

March 2022



Dear Investors,

As the second anniversary of the Covid-19 pandemic approaches, we hope you and your family are remaining healthy. I wanted to share some thoughts we have on the real estate investment marketplace for 2022 and provide updates from 2021. Last year was a very active and exciting year for SMB Equity filled with unique investment opportunities as we raised and invested a record amount of equity. We added several projects to the portfolio that we are very proud of including a number of immediate cash-flowing properties as well as our second Opportunity Zone investment. Additionally, SMB Equity increased our investment in All Points North Lodge, our drug and alcohol rehabilitation center outside Vail, Colorado. The expansion of All Points North Lodge into multiple remote assessment centers and telehealth medicine has resulted in the accelerated growth of our business venture.

In 2021, we sold several projects securing strong returns for our investors, while we anticipate other investments will begin cash-flowing this year. Currently we are evaluating numerous projects that we hope develop if the returns and risk profiles meet our very specific criteria. During 2022, we are focusing on stabilized cash-flowing apartment offerings in addition to development opportunities including a potential new Opportunity Zone investment.

Over the past two years we have found that the multi-family sector has performed extremely well. As households now spend more time at home than ever before, people have discovered a renewed interest in maintaining a comfortable and welcoming place to live. Throughout the country, a large percentage of the population now work from home several days a week, if not full time, and are eager to invest in larger, better-appointed surroundings. Our research indicates continued demand for suburban rental communities, with close proximity to major cities. We expect these areas to thrive as younger people look for a better work/life balance as suburban communities generally benefit from open spaces, an easier lifestyle, and less crime than urban areas. Due to high demand, we have also found that our properties have been able to raise rents at a higher rate than our projections had initially planned for, increasing the performance and value of our communities nationwide.

The elephant in the room continues to be our investments in the hospitality industry. While all of our projects are currently stable, the majority are running well below originally projected occupancy and room rates as business, convention, and group travel have yet to return to pre-pandemic levels. We have strategically positioned capital where it is needed in order to protect our assets as the pandemic becomes an endemic. Our team at SMB Equity is highly engaged with our hotels' operating partners to help guide these projects through this unprecedented time for hospitality. Our partners have shown tremendous dedication and thoughtfulness in managing cash

balances as well as working to maintain appropriate staffing levels based on current occupancies despite nationwide staffing shortages. Many of our hospitality projects have a light at the end of the tunnel as occupancy and room rates are slowly creeping up. In the near future, we will harvest historical tax credits from several of these hotels. We believe distributions may potentially begin on some of our hotel assets in late 2022 and are hopeful the recovery will continue as Covid subsides. Rest assured, we're working daily to continue supporting these assets.

Despite some of the challenges the hospitality market has faced, we are very proud and excited about our portfolio as a whole. At SMB Equity, we believe the remainder of this year will continue the trend of providing profitable exits for investors where it makes sense, and we plan to remain focused on sourcing and securing top-tier, multi-family projects in suburban markets just outside of mid-size and large cities. We will center this focus on cities that have demographic advantages and low market saturation with high growth potential. Our team is also closely monitoring the interest rate environment and its impact on our project portfolio. Most of our assets are well positioned, but some have near-term interest rate risk. Some of this risk may be offset by achieving higher than anticipated rental rates, while for others we will look for mitigating measures.

We truly appreciate your continued support and value our relationship with you. If you have any questions, please don't hesitate to reach out to me or my partners.

Best,



Sherwin Jarol

