

US Student Housing REIT (ASX:USQ)

# H1 FY23 FINANCIAL RESULTS

27 February 2023



US  
STUDENT  
HOUSING  
REIT

ersonal use only

# AGENDA

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## WHO WE ARE

### HIGH QUALITY EXPOSURE TO A DIVERSIFIED PORTFOLIO OF PROPERTIES GEOGRAPHICALLY SPREAD ACROSS THE UNITED STATES ('US')

- US Student Housing REIT (ASX:USQ) was established to acquire and manage high-quality purpose-built student housing assets located within **close-proximity to top-tier 4-year public universities across the United States**, and drive value through operational strategy and capital upgrades
- Investors gain an exposure to US purpose-built student housing real estate with the REIT - **the only remaining listed property trust solely focussed in investing in US student housing**
- The REIT is focused on seeking to achieve **long-term returns through a combination of stable and growing income through rental yields and operational improvements, with long-term capital growth**
- Acquirer of **new and established product with no construction development risk**
- Managed by experienced investment teams at **Auctus Investment Group (ASX:AVC)** (appointed Investment Manager) and US-based **Student Quarters** (operational asset manager)

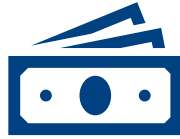
*Aim to become a large-scale owner of US student housing via a joint venture partnership between Auctus (investment manager) and Student Quarters (asset manager).*

*USQ is the only pure-play listed US student housing REIT globally.<sup>1</sup>*

All figures in this presentation are as at 31 December 2022 unless specified otherwise.

<sup>1</sup> After Blackstone's US\$12.8bn Q3 2022 acquisition of American Campus Communities

USQ PORTFOLIO HIGHLIGHTS



1.59 cpu<sup>1</sup>

**Q4 2022 Distribution (US\$ 1.10 cpu)**

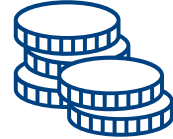
The highest quarterly USQ distribution paid out to shareholders since IPO in March 2022



6.40%<sup>1</sup> p.a.

**Q4 2022 DPU Yield**

annualised based on unit price of 22 February 2023



9.16 cpu<sup>1</sup>

**Earnings per Unit (US\$ 6.29 cpu)**

Half Year Ended 31 December 2022



\$5.086m<sup>1</sup>

**NPAT for the half-year**

US\$3.492m



The District at Clemson | Clemson, SC



The Edge | Lubbock, TX



200 Edgewood | Atlanta, GA

<sup>1</sup> Assuming annualisation of December Quarter Distribution; FX rate at distribution was 0.6866; USQ unit price of \$1.005 as at 22 February 2023; Net of 15% US withholding tax





**A\$217m**

**Portfolio Size<sup>1</sup>** ▲

the gross asset value of the portfolio now US\$147.7 million up from US\$144.6 million at June 2022

**8.0%**

**Portfolio Rental Rate Increase Realised**

for the current Academic Year (“AY”) 2022-2023 AY commenced in December quarter 2022

**98%**

**Current Occupancy**

at 10 February 2023

**A\$1.56**

**Net Asset Value Per Unit<sup>1</sup>** ▲

at 31 December 2022 up from \$1.31 at 31 March 2022 IPO<sup>1</sup>

**~10.5%**

**Targeted Portfolio Rental Rate Increase**

for AY 2023-2024 commencing December quarter 2023, with 63.3% preleased as at 10 February 2023

**81%**

**Fixed Portfolio Debt<sup>2</sup>**

with 19% of floating debt holding a rate cap



**Sleek, stylish, lively, convenient**  
District at Clemson is your home away from home in Clemson, SC. Enjoy a truly luxe living experience in this boutique-inspired community, perfectly designed as the Clemson student choice for high-end living.

