

## NEWSLETTER | May 2020

Starlight U.S. Multi-Family (No. 1) Core Plus Fund (the “Fund”) is listed on the TSX Venture Exchange (TSX-V: SCPO.UN). The Fund currently owns 1,238 suites in four apartment communities (the “Properties”). The Fund is asset managed by a wholly-owned subsidiary of Starlight investments US AM Group LP (the “Manager”). The Fund was established in December 2019 to indirectly acquire, own and operate a portfolio primarily comprised of core plus income-producing Class "A", institutional quality multi-family real estate properties constructed in 1990 or newer, located in Arizona, California, Colorado, Florida, Georgia, Nevada, North Carolina, Oregon, South Carolina, Tennessee, Texas, Utah and Washington.

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 growth, employment growth and lifestyle preferences. The light value-add strategy also includes active asset management utilizing reputable best-in-class U.S.-based property managers to implement net operating income growth by maximizing rental rates and ancillary revenue opportunities with rigorous operational controls to manage and reduce costs.



Grand Oak at Town Park (Nashville, TN 2014)



Southpoint Crossing Apartments (Raleigh, NC 1999)



Tuscany Bay Apartments (Tampa Bay, FL 2001)



Autumn Vista Apartments (Atlanta, GA 1996)

## Significant Events

In February 2020, The Fund through an initial public offering of Units (the “Offering”), raised a total of approximately CDN\$218.2 million. With the proceeds of the Offering, the Fund successfully acquired on closing: Autumn Vista Apartments located in Atlanta, Georgia; Tuscany Bay Apartments, located in Tampa, Florida; and Grand Oak at Town Park located in Nashville, Tennessee.

Autumn Vista Apartments is located at 1500 Boggs Road Northwest, Duluth, Georgia, approximately 35 kilometers northeast of downtown Atlanta. Completed in 1996, the complex comprised of 15, two to three-storey walk-up buildings, with a central clubhouse, on a 30.58-acre site, and offers 280 suites ranging in size from one to three bedrooms. This property includes a renovated clubhouse with business centre, a fitness centre and a mail room. Outdoor amenities include resort-style outdoor swimming pool with sundeck and pergolas, outdoor grilling stations, sports court, playground and car care centre. Classic suites feature laminate countertops, black appliances, faux wood flooring and carpeted bedrooms.

Tuscany Bay Apartments is located at 12065 Tuscany Bay Drive, Tampa, Florida, approximately 20 kilometers northwest of downtown Tampa. Completed in 2001, the complex is comprised of 16, three-storey apartment buildings, with a central clubhouse, on a 45.8-acre site and offers 370 suites ranging in size from one to three bedrooms. This property includes a renovated clubhouse with business centre, screened in pool-side veranda, children’s playroom and state of the art fitness centre. Outdoor amenities include resort-style outdoor swimming pool and spa, sand volleyball court, three lakes, playground and dog park. Classic apartment suites feature large open floorplans, white kitchen appliances, laminate countertops, in-home washer and dryer, spacious closets, nine-foot ceilings, ceramic tile entries and screened-in patios.

Grand Oak at Town Park is located 110 Townpark Drive, Smyrna, Tennessee, approximately 25 kilometers southeast of downtown Nashville. Completed in 2014, the complex is comprised of 12, three-storey garden-style apartments, with a central clubhouse, on an 18.91-acre site and 300 apartment suites ranging in size from one to three bedrooms. This property includes a cardio wellness centre and a luxurious clubhouse with an internet café and a billiards area. Outdoor amenities including a resort-style saltwater swimming pool, an entertainment area with stainless steel grills and outdoor fireplace, a dog park with an agility course and dog spa, a volleyball court, an onsite car care centre and a playground. Classic apartment suites feature open-concept floor plans, nine-foot ceilings with crown molding, oversized walk-in closets, faux wood flooring, gourmet kitchens with stainless steel appliances and spacious 42 inch cabinetry, ceiling fans, garden tubs with tile surround, in-suite washers and dryers and private patios/balconies.

