



# Investor News

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## Estimated Income Fund 1 Equity

January 2020

Month/Year	December 2019	January 2020
<b>Est. Value of Fund</b>	\$274,723,313	\$272,423,313
<b>Third Party Debt</b>	156,625,649	156,549,534
<b>Est. Total Equity of Fund</b>	\$118,097,664	\$115,873,779
<b>Series 1 M (Equity Cushion)</b>	15,589,956	15,695,934
<b>Series 1D</b>	4,728,317	4,938,317
<b>Series 1C</b>	21,928,589	20,797,069
<b>Series 1B</b>	21,735,240	21,043,019
<b>Series 1A</b>	43,873,881	43,157,758
<b>Blue Rock Preferred Equity</b>	10,241,681	10,241,681
<b>Total Member Invested Capital</b>	\$102,507,708	\$100,177,844

“As of January 31, 2020 our fund is estimated to be valued at \$272,423,313 ” \*\* Currently Open: Series 1A, Series 1D \*\*

### Dear Investors,

We hope this letter finds you well and that you have enjoyed the holidays.

As we close out a decade and head into a new one, hopefully filled with high aspirations and hopes for all, Strategic Diversified Real Estate Holdings (The Fund) has proudly completed its 7th year of operations. We are extremely grateful for every one of our members’ support over the years and look forward to striving for many more years of positive returns.

Here is a brief summary of 2019 as well as our goals for 2020:

For the year ended 2019, The Fund maintained an average occupancy of 95.2 % and was able to raise rents over 5.5% on the multifamily portfolio; this on top of 2018, in which we raised rents over 7%. Our strategy to invest in value-add properties predominantly in the Southeast has paid off. As you may recall, approximately 3 years ago we identified the shift in demographics and migration of the aging U.S. population out of

the cold, highly taxed and politically charged Northeast (New York, New Jersey, Connecticut, and Pennsylvania) to the warmer, tax friendly Southeastern region of the U.S. We believed and still do, that this confluence of events will continue creating a high demand for housing in areas where there was a significant shortage to begin with. Certain areas of Georgia, Florida, North Carolina, South Carolina and Tennessee would be markets where we thought there would be strong population and employment growth. This "foresight" continues to pay off for The Fund, and we will continue to strategically pursue assets in specific markets that we believe are poised for population and job growth. This fits The Fund's criteria of risk mitigation, with appreciation.

During 2019, we were able to take advantage of the capital markets and the low interest rate environment by reducing the cost of debt down to 4.24%. This, in conjunction with our 10% cost of equity translates into an overall cost of capital of approx. 6.37%. The overall debt level ("leverage") sits at conservatively, 60%. In addition, The Fund has no significant maturities on its long-term debt until 2027. Lastly, as of December 31<sup>st</sup>, The Fund's current unrestricted liquidity sits at over \$8mm.

In the past year we sold approximately \$17.8mm of non-core assets, in the slow growth areas of Alabama, generating gains of approximately \$1mm. It is the manager's intention to continue to dispose of non-core assets from time to time, in an effort to realize some gains for The Fund as well as upgrading the overall quality of The Fund's assets.

The Fund will show a small loss in 2019, as the non-core assets that were scheduled to be sold in the fourth quarter of 2019 are scheduled to close in the first quarter of 2020. At that time, we are targeting a profit on those two asset sales of approximately \$6mm.

The Fund acquired over \$50mm in 2 multi-family assets, located in Pensacola, FL (240 units) and very recently (Dec. 27<sup>th</sup>) a 168 unit multi-family complex in Savannah, GA that was appraised for \$600,000 more than the purchase price.

## Georgetown Crossing | Savannah, GA



*-Unit Exteriors*



*-Community Pool*



## Georgetown Crossing | Savannah, GA

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A significant event, and our proudest moment of 2019 came with the investment of \$9mm from Blue Rock Residential Growth REIT. Blue Rock is a publicly traded stock on the NYSE (Ticker Symbol BRG) that aligns itself with strategic operating partners who share their common goals of investing in strong markets with growth potential, high occupancy rates and "Value Add" opportunities. Their investment will increase to \$22mm once we receive all lender approvals. This is projected to occur by the end of February. This equity infusion will allow us to continue our efforts to grow our portfolio at an accelerated rate, should we be able to source investments that meet our criteria. We will always continue to keep our investment discipline while attempting to seek out quality assets for The Fund.

Lastly, but certainly not least, we currently have over 400 member accounts with invested capital of over \$92mm, which we are quite proud of and place a high degree of value in. Again, we are thankful to each and every one of our members for their continued support.

Moving forward, we hope to acquire another \$75mm-\$100mm of high-quality assets in 2020, with minimal additional capital raising needed. We believe that by remaining disciplined, working diligently, and acquiring fundamentally sound assets in strong markets, we can continue to attempt to increase the equity cushion in The Fund for investors. Whatever direction the economy takes us, we will remain flexible and nimble in the ever changing real estate market. We continue to keep the safety of our members' capital at the top of our list.

As always, we invite you to call us with any questions or concerns that you may have about The Fund, and we thank you for your continued support.

Sincerely,

James W. Backner, President  
Strategic Diversified Management, Inc.

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**Seminars & Lunch and Learns**

*Calabasas - Saturday, February 29<sup>th</sup> at 10 am*

*Newport Beach - Saturday, March 28<sup>th</sup> at 10 am*

**RSVP is required.**

To reserve your seat, please call Diane Rangel at (805) 367-8835 or email:

[Diane.Rangel@strategicholdings.com](mailto:Diane.Rangel@strategicholdings.com)

Currently available: **Series 1A** , **Series 1D**

Please contact Investor Relations for more information.

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*\*Our corporate office will be closed on  
February 17<sup>th</sup> in observance of President's Day*



**James W. Backner**  
**President / Chief Investment Officer**  
**Strategic Holdings**

**For the members of the fund, 2019 year-end statements will be mailed out by the end of January 2020.**

**Members of the fund will also receive a K-1 for tax reporting.**

**The K-1's typically will be distributed by the end of March 2020 for our Series 1A, 1B, 1C, investors.**

**Series 1-D investors will receive their K-1's at a later date.**

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