**5.69%<sup>3</sup>**

**Portfolio Forward Cap Rate**

at 31 December 2022 up from 5.25% at 30 June 2022<sup>3</sup>

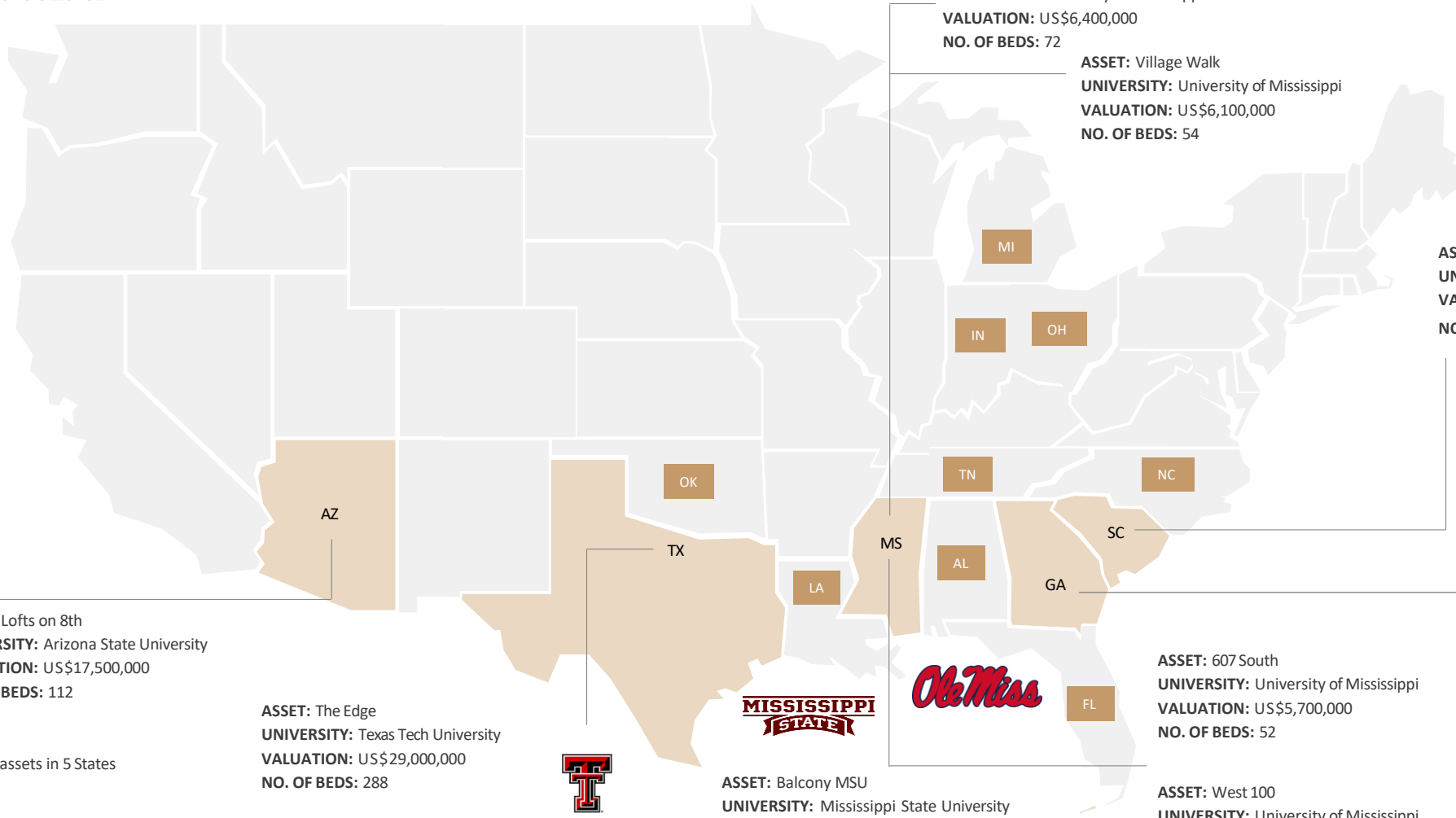
<sup>1</sup> Based on 31 December 2022 financials & assuming an FX rate of 0.6815; FX rate at IPO was 0.725 based on PDS, and Net Asset Value based on PDS and excluding purchase of Lofts on 8<sup>th</sup>

<sup>2</sup> Floating debt facility (with an interest rate cap of 250bps which is currently fully utilised) on District at Clemson which is tracking to achieve a 14.7% rental increase for 23-24 academic year

<sup>3</sup> 31 December 2022 forward cap rate calculated on budgeted 2023 NOI; 30 June 2022 cap rate calculated from 12-month forward NOI using July 2022-December 2022 actuals, January 2023-May 2023 budgeted NOI

Past performance is no guarantee of future returns, actual returns may result in lower returns than forecast