On April 30, 2020, the Fund acquired Southpoint Crossing Apartments, located at 1800 Southpoint Crossing Drive, Raleigh, North Carolina, approximately 40 kilometers northwest of downtown Raleigh. Completed in 1999, the complex is comprised of 13, three-storey walk-up buildings, with a central clubhouse, on a 26.16-acre site, and offers 288 suites ranging in size from one to three bedrooms. This property includes a scenic pond with fountains, state of the art 24-hour fitness centre, resort style swimming pool with lounge, 24-hour business centre, barbeque grilling station with picnic tables, pet park, complimentary bike exchange, car care centre, storage units, Wi-Fi in common areas, direct walk to retail and direct access to the American Tobacco Trail. Classic apartment suites feature a kitchen breakfast bar, wood-style flooring, large pantry closets, ceramic tile showers, in-suite washers and dryers and private patios/balconies.

The Fund expects to deploy the remainder of the proceeds within nine months of the closing of the Offering.

## Unit Information and Distributions

### Monthly Distributions

Since inception, the Fund has paid monthly distributions equal to 4.5% on an annualized basis on all outstanding unit classes.



The Fund entered into a variable rate collar contract on March 9, 2020 which allowed the Fund to establish a guaranteed monthly exchange rate between C\$1.34 and C\$1.425 for the conversion of U.S. dollar funds to Canadian dollar funds. The contract was entered into to protect against the potential impact of any weakening of the U.S. dollar on the amount required to fund the Fund's monthly Canadian dollar distributions and ensure a more favorable exchange rate for conversion of these funds when compared to the rate used to convert the proceeds from the Offering into U.S. dollars of C\$1.3371.

## U.S. Multi-Family Market Trends

The economic and market data presented below reflects periods prior to the impact of COVID-19. Since the onset of the pandemic, unemployment rates have increased significantly with exact figures not yet known for each individual market, and the impact on occupancy and rent growth is still uncertain across the markets. The Manager continues to closely monitor national and local economic conditions as part of its response to COVID-19 (see "COVID-19 and Outlook").

### National Occupancy Levels and Home Ownership Rates

According to the U.S. Bureau of Labor Statistics, the U.S. unemployment rate increased in March 2020 to 4.5%. 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 65.3% in the first quarter of 2020. Apartment occupancy rates and rental growth continued to be strong with MPF Research ("MPF") reporting first quarter 2020 U.S. apartment occupancy of 95.5%. Year-over-year rent growth across the U.S. was 2.9%.

## Metropolitan Market Information

The Fund owns 1,238 suites in four cities across four 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 43,400 jobs from March 2019 to March 2020, an increase of 1.5%. The unemployment rate in March 2020 was 4.2% in Atlanta, 30 basis points below the national average of 4.5%.

#### Occupancy Projections

According to MPF, first quarter 2020 occupancy levels for Atlanta were 94.6%. Annualized rental growth for the quarter was 0.1%, with year-over-year rent growth of 2.3%. MPF's one-year forecast for Atlanta is for occupancy levels to decrease slightly to 93.5%, with rental growth of 0.2%.

#### Atlanta Submarkets

According to MPF, the Atlanta submarket in which the Fund has invested – Southeast Gwinnett County – remained strong in occupancy and rental growth for the first quarter of 2020. Southeast Gwinnett County's occupancy rate was 94.3%, with annual rent growth of 3.5%. MPF expects the occupancy rate to decrease slightly over the next year to 93.9%.

### Tampa Market Trends

#### Strong Employment Growth

According to the U.S. Bureau of Labor Statistics, the Tampa Metropolitan Area gained 27,200 jobs from March 2019 to March 2020, an increase of 2.0%. The unemployment rate in March 2020 was 4.3% in Tampa, 20 basis points below the national average of 4.5%.

#### Occupancy Projections

According to MPF, first quarter 2020 occupancy levels for Tampa were 95.4%. Annualized rental growth for the quarter was 1.0%, with year-over-year rent growth of 3.2%. MPF's one-year forecast for Tampa is for occupancy levels to slightly decrease to 94.5%, with rental growth of 3.1%.

