



BLACK SWAN REAL ESTATE

Black Swan Funds



Q3 2023
Performance Report



Dear Black Swan Investors,

We want to express our sincere gratitude for your unwavering support and trust in us. It is an honor to be a part of your journey towards financial freedom. This past quarter has been exceptionally busy, with continued strong operations, renovation, and leasing performance. We had the honor of connecting with many of you in person as we hosted Black Swan | Real Estate | Real Life and attended PIMDCON in September! It is such a joy to connect with friends, both old and new, who share a passion for leading a life of freedom and abundance.

**You're invited to join us for [Real Estate Real Life](#) from May 17 - 19.
We hope to see you in Rochester in 2024!**

We understand that you've likely heard about turbulence in the multifamily space, and maybe even experienced it in another fund or syndication. However, we assure you that your investment is safe and poised for success. At Black Swan, we believe in putting the investor first, and we remain dedicated to providing the best possible outcomes for you.

Our team at Black Swan is working tirelessly to navigate the ever-changing market and ensure that we are taking the best care of our residents, assets, and investors. We continue to be diligent in executing the value-add business plan to drive returns.

With that, we're excited to share our full report with you, and we thank you again for your continued trust and support. It is an absolute honor to serve you.

If you know anyone who would benefit from connecting with us, we would love to hear from them. Thank you for embarking on this investing journey with us.

All our best,

Nick and Dr. Elaine Stageberg



FREQUENTLY ASKED QUESTIONS

How do I access my tax forms?

- All K-1s have been sent out. Your K-1 was sent via email from safesendreturns. You may also view your K-1 in your InvestNext portal.

When is the next fund?

Fund III is coming soon. Get on the waitlist at blackswanfund3.com and stay tuned for more details!

How do I log in to InvestNext?

Access your InvestNext portal at blackswan.investnext.com

OR

Scan the QR code to get to the InvestNext portal login.



When is the next in-person event?

Black Swan | Real Estate | Real Life 2024 is taking place in Rochester May 17 - May 19. VIP is already *halfway* sold out. [Get your ticket now!](#)

Why are there no fees?

To have complete alignment with our investors and put you, our investors first.

What is an infinite rate of return?

Once all cash is out of the deal and has been returned to investors, everyone stays in the deal for decades. Because there is \$0 in the deal, all returns are "divide by 0," which is an infinite rate of return! This is the fastest path to large wealth creation.

What about interest rates?

We have all fixed rate debt with at least 4 years left on the note terms. We have successfully placed second lines on assets to get cash-out. We remain very optimistic about our business model.





SHORT TERM RENTAL LAUNCH!

This is perhaps our most exciting update for Q3--we've launched a Short Term Rental arm of the business! We are especially grateful for the insight, expertise, and support from Black Swan investors who have been eager to help us launch. *Thank you!*



We have been cool on STR for a long time for a lot of reasons. Right not makes a *ton* of sense for short term in Rochester. STRs got devastated in Rochester during covid, and there's a huge rebound happening now. Plus, there is stable regulation in Rochester that heavily favors us. Now that we've scaled to have in-house cleaning, maintenance, and a big staff to take on the service burden, it makes perfect sense for us to launch now. As a bonus, a third of our property management team have deep expertise in the hospitality industry!

What We're Doing

Residence @ Discovery Square

- Greatest opportunity appears to be in urban core 2 bed units
- Could eventually go full blown hotel for main floor residential units
- We are pouring the most amount of focus, time, and money into RDS right now
- Set us up for maximum success for new financing next year
- Optimize parking occupancy

