STELLAR

The Stellar Dundee Hotel LP ("the Fund")

Review for the six-months to 30 September 2024

The Fund's performance in the period has exceeded budget by 6.5% at EBITDA level. This performance has been driven by an ability to generate an above target ADR without compromising on occupancy.

Market Commentary

For the period 1 April 2024 to 30 September 2024 the UK hotel market displayed strong recovery, with investment and demand trends aligning with post-pandemic norms. However, performance across the industry was not uniform with luxury hotels outperforming their budget counterparts following the scaling back of asylum accommodation, causing a short-term dip in in their occupancy.

Investment volumes have soared, particularly driven by large portfolio acquisitions. Cushman & Wakefield reports that UK hotel investments reached £3.9 billion in H1 2024 alone, a 210% year-on-year increase from 2023, with key portfolio transactions from major investors like Blackstone and Starwood. Portfolio sales, especially in London, constituted the bulk of transactions reflecting investor preference for large, consolidated acquisitions over single-asset purchases. Additionally, Knight Frank notes a strong presence of U.S. investors in the UK market, contributing significantly to total investments during this period.

Knight Frank and JLL highlight the robust regional development pipeline, with 321 projects totalling over 45,000 rooms, further emphasizing investor confidence in regional markets and expansion across the UK. This trend aligns with broader strategies to diversify hotel investments beyond traditional hubs.

The operational side of the industry faced margin pressures despite easing utility costs, with wage growth impacting budget hotels more heavily than upscale establishments. Savills notes that inflationary costs and cost-of-living adjustments placed downward pressure on the budget hotels.

The overall market outlook remains optimistic as transaction activity and RevPAR growth continue to stabilise. Knight Frank anticipates that declining interest rates will spur further investment in 2025, with portfolio deals dominating the market. JLL echoes this sentiment citing pent-up investor demand and a favourable UK economic outlook, as well as strong recovery in international arrivals. With the hotel sector projected to maintain steady gains the market is poised for a robust close to 2024, driven by both high-quality assets and increased buyer-seller alignment.

Executive Summary
Six months to September 2024

Executive Summary	YTD Sep 24	Budget	BudVar	LastYear	PYVar
Occupancy	89.7%	89.7%	(0.0%)	89.8%	(0.1%)
ADR	£84.91	£81.43	£3.48	£75.48	£9.4
RevPAR	£76.15	£73.06	£3.08	£67.78	£8.37
Total Revenue	**£1,413,885**	**£1,333,672**	**£80,213**	**£1,375,986**	**£37,899**
GOP	£402,696	£379,015	£23,681	£455,244	(£52,548)
Hotel EBITDA	**£295,169**	**£277,152**	**£18,018**	**£349,353**	**(£54,184)**

20 Chapel Street, Liverpool L3 9AG
020 3195 3500 | **enquiries@stellar-am.com** | **stellar-am.com**

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As the above table demonstrates, performance for the year has exceeded budget expectation, independent of unique events or government contracts which underpinning business activities in prior years.

Hotel Revenue

Six months to September 2024

Hotel Revenues	Actual	Budget	BudVar	% Var	LastYear	PYVar	% Var
Room Revenue	£1,323,822	£1,270,203	£53,620	4.2%	£1,178,348	£145,474	12.3%
F&B Revenue	£68,108	£61,868	£6,240	10.1%	£190,290	(£122,182)	(64.2%)
Other	£21,955	£1,602	£20,353	1,270.5%	£7,348	£14,607	198.8%
Total Revenue	**£1,413,885**	**£1,333,672**	**£80,213**	**6.0%**	**£1,375,986**	**£37,899**	**2.8%**

As previously referenced, strong rates and occupancy have driven room revenue with F&B revenue also exceeding budget by 10.1%.

The shortfall in F&B revenue in the prior year is largely due to the hotel operating without the benefit of government contracts.

