



BLACK SWAN REAL ESTATE

Black Swan Funds



Q4 2022
Performance Report



Dear Black Swan Investors,

Wow! Thank you again for the opportunity to serve you on your financial freedom journey in 2022! Although this is officially our Q4 2022 update, it's impossible to talk about Q4 without talking about the entire year, so this also serves as our "unofficial" year-end-summary.

And what a year it was! After years of low interest rates, booming growth, the whirlwind of COVID and its myriad effects on real estate, 2022 was quite different. Investor sentiment was low. The market has slowed considerably as buyers are often sitting on the sidelines and sellers are less eager to sell. The Federal Reserve has raised interest rates aggressively to stem incredible inflation (and remember, inflation is our friend as real estate investors, because it makes our hard assets leveraged with paper debt more valuable).

The stock market struggled in 2022, the worst year since 2008. The DOW **declined 8.8%**, S&P 500 **fell 19.4%**, and NASDAQ did a nosedive, **down 33.1%**.

And yet....

The investors in the Black Swan Funds have experienced zero losses and are poised for incredible future returns. This has happened by focusing on strategic acquisitions, obtaining fixed interest rate debt from regional banks and zero-percent interest rate seller carry financing (when possible), to execute incredibly deep value-add renovations. We have put your capital to work to acquire, renovate, and manage real estate that is growing in value, not declining. Our unique investing strategy focuses on adding massive real value through not only cosmetic improvements but deep-value add renovations like new roofs, kitchens, and bathrooms. This increase in real value exceeds whatever fluctuations are in the market. To say it a different way: Most operators may only add 10% to the real value of the property and so a 10% decline in market value is a massive problem. Because we are adding 30% in real value, a 10% change in market value isn't that bad. And, with our close relationships with local and regional lenders, we are still on-target to get the



financing we need to exercise our future cash-out refinance events and get to an infinite rate of return.

While we've always loved this business model because of the spiral of wealth it creates through an infinite rate of return, it's a particularly strong and safe business model when waters are choppy. If our business model required us to sell our assets, now would be a poor time for that. Instead, our indefinite hold period gives us the time and flexibility to maximize safety and returns for our investors. In fact, it leaves us positioned to make acquisitions at a time when other buyers are pulling back. We put into action Warren Buffet's sage words: "Be fearful when others are greedy and greedy when others are fearful." And while we've always believed that GP fees are in misalignment with LP interests, that's particularly important for creating a safe investment in these times.

The Black Swan Living team - our sister property management team - met for a Year End Retreat in December and again for a 5-day immersive business seminar in January, all to dedicate ourselves to performing our business plan and our industry-leading property management at the highest levels to serve our residents, drive performance at our assets, and ultimately deliver returns and wealth, to you, our investors. As leaders, we are so proud of this team and are grateful for their dedication and service to Black Swan.

We ended 2022 with our first distributions from our Technology Fund, much to the delight of our investors! We are also excited to share that we anticipate our first distributions from Black Swan Real Estate Fund I during 2023 - stay tuned for specific details as we have them available.

We are eager to share this full report with you and thank you again for another year of growth, opportunity, and abundance. We are so honored to have you as an investor. If there's anyone in your life who would benefit from an introduction to us, we would love to be connected.

All our best,

Nick and Dr. Elaine Stageberg

" Care more than others think is wise, dream more than others think is practical, expect more than others think is possible, work more than others think is necessary "

JOHN MAXWELL, THE HIGH ROAD PRINCIPLE



FREQUENTLY ASKED QUESTIONS

When will tax forms go out?

We anticipate K1s will go out around the March 15 deadline for all entities. We will let you know if this changes.

When is the next fund?

Fund III will likely come in summer 2023. Right now we are focused on placing capital for Fund II and taking amazing care of the assets.

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 2023 is taking place in Rochester September 15 - September 17. [Get on the waitlist!](#)

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.





FUND I PERFORMANCE

The Nicholas

Fund I continues to have tremendous operational success. The Nicholas is an exceptionally steady, consistent asset with smooth leasing operations. We hit high, achievable rents and expect continued rent growth with extremely minimal vacancy. We are pleased to share that the internet upgrade is complete and we're implementing a \$75 per month utility fee.

