Dear prized Victory customer,

We know we can get a bit wordy and you're very busy, but it's imperative that you at least read the paragraph below, and the section on our "2018 Rental Market Outlook" found mid-way on page 3, as it will play a huge roll in our 2018 strategy

1099's and Cash Flow Statements on the Way

It's that time of year again, 1099 time and trust us when we say we dread it as much as you do. PLEASE PLEASE verify that your information is accurate immediately if there is any doubt, and absolutely when you receive your 1099, rather than waiting several months. Every year we receive a long list of notices from the IRS that the information we have on file is not accurate. We will be sending again this year digitally by posting it to your owner portal where you can grab a copy for the entire time that you are with us. If that's a problem please email us to make other arrangements. We'll also be posting your cash flow (year-end financial summary) to your portal this week as well. Please don't wait until after 2/20 to ask questions regarding your cash flow statement as we will have already sent everything off by then.

Things to consider… Do we have your tax id on file? Has your address changed in 2017? Do you plan to report the income in someone's or some company name we aren't using currently?

2017 in Review

We want to once again say it's been a solid year for our customers & company, and we can't thank you enough for helping to make that a reality! Every year it seems we make huge headway in better aligning our needs with yours, and creating an atmosphere of partnership rather than competing desires. This leads to those win-win situations we're constantly striving for where owner, manager, and tenant all find benefit and satisfaction. We're really looking forward to another great year ahead, and hope you'll be receiving our updates for many more!

We made a lot of huge changes to the way we operate this year, though most occurred behind the scenes and related mostly to our ability to function more effectively. Since we're a service provider that translates to a near direct benefit to you! As we have done year after year, we invested an outsized portion of our earnings back into growing and improving our business, especially our ability to train and retain amazing staff.

The most exciting investment we've made is in an intra-office drive where our staff works to earn positive online reviews, and in exchange we donate $50 to mostly local charities each time. Positive reviews are the single best way to ensure that future tenants feel great about joining us in a year+ relationship, and these days they are absolutely critical to a manager's ability to consistently secure the best quality tenants available.

As we note above, we're always on the hunt for win-wins, and we have found a perfect opportunity to enjoy both the review benefit, plus the amazing feeling that comes from helping out the less fortunate.

In 2017 we donated over **$3000 to amazing charities, and we didn't begin until mid-year!!** We're convinced that the charitable aspect has motivated our staff substantially more than a direct payment bonus would have, and that says a lot about our people... Nearly half of that amount was courtesy of generous matching pledges by Google and the Bill & Melinda Gates Foundation, so they deserve immense credit as well. The devastating hurricane season (something that may one day leave our area needing) led us to utilize the Red Cross to a large degree, but our plan is to focus primarily on local causes. Some of our favorites are...

SPCA of Wake County protecting the welfare of animals without a voice
Habitat for Humanity housing for those in desperate need
DonorsChoose.org helping local school teachers improve the quality of their education and build the leaders of tomorrow
Lower Cape Fear Hospice helping those dealing with advanced illness
New Hanover County Humane Society

Perhaps the best investment we have made this year that will benefit you is an investment in our people. Training new hires obviously increases mistakes and inefficiency, and also forces you and tenants to build new relationships as we replace departing staff. During a period when wages have almost completely stagnated and job benefits for small groups are nearly unheard of, we have found amazing opportunities to offer our staff a phenomenal reason to stay put and continue to improve themselves, our business, and your results. Starting in 2018 we will be providing all full-time staff a host of crucially needed benefits including...

Health insurance
Dental insurance
Vision insurance
A state of the art 401K provider

Clearly these offerings will reduce turnover dramatically, give us a huge edge against competition who fail to see the value in taking great care of their staff, and motivate our people to strive for continued improvement in all aspects of our business. It will also help to attract the best new talent available as we grow...

The biggest operational change we made was in securing a service called Tenant Turner to help with scheduling rental showings. This automated service has created a standard procedure for ranking new leads on a host of factors, most of which are credit quality, how quickly they move, income, and whether they meet certain guidelines that we set in advance such as not having previous evictions on their record. This system sorts and ranks leads so we're able to immediately focus our attention on the best available, and handles a ton of the unskilled administrative tasks for us, including reaching out multiple times both by email and text message to try and get as many quality leads into our properties as possible. While many of our competitors are still in bed, our system is scheduling high quality appointments for your home! One of our favorite things to do these days is come in to see a host of showings already scheduled and in the queue.

Operationally in 2018 the majority of our changes will come in the form of dramatically building out our automation, as most other changes such as virtual reality simply haven't reached the level of adoption we require to warrant major internal change. Standardizing every aspect of our data and building out a pristine database will lay the groundwork for us to easily adopt any new technology we feel justifies the attention required, and this will be completed before the end of 2018.

New Locations

Finally, we are expanding in 2018! This spring we'll be opening an office in the Charlotte (likely Concord) area, and we're hoping to open another in Fayetteville late in the year. We'll be exploring opportunities to acquire established businesses which will play a role in the timing, but we're ready and equipped to start from the ground up too. If you have properties in those areas we will be your one stop shop soon!

