current interest rates; the extent of competition between properties; the population of multi-family real estate market participants; assumptions about the markets in which the Fund intends to or does operate; the ability of the Manager to manage and operate the properties; the global and North American economic environment; foreign currency exchange rates; and governmental regulations or tax laws. Readers are cautioned against placing undue reliance on forward-looking statements. Except as required by applicable Canadian securities laws, neither the Fund nor the Manager undertakes any obligation to update or revise publicly any forward-looking statements, whether as a result 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.