Hotel Profitability

Six months toSeptember 2024

Hotel Profitability	Actual	Budget	BudVar	% Var	LastYear	PYVar	% Var
GOI	£1,413,885	£1,333,672	£80,213	6.0%	£1,375,986	£37,899	2.8%
GOP	£402,696	£379,015	£23,681	6.2%	£455,244	(£52,548)	(11.5%)
NOP	£338,982	£318,469	£20,513	6.4%	£395,270	(£56,288)	(14.2%)
Hotel EBITDA	**£295,169**	**£277,152**	**£18,018**	6.5%	**£349,353**	**(£54,184)**	**(15.5%)**

Despite operating in a saturated market, the Fund has performed well. It is pleasing to see outperformance vs budget at an EBITDA level, albeit behind the prior year.

Exit Update

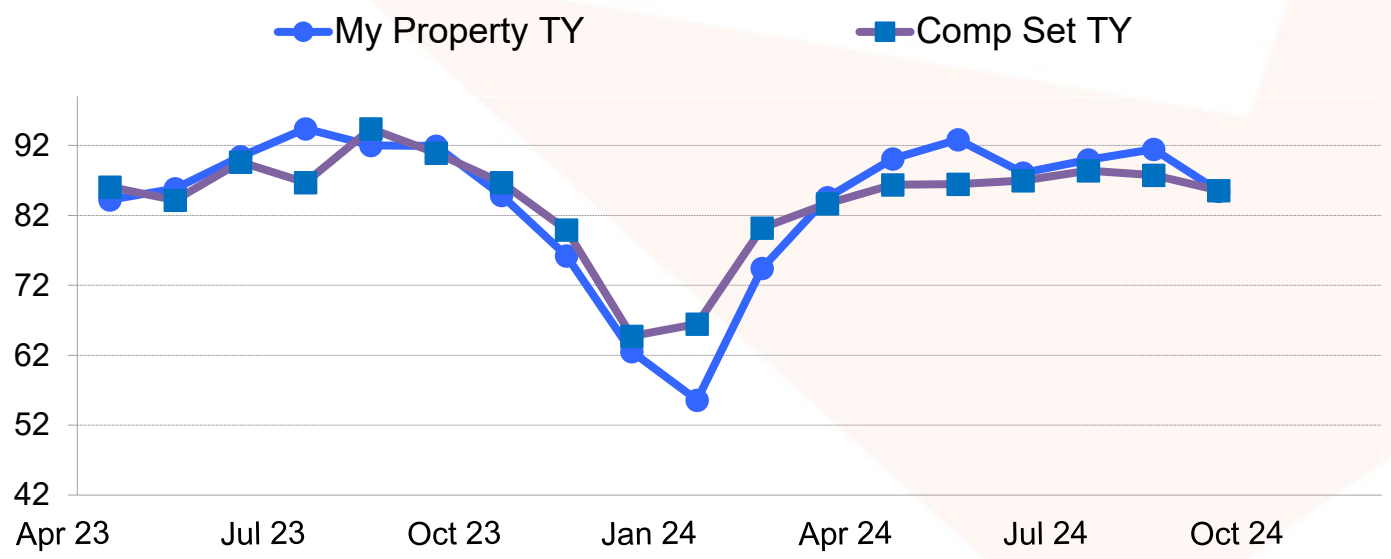
Despite the improved performance of the hotel during the period, the directors of the Fund's general partner are aware that the winter season is a challenging time for the hotel and they considered that there was a real possibility of the hotel not being able to meet its obligations during this period. After discussion with advisers, the directors approached the Fund's lender, NatWest and appraised it of the situation.

It was agreed that the hotel should be made available for sale and a marketing exercise was undertaken by Enterprise Hotels & Hospitality. This resulted in a number of bids being made for the hotel and the directors have accepted an offer. The sale is now in solicitors' hands with due diligence and contractual negotiations to commence.