Q4 Rent: **\$147,264 per month**

NOI at Closing: \$873,000

Projected NOI: \$979,000

Actual NOI: **\$941,559**

Value Add: Internet Upgrade

- Total cost will decrease by \$20 per unit per month and speeds will be 30-100x faster.
- **Win-win deals:** residents get better service at the same price and asset makes \$20 each now.

20 x unit x month	= \$1900
\$1900 x 12 months	= \$22,800
\$22,800 x 20 (5 cap)	= \$456,000

Total asset value increase: \$456,000

Single Family Homes

There were no acquisitions for Fund I this quarter, as we focused on stabilizing all 30 single family homes. We really hit our stride this quarter after completing all renovations and a cash-out refi. The portfolio is stabilized and yielding steady, consistent returns.

Monthly Rent: \$58,154 **\$697,848 annually**

Thanks to the successful cash-out refi in Q3, Fund I is under contract on **Residence at Discovery Square**, partnering with Fund II to acquire these 129 extremely high quality units in Rochester, MN.

Total Rents:	\$2,084,000
Total NOI:	\$1,076,000





FUND I PERFORMANCE



Single Family Home renovations. Fresh paint, updated fixtures, LVP.

All fixed rate debt | Nothing above 5.15%

Anticipate a distribution in Q2!

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



RESIDENCE AT DISCOVERY SQUARE

Residence at Discovery Square (RDS) is owned by both Black Swan Fund I *and* Black Swan Fund II. This is a 129 unit, Class A urban core asset built in 2019.

- \$27M purchase price
- Seller carry deal with only \$3M down
- No interest payments on \$4M of the purchase price for 2 years
- Target ARV of \$36-37M
- Working tirelessly with the bank to assume in-place financing at 2.37%
- Have had many meetings with architect and builder to find the most valuable path forward for the ground-level construction. Preparing now so that we can start construction right away!
- Originally spec'd at 13 units, up to 14 now, pushing for 16 if we can get it.
- Estimated per-unit construction cost of <\$170k. Could be worth approximately \$300k when we get done. **Project should create as much as \$2M of equity.**
- Have received sworn statement from builder, working through second generation of plans with builder and architect now to value engineer, reduce cost, improve quality and feel, and execute design/build systems like mechanical, electrical, and plumbing.
- Building out as many urban townhome units as possible to maximally increase the value of the space.
- 7% COC ROR at time of closing - *this is a crazy high number for a brand new Class A urban core deal--higher than most other investment offerings out there in any class!*
- Projected to hit 15% COC within 2 years!





FUND II PERFORMANCE

Fund II launched in June 2022 and has been a staggering success with a very high investor repeat rate. We are pleased to announce that Fund II closed on December 31st and is completely **full**. Thank you for your continuing trust, support, and investment with Black Swan. We hope you're proud to call yourselves owners of some truly impressive assets.

Transitions are going smoothly for all Fund II assets. Renovations are underway at all assets, and turned units are leasing exceptionally well. Existing residents are excited about the opportunity to move into renovated units, and rave about management improvements. We have turned a record number of units (*71 units under renovation at one point!*) and even have a short waitlist for renovated units.

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

UNDER CONTRACT



Residence at Discovery Square Rochester, MN

- \$27M purchase price
- 129 units + commercial space
- 2019 build
- Seller carry deal with only \$3M down
- Fixed rate debt under 3% for another 2 years
- No interest payments on \$4M of the purchase price for 2 years
- Will build out 9+ urban townhome units
- **Target ARV of \$36-37M**



FUND II RENOVATIONS

Q4 2022 was our largest amount of renovations in active progress *ever*. At one point, we had **71** active job sites - all managed by a small team of extremely talented individuals from our property management team. We are working on a full spectrum of renovations, from light rehabs all the way to gut remodels. You'll see we rinse and repeat the plan we know and love: update appliances, hardware, and fixtures; apply fresh, neutral paint; add LVP. The formula works, and the transformations are amazing.