2018 Rental Market Outlook

Unfortunately, this section will contrast a bit with our exciting news above. Before we begin though we want to point out that this company, both as a result of our core values, as well as the constant investment in innovation outlined above, is guaranteed to thrive in tough times. Remember, we were conceived and built while our country was deep in the throes of a near depression that originated with the housing industry. We transitioned from sales to rentals in 2007, which led us to the trail we're still blazing today. We remind you of this because we think the odds are high that things are about to get tougher for landlords and managers in the rental industry, and in some markets, it's already begun. It's critical that you consider the following carefully as it will likely drive our strategy immensely next year. First, let's clear up a few things.

Anyone who has been with us for more than one tenant knows we have been one of the most aggressive marketing and rate seeking managers you will ever find. While we keep rental increases to a minimum for excellent active tenants (only because we feel this makes major financial sense, and follow the same mantra for properties we own ourselves), it has been our policy for nearly a decade to relist properties 10-15% higher than current market rates, then systematically reduce as needed. However, just as much of our success during the housing crisis stemmed from our flexibility, analytical approach, and ability to find benefits in tough situations, it's likely we will be dialing back our aggressiveness in 2018 as we feel the rental market may have peaked in the near term, especially for condos and small townhomes that compete with ultra-modern apartment complexes loaded with amenities.

We are not making a forecast, nor are we extremely confident this is the case, however we are taking significant steps to prepare, and will subtly shift our priorities from earning above market rates, to limiting risk and exposure should the market continue to take a turn for the worst.

Why?

Our Wilmington investors in particular will likely be confused by this warning, as 2017 has been the best on record. However, one of the great benefits of covering several markets is that you're able to collect substantially more data, and therefore make better decisions. You may recall last year that we highlighted the extreme financial pressure the average US renter is currently experiencing, and despite what was the hottest year we have ever witnessed, warned that it would likely be coming to an end relatively soon. In 2016 the Raleigh market enjoyed rental increases like nothing in modern history, and this continued right into the early part of 2017. However, as spring arrived, we noticed a dramatic downturn in overall traffic / demand, and this of course led prices to stay flat or decline. We had a solid year, and the market is still strong enough that it's entirely possible it's just a short pause rather than a peak, but in light of the renter financials we highlighted a year ago, and the fact most highly qualified movers opt to buy these days, it's hard to see how rents could go much higher. Here is what we've been seeing.

Condos in particular have gotten much tougher to rent, and even we struggled at times. Smaller townhomes also posed some challenges, but houses were on par with 2016 (first time it was flat in a decade). The condo effect is a direct cause of the massive apartment boom which left little doubt it was only a matter of time. Raleigh is a deep, growing market so it will weather well, but we seriously worry about Wilmington in this regard.

Bear in mind these places are loaded with large and small amenities, allow pets, have powerhouse marketing, and have yet to slow with bringing on more units. Also interesting is the fact that almost all older complexes have modernized in recent years. They can't compete otherwise. We brought a 30-unit complex near UNCW on to our program this year (Oak Court Apartments), and the reason the owner partnered with us is because their leads had stopped almost completely by mid-year. We quickly demonstrated that their old rate simply had no chance, and after a reasonable reduction have since enjoyed wonderful consistency. However, thousands more units are on the way (in both metros) and vacant inventory is also growing.

Inventory levels (advert rentals) have exploded in Raleigh relative to last year. We didn't track as well as we wish we had, but it appears to be at least a 30% increase on average, and most of that occurred in the 2nd half. At this time Raleigh within the 540 beltline (approx.) is fairing relatively well, but most outlying areas have significant and growing inventory. Morrisville in particular is extremely concerning. It also happens to be a market where rentals and rates don't vary much which amplifies the issue.

"Wilmington slowed dramatically late in the year. Two months does not a trend make, but we'll be watching closely"

The most eye-opening issue from 2017 though was the number of stories we heard from privately managed owners who truly struggled, and in the number of properties we picked up from other managers who failed to respond to changing conditions. We heard dozens of tales from owners who had managed themselves for years with great success, only to hit a wall in 2017, experiencing 6 months of vacancy on a regular basis ($7800 + secondary costs for the median rental). We picked up a record number of formerly self-managed homes. We've always taken market share from our competitors, however this year saw a substantial increase. Early in the year our office discussed the likelihood that our competitors would be far too slow to respond, and many paid for it, as did their customers.

The important point to close with though is that rentals are one of the safest investments you could possibly hold. We recently saw data showing NC as one of the top 5 fastest growing states consistently for years. Rentals almost always thrive during tough times. In fact, a large part of the problem for higher end homes is that so many are buying these days. Should we have problems with the overall economy, you'd likely see nicer rentals strengthen after a shake out. As we did during the recession, afterward, and in 2017, should conditions take a turn we will swiftly change our conservative strategy and return to relentless rental increases. We don't anticipate a major downturn (though it is possible in the face of rising inflation) as the problems we've cited so far have a simple solution, reduce the price and take care of great tenants. The issue isn't a tumbling market, but rather a return to more normal conditions. However, after 10 years of roaring growth, for some it seems to feel that way.

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