Old City Hall

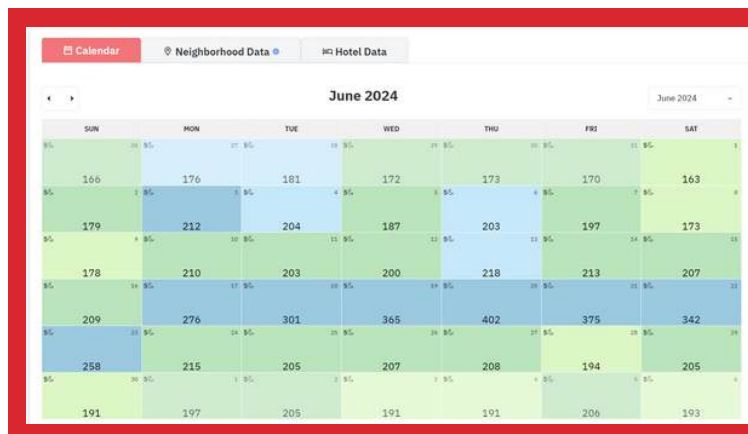
- Gorgeous historic asset
- We've frankly failed to achieve the premium we thought we could get, we achieved \$1700, but hoped for something crazy like \$2000+
- Not at all the case for short term. TONS of luxury hospital units for \$1,000+ per night
- Great match for the parking setup
- Great match for the unit mix, ~25% are historic units, others are more utilitarian

The Nicholas

- Only apartment building located between downtown and St Mary's campus
- Perfectly set up for STR
- Abundant parking
- Easily navigable
- Ideal unit mix

This is an experiment!

- Moving ADA units to short term
- Will test units throughout the portfolio opportunistically
- Could potentially scale to hundreds of units!
- We will see how it performs
- Won't know for a year



High season could potentially reach \$400 per night!



REAL ESTATE REAL LIFE!

We had an absolute blast hosting the second annual Real Estate Real Life in September. We were joined by some incredible investors and friends who played full out for an unforgettable weekend. This event is focused not just on real estate, but on **real life** too, because the whole point of real estate investing is to fuel a magnificent life.



- We centered our weekend around values. Around casting a vision.
- We talked about how to Secure Your Freedom and Launch Your Legacy.
- We practiced and applied mindset to our real estate investing strategies.
- We toured properties owned by our valued investors, and analyzed deals.
- We practiced the art of negotiation and creating win-win scenarios.
- We laughed, shared our wins, and challenged ourselves, together.

More than anything, we were blown away by the inspiring people who showed up to be a part of the magic. We are beyond grateful for the Black Swan community and we can't wait to do it all again!

Real Estate Real Life 2024

May 17 - 19, 2024

SAVE YOUR SEAT





BLACK SWAN LIVING

We are so pleased to announce that Black Swan Living won Best Property Management Company in Rochester! It is such an honor to receive this community recognition. This award has increased brand awareness and attracts even more high quality residents. We've seen extraordinary leasing, renovation, and maintenance velocity, and continue to bring services in house as frequently as possible. The assets in Fund I and Fund II are receiving better care at a much lower cost.

Q3 stats from the Black Swan team:

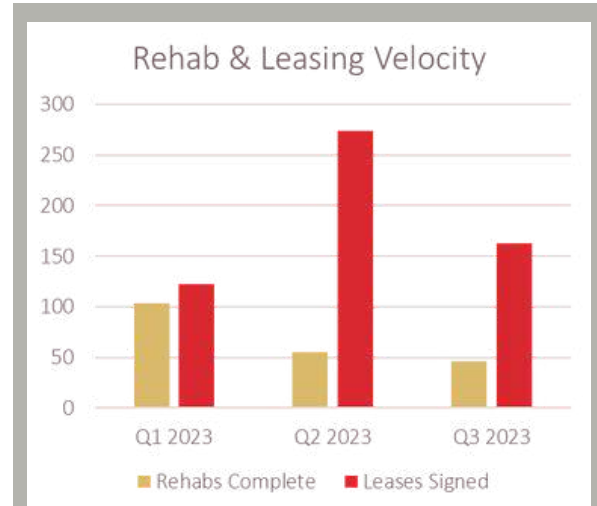
- 43 FTEs, 6 Remote Team Members
- \$2M+ in construction draws in Q3
- 46 rehabs completed
- 2,377 maintenance tickets closed
- 163 leases signed
- 93 renewals signed
- Top 1% of all real estate agents in the state!