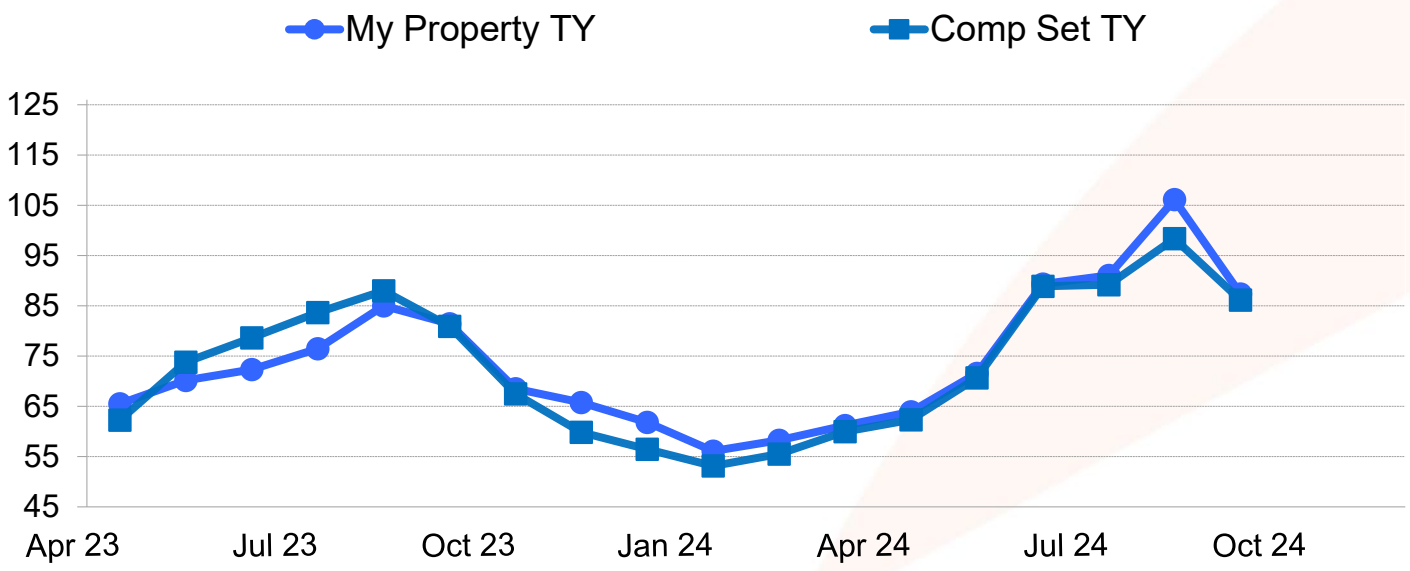
The price achieved (subject to contract) will enable NatWest to be repaid in full but will not result in full repayment to investors. We will provide a further update in this regard in one month's time once we are further progressed and can detail what this sale means for both equity and loan note holders.

Performance vs Competitor Set

Monthly Occupancy (%) – Apr 2023 to Sept 2024



Monthly ADR – Apr 2023 to Sept 2024



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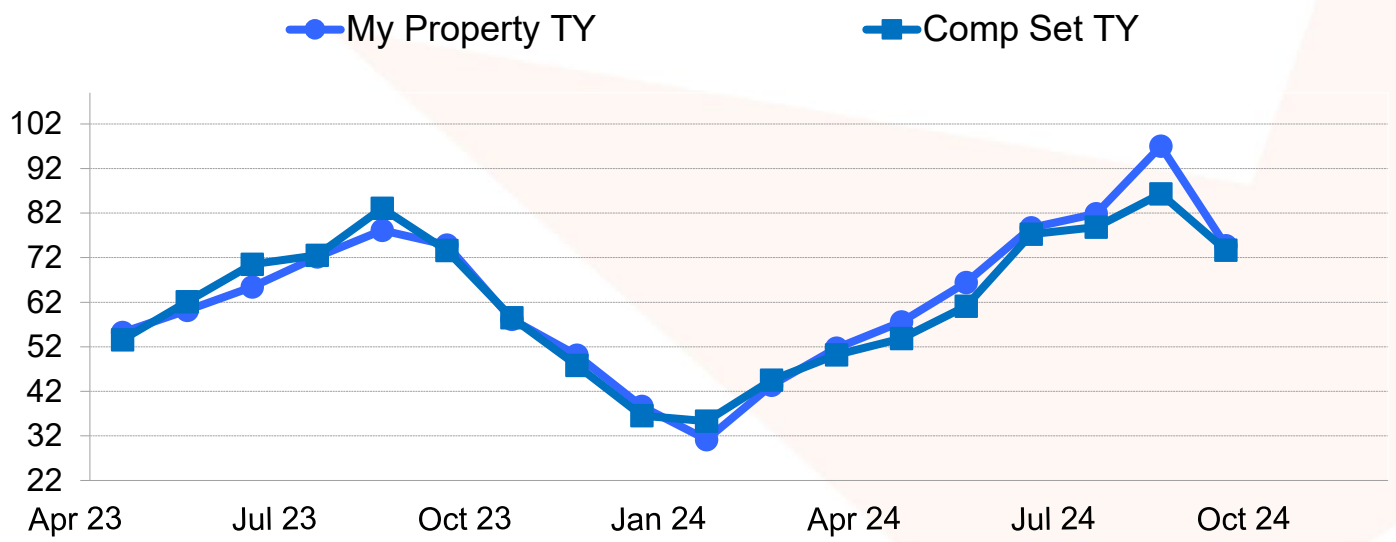
Monthly RevPAR – Apr 2023 to Sept 2024