#### Tampa Submarkets

According to MPF, the Tampa submarket in which the Fund has invested – Town and Country/Westchase – had a first quarter occupancy rate of 94.1%, with an annual rent growth of 1.5%. MPF expects the occupancy rate in the submarket to decrease slightly over the next year to 93.5%.

## Nashville Market Trends

### Strong Employment Growth

According to the U.S. Bureau of Labor Statistics, the Nashville Metropolitan Area gained 30,100 jobs from March 2019 to March 2020, an increase of 2.9%. The unemployment rate in March 2020 was 2.8% in Nashville, 170 basis points below the national average of 4.5%.

### Occupancy Projections

According to MPF, first quarter 2020 occupancy levels for Nashville were 95.1%. Annualized rental growth for the quarter was 0.1%, with year-over-year rent growth of 4.8%. MPF's one-year forecast for Nashville is for occupancy levels to decrease slightly to 93.8%, with rental growth of 1.6%.

### Nashville Submarkets

According to MPF, the Nashville submarket in which the Fund has invested – Murfreesboro/Smyrna – remained strong in occupancy and rental growth. Murfreesboro/Smyrna occupancy rate was 95.2%, with an annual rent growth of 3.7%. MPF expects the occupancy rate in the submarket to slightly decrease over the next year to 94.2%.

## Raleigh Market Trends

### Strong Employment Growth

According to the U.S. Bureau of Labor Statistics, the Raleigh Metropolitan Area gained 13,100 jobs from March 2019 to March 2020, an increase of 2.0%. The unemployment rate in March 2020 was 3.7% in Raleigh, 80 basis points below the national average of 4.5%.

### Occupancy Projections

According to MPF, first quarter 2020 occupancy levels for Raleigh were 95.0%. Annualized rental growth for the quarter was 0.5%, with year-over-year rent growth of 4.1%. MPF's one-year forecast for Raleigh is for occupancy levels to decrease slightly to 93.5%, with rental growth of 1.1%.

### Raleigh Submarkets

According to MPF, the Raleigh submarket in which the Fund has invested – Southwest Durham – remained strong in occupancy and rental growth. Southwest Durham occupancy rate was 95.6%, with an annual rent growth of 4.3%. MPF expects the occupancy rate in the submarket to slightly decrease over the next year to 93.4%.

## 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 4.0% to 5.0%, depending on the quality and location of the apartment community.

Ten Year U.S. Treasury bonds were yielding approximately 0.70 % as at May 12, 2020. US 30 Day Libor was approximately 19 basis points as at May 12, 2020. All-in interest rates continue to remain low versus historical levels while debt continues to be available at lower leverage levels.

## Property Improvements

In the first quarter of 2020, the Fund undertook suite upgrades at Grand Oak at Town Park which includes the addition of plank flooring, tiled backsplash, and framed mirrors to unrenovated suites. In the future, the Fund plans to expand its suite upgrade program to include screened balconies and smart home systems.

Autumn Vista Apartment's initial focus has been on addressing deferred maintenance while concurrently designing the clubhouse and common area improvements. A suite upgrade program is being established for the classic suites that will include new vinyl plank flooring, modern kitchen cabinetry and countertop, tiled backsplash, energy efficient appliances and framed mirrors.

In the first quarter of 2020, the Fund undertook suite upgrades at Tuscany Bay Apartments, which includes the addition of vinyl plank flooring, modern kitchen cabinet doors and countertop, tiled backsplash, and framed mirrors.

The Fund is establishing a suite upgrade program for Southpoint Crossing for both unrenovated suites and previously renovated suites. Unrenovated unit upgrades include the addition of plank flooring, tiled backsplash, framed mirrors, quartz countertops, undermount sinks, and stainless-steel appliances. Previously renovated unit upgrades include the addition of plank flooring in the living rooms, tile backsplash, and framed mirrors. In addition, the property plans to add washer/dryer appliances to all suites.

The Fund will only be undertaking suite upgrades at the above properties if there is strong tenant demand for upgraded suites that can achieve the Fund's originally projected return on capital.