In-House Lawn & Snow

We are *thrilled* to have in-house lawn and snow service this year. We've successfully completed our first summer of lawn care, and our team is gearing up for snow removal as we head into winter. These services are a huge cost savings to the assets!

How Did We Do?

- Portfolio-wide cost of <\$30,000 so far
- Minimum vendor cost of \$100,000+
- Minimum **70% cost savings** to the portfolio so far!
- **Estimate a minimum final cost savings to the portfolio of 30-50%!**



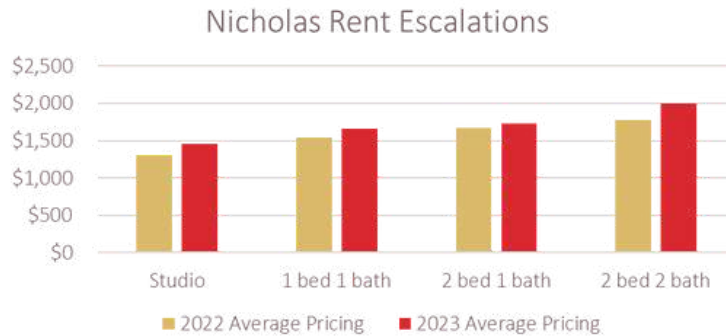


FUND I PERFORMANCE

The Nicholas

This quarter, The Nicholas received community recognition as a Finalist for Best Apartment Community in Rochester! This award will help us attract even better residents at premium rental rates.

This is an exceptionally quiet, consistent asset. In 2023, we've achieved rent escalations from 3-12%+. We are excited to test the success of STR units at The Nicholas in Q4!



Nicholas Q3 Rent: \$440,805

Single Family Homes

The portfolio is stabilized and continues to yield steady, consistent returns. Renovations are complete, and leasing performance remains strong with ZERO vacancies across the portfolio and no leases expiring by the end of 2023. Plus, all 30 single family homes have extremely safe fixed rate debt from local banks, with **nothing above 5.15%**.

Distribution coming in December!

Please make sure your bank information is updated in the InvestNext portal.
blackswan.investnext.com





RESIDENCE @ DISCOVERY SQUARE

Residence at Discovery Square (RDS) is a 129 unit, Class A urban core asset owned by both Black Swan Fund I *and* Black Swan Fund II. In Q3, RDS was honored as a Finalist for Best Apartment Community! We're thrilled to launch our STR business here and we can't wait to see the outcomes. This could very well be *the best deal we have ever done*.

Loft Unit Buildouts

In Q3, our first loft buildout came online! We got to tour it during Real Estate Real Life, and it is already leased at \$1700 per month. The city has approved 21/24 units, and we have submitted the requested revisions. We hope to start construction in 30-45 days!

Closed on NW Parcel

- Extremely distressed property
- Owners were previously offered \$800k, we closed for \$365k
- Favorable seller carry personally guaranteed by Nick & Elaine
- Both units leased & performing well, hope to eventually install dog park
- Adds ~\$15.6k to annual NOI in the meantime!

UMR Master Lease

- University of Minnesota Rochester has renewed their master lease through 2026
- 25% of units at RDS
- Originally planned to terminate in August 2024, 2 months before our financing renews
- Restructured master lease so UMR can opt to give a unit back & pay rent on the unit until we lease it
- HUGE win/win/win deal created!

More exciting wins:

- We secured a 25% reduction in property taxes--this is a HUGE win!
 - \$525k to \$410k per year
- Lowered utility expense by reducing master lease
 - ~\$220k to \$190k per year
- Eliminated Cintas contract saving \$10k per year
- Working on unwinding cable contract, could save \$37k per year
- Total potential savings of \$200k per year, \$4M of value @ 5 cap!



