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US STUDENT HOUSING REIT

17 November 2022
ASX Announcement

September Quarter Distribution and Asset Manager Update

Key Points:

- September quarter cash distribution of AUD 1.18 cents per unit[1] (US 0.78 cents per unit[2]) to be paid end of November
- Net Tangible Assets (NTA) of portfolio based on the most recent June 2022 asset valuations of AUD 1.55 per unit (USD 1.02 per unit)
- Student Quarters market and portfolio update including current occupancy for the portfolio of 97.1%, and strong pre-leasing and rental increases for the 23/24 academic year

September Quarter Distribution

US Student Housing REIT (ASX: USQ) ('USQ' or 'the REIT') is pleased to announce the September quarter distribution of US 0.91 cents per unit, gross of US withholding tax, and a net cash distribution of US 0.78 (AUD 1.18 cents per unit[2]).

The distribution timetable is as follows:

Announcement of USQ distribution	17 November 2022
Record date for USQ distribution	24 November 2022
Distribution payment	30 November 2022

Net Tangible Assets of Portfolio

Further to the ASX announcement of September 14, 2022, the **net tangible assets** of the portfolio as at 30 June 2022 is **AUD 1.55[1] per unit** (US 1.02 per unit).

Asset Manager Update

Please find the accompanying Portfolio and Market Update from Student Quarters, the REIT's US based asset manager, including **current occupancy of the portfolio of 97.1%** for the 22/23 academic year, and strong pre-leasing and rental growth for academic year 23/24.

[1] Assuming AUD|USD estimated exchange rate of 0.66
[2] AUD cents per unit conversion will be based on prevailing exchange rates. Net of US withholding tax

About USQ

US Student Housing REIT (www.usq-reit.com) is a real estate investment trust listed on the ASX with a mandate to invest in off campus student housing at large four-year public universities across the United States. The REIT was established to acquire and manage high-quality purpose-built student housing assets located within close proximity to top-tier public universities across the United States, and drive value through operational strategy and capital upgrades. This announcement has been authorised for release by the Board of USQ.

About Auctus

Auctus Investment Group Limited ('Auctus') is an ASX listed global investment manager with in-excess of A$480M Assets Under Management (AUM), focusing on opportunities across private equity, infrastructure and private real estate. Our core investment thesis is investing in sectors with strong tailwinds and potential to scale. Auctus provides access to these private market investments for wholesale, Family Office and sophisticated investors.

About Student Quarters

Student Quarters is an Atlanta based, specialist student housing asset manager founded in 2013 with a demonstrated track record of value generation. SQ manage in excess of >US$1bn across off-campus student housing, and 11,000+ beds. The team are highly experienced student housing owners with over 50 years of combined experience in underwriting, repositioning, managing, and disposing of quality student housing properties. SQ provides best in class operating and leasing experience for premier located, pedestrian friendly assets at major public Universities.

Yours sincerely,

Russell Beasley
Director
Equity Trustees Limited (ACN 004 031 298, AFSL 240975) as Responsible Entity for US Student Housing REIT

For all shareholder enquiries please contact:
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STUDENT QUARTERS

Dear Investors,

The underlying fundamentals of the United States Student Housing Market remain very positive. Despite the dramatic raising of interest rates and the corresponding increases in cap rates, performance at the property level is still creating value for owners. This is largely due to unprecedented occupancy levels and rent increases which are expected to continue through the 2023-2024 school year.

Strong Asset Performance and Enrolment[1].

To understand why revenues are increasing, it is important to take a deeper dive into the underlying supply and demand characteristics in the markets in which we invest. Headlines repeatedly refer to shrinking higher education enrollment in the United States, but those reports can be deceiving as most enrollment declines are being experienced by the for-profit private institutions and two-year community colleges. In fact, enrollment at major state public universities is at an all-time high with many setting records for freshman enrollment in both the current and immediate past academic years.

We believe there are two major drivers of these statistics. First, the rising costs of education continue to drive students to stay in state and attend their public university as it is a far more cost-effective way to achieve your degree. Second, COVID caused a number of students to delay college or take a gap period during the 2020-2021 and 2021-2022 school years. Estimates suggest that as many as 10% of students took a full year or more off during this timeframe. Enrollments didn't drop at major public universities because they made up for this by altering their admission standards and extending more offers thus dipping down into the pool of students who would likely have attended second tier schools. Now the roughly 10% of students who took time off have returned to university thus creating a mini-enrollment bubble which will take another two academic years to work its way through the system.

Positive Supply and Demand Dynamics[2].