Hamptons Townhomes transformation: kitchen at the time of purchase (left) versus a newly renovated unit (right).



Light kitchen remodel at the Douglas Trail Townhomes.



FUND II: ROCHESTER UPDATES

Residences of Old City Hall

This asset has performed exceptionally well across the board since closing. Light renovations have had a tremendous impact on leasing operations - we've even had existing residents request to move into a renovated unit and pay double their current rent. *Amazing!*

Active Rehabs

- 1 in process
- 6 complete
- 2 upcoming

Rent Growth

In Place Rent: **\$1600**

New Lease: **\$2100** - *pro forma exceeded by \$300!*



Hamptons Townhomes

This property was in very rough shape when we acquired it. The transition has gone smoothly, and we're halfway through our high quality renovation that is changing the feel of the community.

- 5 renovations complete





FUND II: ROCHESTER UPDATES

Douglas Trail Townhomes

As a Section 42 property, this transition was a completely new playing field for us - and it has been a staggering success. We have a record number of rehabs in process, and we're filling units as soon as they are ready. There is often a short waitlist!

Active Rehabs

- **10** in process
- **15** complete
- **12** starting next week

Rent Growth

In Place Rent (2 bed): **\$875**
New Lease (2 bed): **\$1475**



The Riverview

This acquisition was another unique deal that brought it's own new set of rules during the transition. At closing, we took ownership of 39 of the 62 units in the building, along with the HOA. Since then, we have acquired 6 additional units and now have an HOA supermajority. The goal is to own *all* units and operate The Riverview as an apartment building. In addition to acquiring units, we are working on professionalizing the HOA and splitting out all electrical.

Active Rehabs

- **20** units have already been renovated
- Remaining units are in process





FUND II: TACOMA UPDATES

We identified Tacoma, Washington as a very interesting, profitable investment market during a due diligence tour about four years ago, and we are so excited about our expansion in Tacoma in 2022! This is a market we've come to know quite well with our existing apartment community, Garden Court West. Fund II owns two assets in Tacoma: the Tanara Villa Apartments and the Garfield Apartments.

Tanara Villa Apartments

- Average in-place lease: **\$925** | Lease rate after light rehab: **\$1525**
- Corridor painting and lighting upgrades are complete.
- Renovations are underway in 11 rooms.
- 2 rooms are fully renovated and listed for lease.
- We have contracted with an architect and landscape designer to work on the common area redesign.
- Final landscape and community room plans should be submitted to the City for review by the end of February.

Garfield Apartments

- Cost Segregation is in process.
- All but 1 residential tenant paid their rent for January.
- All commercial tenants paid rent in January.
- Commercial space will get listed and rented to a higher quality tenant that fits with the community.
- Laundry machines are being upgraded to new coinless machines.
- There is 1 residential unit vacancy. Maintenance is in the process of updating the unit and it will be listed for lease shortly.
- Residential corridors will get new paint and upgraded lighting in Q1-2023



Tanara Villa Apartments and Garfield Apartments.



FUND OPERATIONS

In Black Swan Real Estate Fund I and Black Swan Real Estate Fund II we do not collect acquisition fees, asset management fees, capital event fees, loan recourse fees, disposition fees, or other fees directly from invested capital. We do collect property management fees and where possible, real estate commissions, neither of which are paid from capital contributed to the fund. We believe in putting our investors first and in a radical alignment of incentive.

We are in this together.

Total Fees waived in 2022:

\$2,300,000

Why do we operate this way?

Our goal is to align our interests with yours, our investors. Because we do not participate in the profit from the fund until all of your capital has been returned we are laser focused on returning capital as quickly as possible. In all of your investments, we encourage you to think critically about fee structure and we are proud to offer an industry-changing alternative that puts the interests of you, the investor, first and foremost.



BLACK SWAN TECHNOLOGY FUND I

Although real estate remains our number one investment vehicle, Technology Fund I is an excellent way to diversify your portfolio, generate wealth, and minimize risk. We've partnered with the Lotus Fund III, to make the exclusive \$165M Fund available to all accredited investors. This is a value-add investment strategy very similar to Fund I and Fund II, and we couldn't be more excited about the alignment of interests.