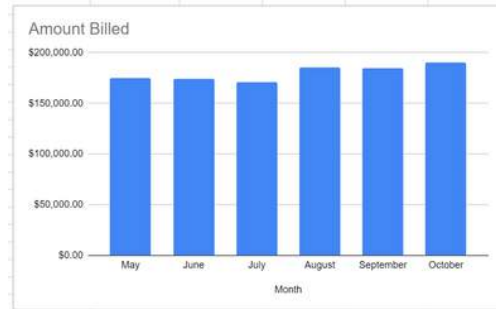


RESIDENCE @ DISCOVERY SQUARE

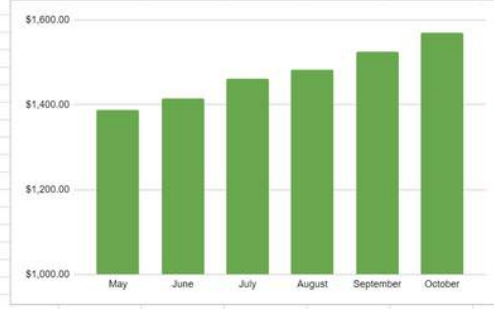
Rent Growth

Month	Amount Charged	Vacant Units	Avg Unit Price	Occupied Units
May	\$175,005.28	3.0	\$1,388.93	126
June	\$174,077.78	6.0	\$1,415.27	123
July	\$171,017.78	12.0	\$1,461.69	117
August	\$185,297.78	4.0	\$1,482.38	125
September	\$184,597.78	8.0	\$1,525.60	121
October	\$189,893.16	8	\$1,569.36	121

Monthly Billing



Avg Unit Price



Value Add: Additional Units

- Up to 25
- Estimated construction cost of \$100k per unit
- Estimate \$225k per unit value when complete
- ~\$125k per unit gross profit -- **\$3.1M+ of equity created!**

Value Add: Southwest Parking Lot

- Waiting on final approval from the city
- Have bids in hand from all contractors
- Total cost ~120k

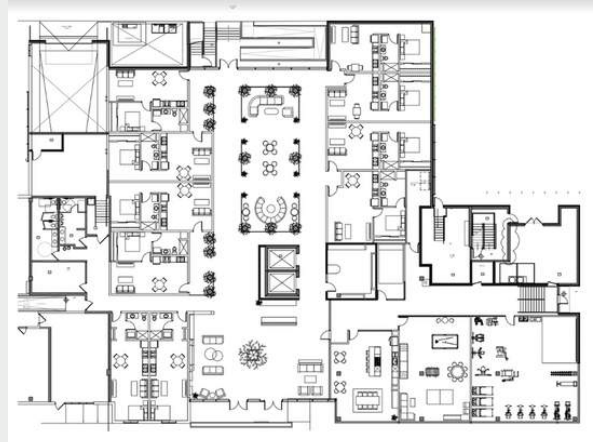
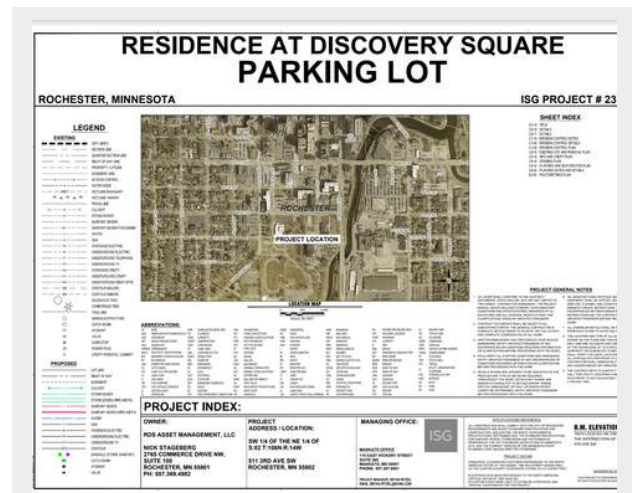
Value Add: Amenity Build Outs