## 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 Autumn Vista Apartments. The Altman Companies, a third-party manager in the U.S. with local market expertise and experience, provides property management for Tuscany Bay Apartments. High 5 Residential, a third-party manager in the U.S. with local market expertise in Nashville, provides property management for Grand Oak at Town Park. RKW Residential, a third-party manager in the U.S. with local market expertise in Raleigh, provides property management for Southpoint Crossing Apartments.

## 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 and explore additional ancillary fees opportunities if they are feasible.

## COVID-19 and Outlook

On March 11, 2020, the World Health Organization characterized the outbreak of the novel coronavirus global pandemic (“COVID-19”) as a global pandemic. This has resulted in federal and state governments enacting emergency measures to combat the spread of the virus. Although COVID-19 has resulted in an unprecedented operating environment and volatile economy, the Fund is well positioned to navigate through this challenging time and has implemented proactive measures at the properties to combat the spread, assist tenants where needed and implement other measures to minimize business interruption.

- **Preventative measures:** As a result of COVID-19, leasing has moved to electronic platforms, access to common areas has been restricted and increased sanitation measures have been implemented at the properties to combat the spread of the virus. The Fund has undertaken actions to mitigate the effect on the operations of the Fund including various preventative measures and ongoing coordination with on-site property management teams to mitigate the spread of the virus. The Fund is also following the directions provided by the Federal and State governments and public health authorities.

- **Collections and rent relief:** The Fund has provided rent relief to tenants experiencing financial hardship as a result of COVID-19 and has temporarily ceased evictions at the properties. The Fund is continuing to work with all on-site property managers to ensure open communication with all tenants regarding rent relief options available to assist tenants impacted by the outbreak of COVID-19 in a socially responsible manner.

The Fund is also closely monitoring rent collections to assess any potential increase in delinquency at the properties as a result of COVID-19. Rent collections for the March 2020 period remained in-line with historical collection rates and were relatively unaffected by the pandemic. The Fund’s April 2020 rent collections averaged in excess of 98.3%, excluding Southpoint where 99.9% of April rents were collected. Approximately 0.1% of the Fund’s April rents are subject to payment plans with tenants allowed to partially defer April rent payments to May 2020.

- **Liquidity:** After the acquisition of Southpoint Apartments, the Fund has approximately \$55,127 of available liquidity including approximately \$50,000 remaining from the proceeds of the Offering to acquire additional

properties and \$5,127 of additional liquidity available from the capital lines associated with the mortgages at the properties to fund future capital expenditures. The Fund is continuing to evaluate additional acquisition opportunities which meet the investment criteria and objectives of the Fund while considering the potential impacts of COVID-19 on the performance of the U.S. multi-family property class.

• **Governmental intervention:** The duration of COVID-19 is unknown at this time and continues to develop and as such, governmental intervention in the United States continues to evolve. Currently, there are no Federal government rent relief programs for landlords in the United States or specific rent relief programs within the States in which the Fund owns properties that would directly assist tenants of the Fund to make rent payments. As such, there is a risk that any sustained economic hardship the virus has on the Fund's tenant base may impact future collections and delinquency rates.

The spread of COVID-19 has the potential to cause a further economic slowdown and increased volatility in financial markets. The U.S. Federal Government has introduced monetary and fiscal interventions aimed at stabilizing the economy. However, uncertainty remains as to the overall impact and timing of these interventions on the U.S. debt and equity markets as well as the economies of both the U.S. and the markets in which the Fund operates. No lenders aside from the government sponsored agencies have granted payment relief or payment deferral options to borrowers. However, the Fund has implemented various measures to ensure the liquidity and capital resources of the Fund are sufficient during this ongoing period of uncertainty as described further below.

As the U.S. Federal and State governments have implemented stay at home orders and other measures to minimize the spread of the virus, uncertain economic conditions resulting from COVID-19 may adversely impact the demand for residential housing. However, the Fund believes the quality of its properties as well as a tenant pool employed across a diverse job base will help to mitigate the potential impact on the Fund. Previous economic downturns have also led to favourable market conditions for U.S. multi-family real estate subsequent to the initial downturn.