# GEOGRAPHIC SPREAD



**ASSET:** Traditions  
**UNIVERSITY:** University of Mississippi  
**VALUATION:** US\$6,400,000  
**NO. OF BEDS:** 72

**ASSET:** Village Walk  
**UNIVERSITY:** University of Mississippi  
**VALUATION:** US\$6,100,000  
**NO. OF BEDS:** 54

**ASSET:** District at Clemson  
**UNIVERSITY:** Clemson University  
**VALUATION:** US\$28,100,000  
**NO. OF BEDS:** 245



**ASSET:** 200 Edgewood  
**UNIVERSITY:** Georgia State University  
**VALUATION:** US\$37,300,000  
**NO. OF BEDS:** 240

**ASSET:** 607 South  
**UNIVERSITY:** University of Mississippi  
**VALUATION:** US\$5,700,000  
**NO. OF BEDS:** 52

**ASSET:** West 100  
**UNIVERSITY:** University of Mississippi  
**VALUATION:** US\$5,500,000  
**NO. OF BEDS:** 60

**ASSET:** Balcony MSU  
**UNIVERSITY:** Mississippi State University  
**VALUATION:** US\$12,100,000  
**NO. OF BEDS:** 116



**ASSET:** The Edge  
**UNIVERSITY:** Texas Tech University  
**VALUATION:** US\$29,000,000  
**NO. OF BEDS:** 288

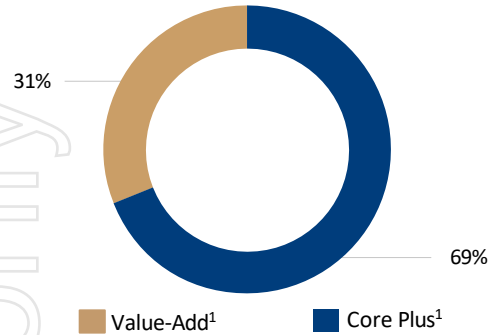
**ASSET:** Lofts on 8th  
**UNIVERSITY:** Arizona State University  
**VALUATION:** US\$17,500,000  
**NO. OF BEDS:** 112



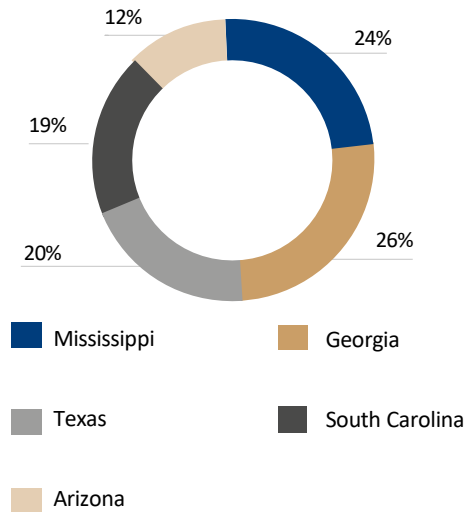
- The portfolio of 9 assets in 5 States
- Select top target markets

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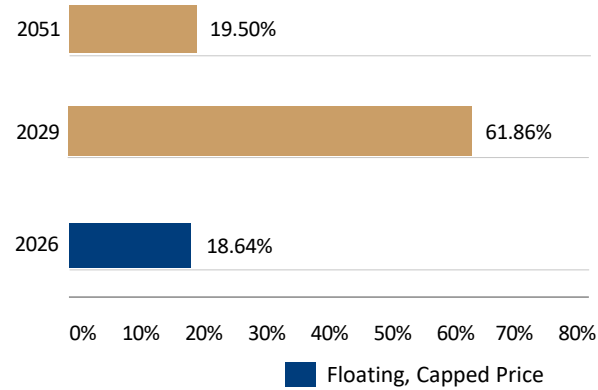
PORTFOLIO ASSET PROFILE



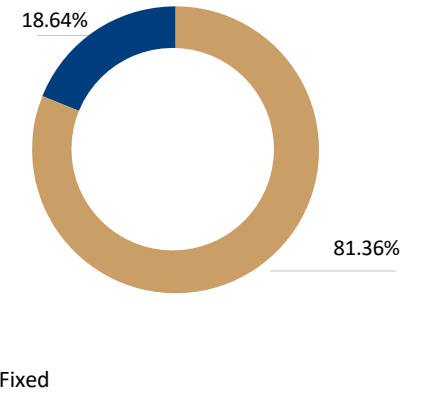
GEOGRAPHIC SPLIT BY STATE



DEBT MATURITY PROFILE<sup>2</sup>



DEBT TYPE



- Diversity across investment classes, with almost one third of the portfolio being value-add
- Exposure to some of the most robust student housing markets in the United States, located strategically in the Sunbelt region