Lotus Fund III closed out 2022 having made 8 investments since its inception, and maintained positive gains. **The first Tech Fund distribution for Black Swan investors went out in December!**

***Investors must have funded by the end of November to get the December distribution.*

Technology Fund I Acquisitions



CONVOX - enables the automation of application deployment and management, allowing development teams to utilize more features more efficiently. The CONVOX charter prioritizes uptime, scalability, and development process.

Joi Delivers - in the \$250B home delivery segment of the mobility space. Their unique go-to-market strategy utilizes independent marketing reps who recruit freelance drivers, merchant partners and customers via word-of-mouth, advertising, and social selling.

PayForward - an exclusive membership rewards program. Members receive up to 15% cash back when shopping at 120,000+ participating merchants. These cash earnings can then be used on healthcare expenses, favorite charities, kids' tuitions and more.

EdgeTI - provides scalable, secure, multi-tenant, customer-facing portals that uniquely deliver on the promise of a Single Pane of Glass solution. They extract and aggregate operational and management data from disconnected systems, while providing automated workflow 'pipelines' to orchestrate specific tasks across various business and IT systems.

ChannelMix - serves the approximately \$63.2 billion SEO/SEM market. An innovative combination of data aggregation, analytics, proven-accuracy decision-making and intuitive UI give ChannelMix an irrefutable advantage in this major-spend space.

Coinonía - Coinonía Fund has developed a block chain platform strategy that scales across three distinct 'Pillars' in the Web3 domain via their tested and proprietary methodology.



BLACK SWAN LIVING

In all our iterations of the Fund performance quarterly report, we haven't properly highlighted the Black Swan Living Property Management team that makes the magic happen.

2022 was a year of tremendous growth for the Black Swan Living team. We kicked the year off with 8 full time employees and today, we're at 30 and still growing! We grew our growth and operations departments, and built brand new teams for communications, maintenance, and facilities. Building out a facilities team is a *massive* cost savings for unit turnover and common area cleaning, in addition to massive quality improvements you just can't get from vended staff. Our facilities team recently took the initiative to start doing package management at our buildings, which was previously a huge pain point. Today, we are able to complete more maintenance and cleaning in-house than ever before!

We did fun team building events - an asylum-themed escape room (*yes, we got out!*), ladies night, two all day team retreats focused on professionalizing and growing the team, and a holiday party at a local brewery, complete with team member trivia.

Some incredible wins from the Black Swan team this year:

- **90** rehabs complete since June 1
- **3570+** maintenance tickets closed
- **450** leases signed

This team is here to serve you.





CONCLUSION

At Black Swan Real Estate, we believe that values-driven organizations not only succeed, but also positively impact those they serve. Our 7 core values - grow authentically, focus on the long term, create infinite opportunity, show up for people, take extreme ownership, embody servant leadership, and radicalize transparency - form the foundation of who we are as a company.

We strive to grow authentically by staying true to ourselves, our beliefs, and our vision for the future. Our focus on the long term means that we prioritize sustainable growth and development, rather than short-term gains. This, in turn, creates infinite opportunity for our investors, residents, and the communities in which we operate.

At Black Swan Real Estate, we take our responsibility to show up for people seriously. This means providing exceptional customer service and being available to answer any questions or concerns our investors and residents may have. We also embody servant leadership by putting the needs of others before our own, and working tirelessly to make a positive impact in the lives of those we serve.

We believe in taking extreme ownership, which means taking responsibility for our actions and their outcomes, and never blaming others for our mistakes. Finally, we radicalize transparency by being open and honest in all our dealings, and sharing information freely and openly with those we serve.

We are confident that our values-driven approach to real estate investing is good for our investors, residents, and the communities we serve. We look forward to building strong, long-lasting relationships with all of you, and to being a positive force for change in the world of real estate.

All our best,

Nick and Dr. Elaine Stageberg