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Quarterly REPORT

Q3 - 2026

INTEREST RATES AND THEIR IMPACT ON REAL ESTATE

Interest rates moved higher during the third quarter. In September, the Federal Reserve increased its benchmark short-term rate by 0.25 percentage point to a range of 3.75%–4.00%, citing elevated inflation. Longer-term rates also increased: the 10-year U.S. Treasury yield rose from 4.44% on June 30 to 5.29% on September 30. These benchmarks influence real estate financing, although actual loan rates vary by lender, property, and loan terms.

Borrowing costs. Higher interest rates mean more of a property's income goes toward loan payments, leaving less cash available for reserves and investor distributions. For illustration, increasing the rate on a $1 million interest-only loan from 6% to 7% adds $10,000 in annual interest expense—approximately $833 per month. Existing fixed-rate loans generally maintain their agreed rate until a scheduled reset or maturity, while variable-rate loans can adjust sooner.

Refinancing. Refinancing replaces an existing loan with a new one. Lenders evaluate both the property's value and whether its income comfortably covers the new loan payments. Higher rates can reduce the amount a property qualifies to borrow, even when its operating income remains unchanged. This may limit the cash available to return to investors through a refinance or require additional capital to pay off the existing loan. Strong property performance and early planning become especially valuable in this environment.

Property values. Income-producing real estate is often valued using its net operating income—the income remaining after operating expenses, before loan payments—and a capitalization rate, commonly called a "cap rate." The cap rate reflects the annual property income buyers expect relative to the purchase price. Higher interest rates can push buyers to require higher cap rates, which lowers valuations. For example, a property producing $300,000 in annual net operating income would be valued at $5 million using a 6% cap rate, compared with approximately $4.29 million using a 7% cap rate. The property generates the same income in both examples; the buyer's required return changes. Cap rates also depend on location, property quality, growth expectations, and market demand, so they do not move automatically with interest rates.

For investors, these conditions reinforce the importance of growing property income, controlling expenses, maintaining adequate reserves, and planning ahead for loan maturities. Future rate declines could improve cash flow, refinancing options, and valuations, but investment plans should remain workable at today's financing costs.

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Q3 HIGHLIGHTS:

- Achieved 20.27% IRR on the Mt. Pleasant Construction Loan
- 19.52% IRR on the Santaquin Construction Loan.
- NuSkin Building construction is nearing completion, moving the project closer to a potential sale.
- Newbury Business Park improvements are complete, with four units under contract and distributions expected as units close.
- One new Swig location has opened, with our first Nashville location opening this week.









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SELF-STORAGE:



Citadel Spring Creek

- Operating at 85% occupancy with continued leasing momentum.
- Higher occupancy supports stronger cash flow and refinancing potential.
- Targeting a refinance in Q1 or Q2 2027, subject to occupancy and interest rates.

Citadel Carlin

- Maintaining 100% occupancy with strong tenant retention.
- Recent rent increases are helping improve property cash flow.
- Continued performance supports future distributions and property value.





Citadel Butte

- Currently at 65% occupancy as newly added units continue to lease.
- Increased marketing is focused on filling the remaining vacancies.
- Higher occupancy is the next milestone before pursuing a cash-out refinance and potential return of investor equity.

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BRIDGE LOANS:

Pleasant Grove Loan

- Projected to close in Q4, expecting a 48% Internal Rate of Return (IRR*)





MT Pleasant Construction Loan

- Repaid in Q3
- 20.27% IRR
- Investor principal and returns have been realized

Santaquin Bridge Loan

- Repaid in Q3
- 19.52% IRR
- Investor principal and returns have been realized





Lehi & SS Loan

- Expected IRR of 14%

*Internal rate of return (IRR) measures an investment's annualized return, accounting for when money is invested and received. It is different from the total percentage profit earned over the investment.

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SWIG:



SWIGVILLE- SWIG FUND 1

- Our first Nashville Swig location is now open.
- Next milestone is building sales and establishing consistent store performance.



KNEAD SWIG - SWIG FUND 2

- Working to secure a second location.
- Swig Corporate is reviewing sites under updated approval guidelines.
- Site approval is the next milestone before development can move forward.

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DEVELOPMENT:

NEWBURY BUSINESS PARK



- Construction should start this quarter
- Plans have been approved with minor redlines
- Distributions will start in Q4 with units selling

NUSKIN WAREHOUSE

- Multiple groups are interested in purchasing Building 2
- Certificate of Occupancy remains on track for October
- Wasatch Labs' tenant improvements are expected to finish in February
- We're working closely with Campbell Construction to keep the project on schedule
- A sale is currently expected in late Q1 or early Q2 2027





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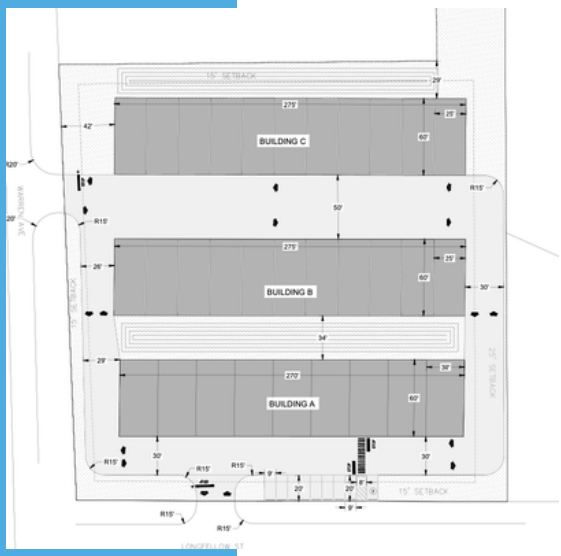
DEVELOPMENT:

LONGFELLOW



- Working with the county to finalize plan approval.
- The buyer is expected to purchase the land once approvals are complete.
- Sale is currently targeted for Q4.
- Closing would allow invested capital and applicable returns to be distributed.

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YOUR INVESTMENT TEAM:

MCKAY JOHNSTON:



McKay Johnston, founder of HRZN Funding and General Partner of HRZN Fund Provo, is a seasoned real estate operator with over 12 years of industry experience. A BYU Accounting graduate, he has spent the last six years managing and structuring multiple real estate syndications. McKay possesses deep expertise in underwriting, asset management, and investor relations, with a proven track record of delivering secure, yield-driven residential, commercial, and development projects.

GAVIN JONES:



Gavin Jones is an experienced entrepreneur, operator, and team builder with a proven track record of scaling organizations. A University of Utah MBA graduate, he has led high-performing teams at Adobe and Qualtrics, founded several multi-state service companies, and actively invests in real estate and business ventures.

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