- No State represents more than 30% of the portfolio's market value, with Georgia the largest exposure at 26%
- SQ are looking to add further assets in target states to further enhance the portfolios diversification

- The majority of debt facilities on the portfolio are comprised of fixed-rate loans, with one asset having a capped floating rate<sup>2</sup> (District at Clemson)
- At 31 December the portfolio LVR sat at 60.6%<sup>1</sup>
- Typical Student Housing LVR's in the United States are around 55-70% with USQ's strategy on the conservative side
- Favourable terms on the Blackstone and US HUD debt facilities<sup>3</sup>, with fixed rates of 3.99% and 3.18%, respectively



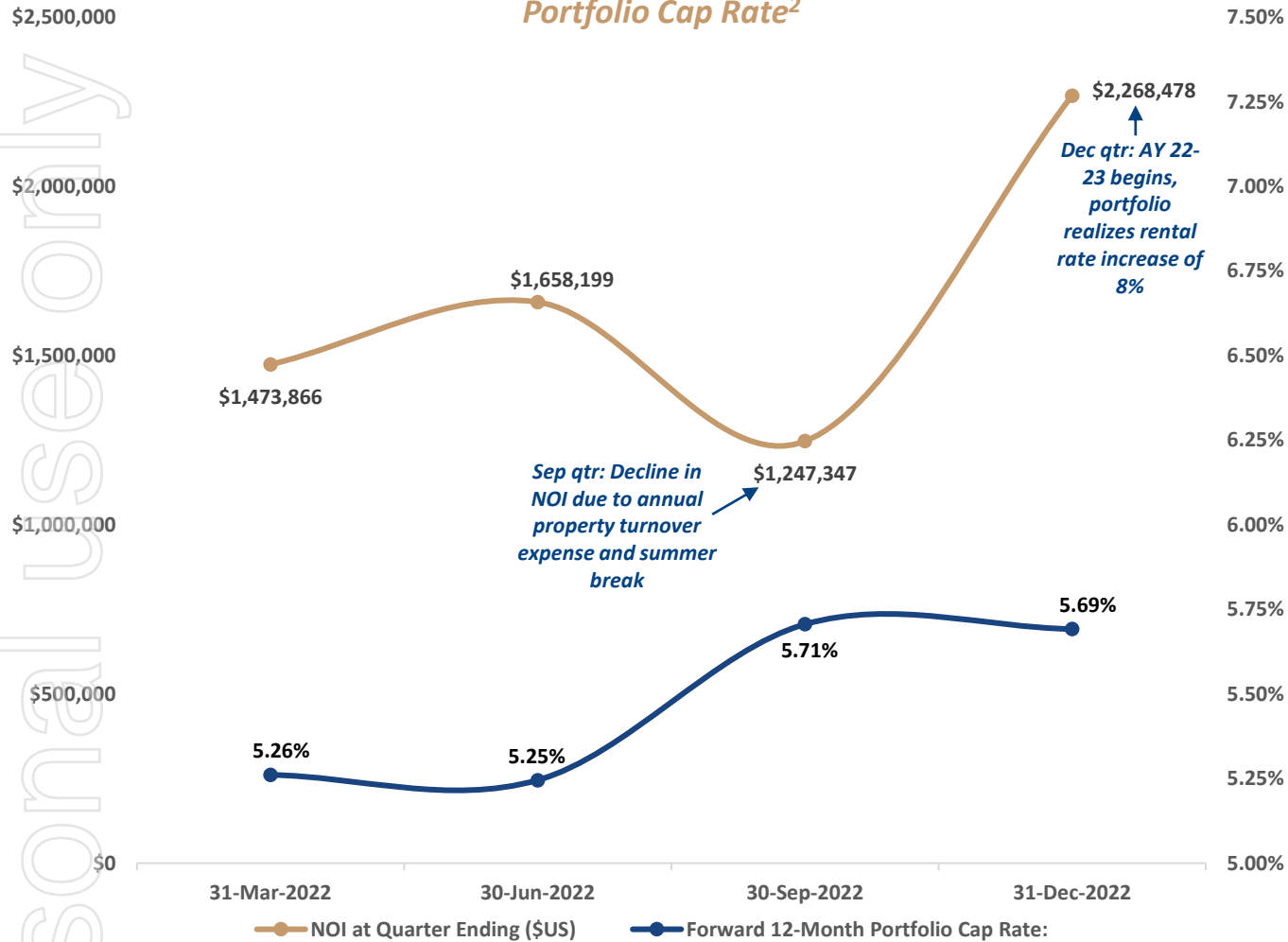
<sup>1</sup> Inclusive of cash as at 31 December 2022