- Community café & kitchen space
- Game lounge
- Golf simulator
- Upgraded fitness center
- Luxury atrium
- Conference center
- Theater
- Library

NOI Improvement

- \$1.2M NOI @ 5 cap = **\$24M value**
- \$2.1M NOI @ 5 cap = **\$42M value**
- **\$35M @ 6 cap** is more realistic right now

	2022 Seller Financials	2023 Pro Forma	2024 Pro Forma
Income	\$2,341,927.00	\$2,640,015.00	\$3,232,921.00
Expenses	\$1,116,906.00	\$1,154,841.00	\$1,143,629.00
NOI	\$1,225,021.00	\$1,485,174.00	\$2,089,292.00





FUND II PERFORMANCE

Fund II Acquisitions are complete. We hope you're proud to call yourselves owners of some truly impressive assets. In Q3, we continued renovations on all assets (some are now complete!) and focused on strong leasing performance and rent escalations.

Total Asset Value: \$80.5M

Liquid Reserves: \$6.7M

Fund II Acquisitions

Tanara Villa Apartments - Tacoma, WA

- \$24.15M purchase price
- 130 units

Residences of Old City Hall - Rochester, MN

- \$5M purchase price
- 22 units

Hamptons Townhomes - Rochester, MN

- \$1.6M purchase price
- 12 units

Douglas Trail Townhomes - Rochester, MN

- \$11M purchase price
- 100 units

Riverview Apartments - Rochester, MN

- \$5M purchase price
- 39 units

Garfield Apartments - Tacoma, WA

- \$5M purchase price
- Residential units, commercial units, and land

The Colby - Rochester, MN

- \$2.65M purchase price
- 29 units

Residence at Discovery Square - Rochester, MN

- \$27M purchase price
- 129 units plus commercial space

Kensington & Lauriston - Tacoma, WA

- \$8.05M purchase price
- 2 Class C buildings, 63 total units





FUND II: ROCHESTER UPDATES

Residences of Old City Hall | *Value: \$5.5M**

This is one of the most beautiful assets in the portfolio. These light renovations have had a tremendous impact on leasing operations while still maintaining unique, historic details. We've seen rent escalations of up to 35.47%! We can't wait to see our STR outcomes.

Active Rehabs

- 3 in process
- 15 complete

Unit size	2022 Average Pricing		2023 Average Pricing		Average Increase
1bed/1ba	\$	1,090.00	\$	1,476.67	\$ 386.67



Hamptons Townhomes | *Value: \$1.7M**

This asset is the first to complete all renovations! We are so pleased to share that we finished renovations well under budget and ahead of schedule! We've achieved massive rent escalations after renovation, and the feel of the community has improved drastically. At this time, we are not in a hurry of refi because we have a no interest no payment seller carry. This project has been such a success!



*This current value is our "best guess" estimate of market value and is not supported by recent sales data or official appraisal



FUND II: ROCHESTER UPDATES

Douglas Trail Townhomes | *Value: \$14M**

This was yet another quarter of massive renovation velocity, and we are nearly done! We've spent over \$1M on renovations in the last year, we've improved our processes so per-unit renovation costs are 1/3 of where we started, and half of the 2 beds now have in-unit laundry! We had the honor of hosting a movie night and "bike rodeo" with the Police Department, so the feel of this community is truly changing for the better.

Active Rehabs

- 17 in process
- 66 complete



The Riverview | *Value: \$6.5M**

Renovations are complete! We've had an extraordinarily strong leasing performance at this asset, and we're proud of the visible improvements to this community. In Q3, we expanded and striped the parking lot (with in-house equipment!), adding 8 spaces, and saving thousands on the project. We added new fiber optic lines and gigabit internet service, and look forward to continued strong performance at this asset.