Many State governments across the United States have also announced plans to reopen businesses under various conditions including a continued practice of social distancing, where practicable, while limiting operating capacity for non-essential businesses. This development suggests some tenants may be able to return to employment which should support tenants' ability to access financial resources, improving collection rates in the short term and ongoing demand for residential housing. However, the impact these efforts may have on the spread of the pandemic as well as the potential impact this may have on the Fund's tenant base, directly and indirectly, is currently uncertain.

• **Capital work:** Some capital expenditures planned at the properties have been temporarily deferred to preserve the Fund's liquidity and comply with applicable laws. To date, the properties have not experienced any significant disruption to planned suite upgrades or essential capital expenditures as a result of not being able to perform work due to social distancing measures or temporary labour shortages resulting from COVID-19. The Fund continues to assess its value-add program by testing the market with a select number of upgrades while closely monitoring upgraded suite inventory as well as rent premiums. There is a risk that should a sustained pandemic occur, it may

lead to an inability for the Fund to acquire materials required or labour disruptions may occur that impact the Fund's ability to complete capital work as intended by the Fund.

• **Distributions:** Distribution payments are expected to continue based on the targeted 4.5% distribution yield for the Fund in the foreseeable future, but the Manager continues to monitor the potential impact COVID-19 may have on distribution payments in future periods.

• **Future Outlook:** The markets which the Fund operates have exhibited sustained job and population growth and benefited from the on-going shift away from home ownership, including as a result of lifestyle choices as well as positive net migration. It is too early to assess the impact of COVID-19 on these favourable long term trends. COVID-19 has significantly disrupted active and new construction of comparable product in the markets which the Fund operates which may create a temporary imbalance in supply of comparable, multi-suite residential properties. This imbalance could be supportive of favourable supply and demand conditions for the properties and may present opportunities for the Fund to be able to acquire other assets on favourable terms. The Fund will also continue to focus on optimizing occupancy, rent growth and collections during COVID-19.

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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 impact of COVID-19 on the Fund's portfolio as well as the impact of COVID-19 on the markets in which the Fund operates and the trading price of the Fund's listed units, acquisitions, 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, average monthly rent, taxes, and plans and objectives of or involving the Fund. Particularly, matters described at "Future Outlook and COVID-19" 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.

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: the ability to deploy the remaining proceeds from Offering; the impact of COVID-19 on the Fund's portfolio as well as the impact of COVID-19 on the markets in which the Fund operates and the trading price of the Fund's listed Units; and the applicability of any government regulation concerning the Fund's tenants or rents as a result of COVID-19 or otherwise. 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

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 ability to deploy the remaining proceeds from the Offering; the impact of COVID-19 on the Fund's portfolio as well as the impact of COVID-19 on the markets in which the Fund operates and the trading price of the Fund's listed Units; the applicability of any government regulation concerning the Fund's tenants or rents as a result of COVID-19 or otherwise; the inventory of multi-family real estate properties; the availability of properties for acquisition and the price at which such properties may be acquired; the availability of mortgage financing and current interest rates; the extent of competition for properties; the ability of the Fund to benefit from its value-add program; the population of multi-family real estate market participants; assumptions about the markets in which the Fund operates; the ability of Starlight Investments US AM Group LP or its affiliates (the "Manager") to manage and operate the properties of the Fund; the global and North American economic environment; foreign currency exchange rates; and governmental regulations or tax laws. Given this unprecedented period of uncertainty, there can be no assurance regarding: (a) the impact of the COVID-19 on the Fund's business, operations and performance or the volatility of the Units; (b) the Fund's ability to mitigate such impacts; (c) credit, market, operational, and liquidity risks generally; (d) the Manager or any of its affiliates, will continue its involvement as asset manager of the Fund in accordance with its current asset management agreement; and (e) other risks inherent to the Fund's business and/or factors beyond its control which could have a material adverse effect on the Fund.

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.