<sup>2</sup> Maturity of floating rate loan is 9 December 2023, with three (3), one-year extension options; capped at 2.50% over LIBOR on a 3.30% spread through the requested extension period

<sup>3</sup> Maturity of 2051 for US HUD debt facility at Edge (Texas Tech University)

# MARKET & PORTFOLIO VALUATION

Quarterly Net Operating Income (NOI) (\$US) and Forward 12-Month Portfolio Cap Rate<sup>2</sup>



## NOI Growth Offsetting Expansion in Cap Rates

- Forward cap rates in the USQ portfolio expanded by **44 basis points** in the period between 30 June and 31 December 2022.
- Forward 12-month net operating income increased by a total of **10.84%** between 30 June and 31 December 2022 while gross asset value increased by just **2.14%** in same period
- Portfolio level NOI grew by over **50%** from pre-IPO to the quarter ended 31 December 2022
- NOI growth achieved through operational value-add and execution of business plan despite volatility in the capital markets

<sup>1</sup> Berkadia 2023 Student Housing Market Report

<sup>2</sup> June 2022 through November 2022 cap rates calculated from 2022 actuals and 2023 budget forecasts for forward months at 30 June Gross asset value (GAV); December 2022 cap rate calculated from 2023 budget forecasts for forward months at current GAV; NOI at quarter-end calculated from actuals from each respective period. Past performance is no guarantee of future returns, actual returns may result in lower returns than forecast



21.4%

Realised Net Investor IRR<sup>2</sup>

2.0x

Net Investor Multiple<sup>2</sup>



## STUDENT QUARTERS

### Proven Track Record in the US Student Housing Sector:

- Current owner/operator of over **11,000 beds** across **34 properties**, **22 campuses** and **17 US states**
- Over **US\$371.5M** in disposition volume since the company's inception in 2013, generating net investor returns in excess of 21%
- Robust portfolio expansion post-COVID with over **US\$665M** in total acquisition volume since March 2020, adding 6,642 beds to the SQ portfolio<sup>1</sup>
- Ranked **#16** in total beds owned and managed across the student housing industry in 2022 – up from **#23** in 2021

### Co-Investment into USQ Assets:

- SQ and SQ investment partners typically provide between 1-10% of total equity on acquisitions
- SQ holds an equity stake in the Texas Tech (10%), Clemson (5%), and Arizona State (1%) assets within the USQ portfolio, ensuring managerial alignment to execution of the underwritten business plan

### Vertically Integrated Platform:

- SQ is a fully integrated owner and operator of US student housing, with 5 decades of expertise in underwriting, acquiring, operating, managing, and disposing of assets to generate returns for investors

- ✓ **\$1.1 billion**  
IN PROPERTIES UNDER  
MANAGEMENT

---

- ✓ **11,000**  
BEDS

---

- ✓ **34**  
COMMUNITIES

---

- ✓ **22**  
CAMPUSES IN 17 US STATES

Above metrics are across Student Quarters business. All figures in USD unless otherwise stated.

<sup>1</sup> 495 of the beds have since been sold as of 31 December 2022

<sup>2</sup> As at 31 December 2022 dating back to SQ inception in 2013. Past performance is no guarantee of future returns, actual returns may result in lower returns than forecast

Acquired at IPO – March 2022

- The 2022-2023 Academic Year (AY) is the first full school year of ownership under SQ management
- 17.50% rental rate growth has been achieved for the upcoming 2023-2024 Academic Year. This is 6.50% higher than the AY 2023-2023 rent growth forecast on acquisition



Tempe, AZ



100%

Pre-leased

as at 18 February 2023 for 2023-2024 AY

17.5%

Rental rate growth

for 2023-2024 AY already achieved

32.14%

Favourable pre-leasing variance

Year-on-Year for 2023-2024 AY

25%

Ahead of the Arizona State

University market pre-lease average<sup>1</sup>

<sup>1</sup> Data per CollegeHouse as at 17 February 2023

## SECTOR POISED FOR CONTINUED GROWTH

### Historically Low Future Deliveries:

- 2023 marks the **second lowest year since 2012** for purpose-built student housing deliveries despite surging university enrolment across the US
- 2024 pipeline data from RealPage Market Analytics Student Housing shows a slight increase in forecast supply, but still indicates that it will be the **third lowest year of deliveries since 2012**