FUND II: ROCHESTER UPDATES

The Colby | *Value: \$2.65M**

The Colby is a Class C building in a Class A location with extraordinarily valuable zoning. We've spent the last quarter working on light renovations and leasing, and we have met with an architect about knocking the building down. The rental rates we're getting have blown away our pro forma. Renovations are nearing completion as we only planned to renovate ~16 of the 32 units. The community feel has already improved drastically.

Active Rehabs

- 14 complete



In red: the Colby. In yellow: the Berkman, the largest single asset real estate transaction in Minnesota history at \$187M.



FUND II: TACOMA UPDATES

Tanara Villa Apartments | *Value: \$28M**

After experienced a slow down by the city, we are deep into renovations and moving at a good speed. We've spent \$1.5M so far, and the landscaping renovations are well underway. In Q3, we installed a massive new irrigation system! Unit renovations continue to move along steadily, though plumbing has been the greatest holdup. We're excited about the rent escalations on renovated units!

- 29 units under active renovation
- 8 units complete



Garfield Apartments | *Value: \$5M**

All problematic tenants are gone, we are actively leasing commercial spaces, and making progress on light unit renovations. We're actively working on a deal to sell the excess land for ~\$1M. We paid \$5M for all parcels combined, and we're excited to push this along.

- 5 complete units out of 23
- 2 in progress



Kensington & Lauriston Apartments

This has been a quiet project while we focus on escalations, and it's going great so far. We've replaced electrical panels, otherwise have not had much to renovate.

- Average lease renewal increase of \$200 per month





JOINT VENTURES

Stone Haven Townhomes

- Ground up construction townhomes
- Phase I & Phase II are completely leased, zero vacancies
- Phase III construction underway & even pre-leased!
- Expected completion June 2024



Midtown Apartments

- 24 unit apartment community
- Light renovations complete
- 50% cash out refi after only ~20 months through crazy interest rate increases



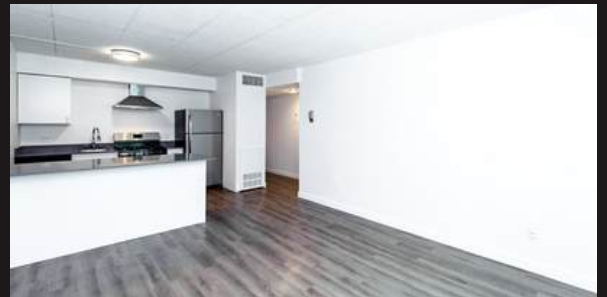
Zick Apartments

- 100 year old building in A+ location
- Renovations complete
- Actively working on cash out refi
- Rent escalations of 8.33%+ from 2022



Uptown Landing & Uptown Terrace

- Light renovations complete
- Processed Terrace distribution!
- Rent escalations of 8.41% - *Landing*
- Rent escalations of 19.35% - *Terrace*



Furlow

- 100 year old building with extensive unit renovations
- Renovations complete!
- Slowly working on cash out refi
- Rent escalations of 10.26%+



Nue 52

- Best Apartment Community Finalist!
- Cash out refi is done
- Still growing in value





CONCLUSION

Thank you for joining us on this real estate investing journey. We are so pleased to report that the Black Swan Funds continue to have strong performance. Our goal is to add value and generate returns for many years to come, and we're honored to be part of your path to financial freedom.

We are so grateful for the opportunity to help safeguard and grow your wealth. We hope you're proud to own assets that are only increasing in value, particularly in a time when so many others in industry face capital calls and foreclosure. Rest assured that your investment is poised for success, and that we're committed to prioritizing our investors above all else.

Please note that we will send updated performance reports quarterly, and we'll keep you updated through Facebook, weekly email newsletters, and monthly Community Power Hour live meetings. We hope you'll join us, and other like-minded investors, right here in Rochester at **Real Estate Real Life 2024**. Visit meetblackswan.com to stay connected with us.

We sincerely appreciate your investment in us and are humbled by the enthusiasm and support from the Black Swan community. We see a bright future for these assets and can't wait to serve you in future funds.

All our best,

Nick and Dr. Elaine Stageberg