Supply of new beds has been nearly cut in half since the onset of the pandemic. Historically, there are approximately 60,000 new purpose-built student housing beds delivered on an annual basis which is considered to be roughly equilibrium. However, deliveries for the 2021-2022, 2022-2023 and 2023-2024 school years are expected to average closer to 30,000 new beds. This lack of new supply is occurring at the same time as the enrollment increases and thus is leading to the record occupancies and upward pressures on rent that we have rarely seen on either a macro or micro basis.

[1],[2] Source Data: NMHC White Papers: Structural Changes in Student Housing Demand and The Future of U.S. Student Housing Demand. July 2021 Paige Mueller and Jeffrey Havsy

STUDENT QUARTERS

Portfolio Occupancy and Preleasing Update

Student Quarters' entire portfolio started the 2022-2023 academic year (AY) over 97% occupied with rent growth of nearly 7.1% far outpacing pro-forma figures. The momentum is even stronger with respect to pre-leasing for the 2023-2024 AY. So far, Student Quarters has set new internal records for most leases signed in a week and as of the start of November was nearly 24% pre-leased. In the previous year, Student Quarters was not 24% pre-leased until mid-December of 2021. This suggests that the leasing curve is nearly 6 or 7 weeks ahead of where it was last year, which was the best lease-up year for Student Quarters in the company's history. Student Quarters is forecasting rent increases of 8.5% year over year and is currently on pace to outperform those expectations with several properties on target for double digit rent increases.

Some of these gains are being offset by rising operating costs and increasing cap rates. With respect to rising operating costs, the effects are mainly being felt in payroll which is the largest controllable expense line at the property level. Not only are jobs hard to fill but inflation is forcing us to increase wages for most positions at the property level to keep key personnel and fill vacant positions. We estimate labor costs will rise between 5 and 7% year over year across our portfolio. Additional cost increases are impacting turn costs and maintenance costs at each property. More importantly, cap rates have risen over 100 basis points since March of 2022. Cap rates for stabilized performing deals in major tier 1 universities were approximately 4.2% and are now estimated to be somewhere in the 5.2% to 5.3% range. We expect them to continue to rise as interest rates continue to climb in early 2023 before potentially stabilizing. Nevertheless, the upward movement in cap rates negatively impacts the value of each asset all other things being equal. Fortunately, the increase in rents Student Quarters have achieved is expected to outpace the increases in operating costs and cap rates thus still leading to value creation.

With these overall statistics and macro factors as background, let's take a closer look at the performance of the USQ portfolio.

Current Occupancy	Prelease AY 23/24	Prior Year (22/23) Prelease	Forecasted Rental Increase	Prior Year Rental Increase
97.1%	**32.3%**	**6.4%**	**10.4%**	**8.0%**

Current Performance and Outlook

Overall current occupancy is strong at 97.1% and pre-leasing is sitting at 32.3% which is nearly 5 times ahead of where it was last year. Forecasted rental increases as of now are expected to be 10.4% which would be our second consecutive year of strong rent increases for the portfolio.

Interest rates have impacted our Clemson asset which has the only floating rate loan in the USQ portfolio. We do have an interest rate cap in place over this variable debt, so with US interest rates now surpassing the maximum rate our lender can charge, we expect our debt costs for Clemson to stabilize, albeit at a higher rate than is in our pro-forma forecasts at IPO. Insurance costs for the Clemson asset have also increased significantly, impacting the quantum of the portfolio's distribution growth in the short-term. Additionally, the asset at Texas Tech, 'The Edge' is undergoing planned capital expenditure programs via the reinvestment of distributions to help push higher rents for the 2023-24 AY' (8% rental increases were achieved for the current 2022-23 AY) which is expected to further increase the value of the asset.

The entire portfolio is performing well and is largely in line with our expectations for 2022-2023. The December quarter is when distributions start reflecting the strength of the current academic year. We expect performance to continue to improve as we complete the 2023-2024 lease-up and benefit from the upward pressures on rent, thus providing strong returns to our investors.

In terms of growing the portfolio, we remain cautiously optimistic that the transaction markets will return as buyers and sellers understand and digest changing interest rates and cap rates and corresponding impacts on asset values. Our pipeline remains robust, although most deals are still not closing as there remains a gap between buyer and seller pricing expectations. We expect this gap to narrow and things to pick back up in early 2023 after the election and hopefully improving economic indicators and slowing inflation.

We appreciate your trust in Student Quarters and look forward to providing future updates as to the performance of the US Student Housing REIT portfolio.

Andrew Feinour
President and CEO
Student Quarters