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Frequently Asked Questions (FAQs)

To assist investors and their advisers, we have collated the most frequently asked questions that our client service team receive and have included our answers below.

Should you have any queries relating to the Fund or your investment, our client services team are readily available to assist and can be contacted on 020 3195 3500 or via email at enquiries@stellar- am.com.

How often are performance updates provided to investors?

Performance updates are issued on a half yearly basis by email. Once published, they can also be accessed at any point via our online portal: https://www.stellar-am.com/portal/.

What is the latest market valuation of my investment?

For an update on the current value of your investment, please contact our client services team on 020 3195 3500 or via email enquiries@stellar-am.com.

Is there any news on the CBILS (Coronavirus Business Interruption Loan) loan from NatWest for £250,000?

This was drawn down in July 2020 and is repayable over 6 years after this date.

When will my tax certificate be available for tax year end April 2024?

Your tax certificate will be available in December 2024. These will be made available via our portal and can be emailed to you on request. Please contact enquiries@stellar-am.com

What is the taxation treatment of the Fund?

Income of the Partnership

Income arising to the Partnership will be treated for UK tax purposes as income arising directly to each Limited Partner in the proportion in which income is shared by the Limited Partners in accordance with the provisions of the Partnership Agreement. It is anticipated that rental income received by the Partnership will be fully used to pay the interest on the Loan Facilities and the balance of the rental income to amortise the Loan Facility balance. This will mean that there will be no distribution of profits to the Limited Partners. Interest payable on the Loan Facilities by the Partnership can be offset against the rental income of the Partnership for income tax purposes. Limited Partners should be aware that even though they will receive no distribution of net profits that they will still be liable to pay their share of the income tax due on those net profits at their marginal rate of tax direct to HMRC.

Capital Gains Tax

Each Limited Partner will be treated for the purpose of UK tax on chargeable gains as having a direct share in the Partnership Assets. The share of each Limited Partner will be equivalent to their interest in the Partnership Assets determined in accordance with the provisions of the Partnership Agreement. Upon the Partnership disposing of an asset to a third party, each Limited Partner will be treated as disposing of their share in the underlying asset. To the extent that any gain or loss arising on a disposal is treated for UK tax purposes as a capital gain or loss, each Limited Partner's share of any proceeds realised on disposal will be determined in accordance with the provisions of the Partnership Agreement. Any such capital gain will be based on the difference between the sale proceeds allocated to a Limited Partner's share in the Partnership Assets and the cost of the Limited Partner's Capital Contribution made to the Partnership before BPRA is taken into account.

Can I transfer my interest in the Fund**?**

At the time of investment, it was stated that the transferability of an interest in the Partnership would be restricted. We are currently unaware of any potential buyers for interests, so unfortunately would not be able to facilitate a sale at this time.