### Record-Breaking Deal Volume in 2022 Driven by Industry Fundamentals:

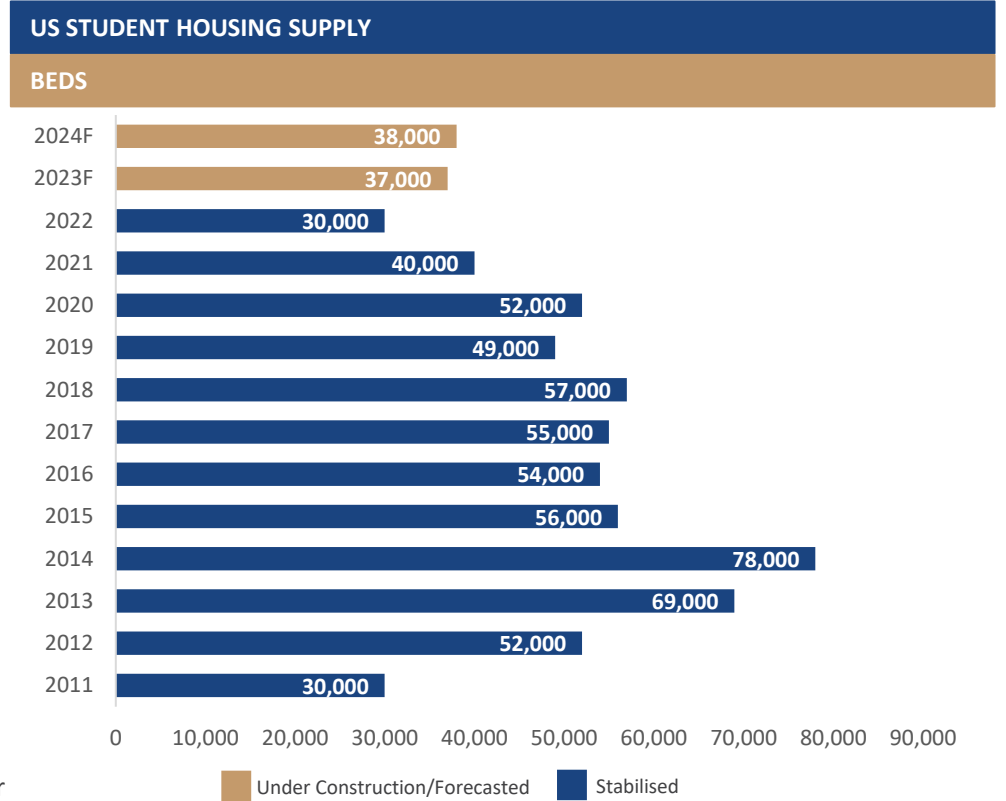
- **US\$22.8B** in total student housing transaction volume recorded in 2022<sup>1</sup>
  - Over **2x** total transaction volume in 2021 of US\$10.5B
- Over **US\$5B** in 2022 transaction volume at the Yardi Top 200 markets in the United States<sup>2</sup>

### Institutional Domestic and Foreign Capital Deploying Funds into the Sector at a Historical Rate:

- Investors such as GIC/Canada Pension Plan Investment Board, Goldman Sachs, Greystar, and Blackstone/B-REIT active in the sector<sup>3</sup>
- Institutional capital accounted for **62%** of all equity deployed in US student housing deals over US\$2.5M in 2022<sup>1</sup>
- A total increase of **167%** in foreign capital deployed between 2018-2021 in the sector<sup>3</sup>

### Strong Sector Tailwinds

- Record levels of pre-leasing, occupancy, and rental rate growth for Fall 2022 at Power 5 universities, with even higher pre-leasing and rental rate growth poised for the Academic Year beginning in Fall 2023
- Sizable rental rate spread between US student housing and conventional US multi-family, with significant runway for assets in metro or suburban markets
- 22.2% of the US population is under the age of 18, with demand for higher level education and total enrolment to remain steady through 2028<sup>4</sup>



Source: RealPage Market Analytics Student Housing (MASH)

<sup>1</sup> Inclusive of Blackstone acquisition of American Campus Communities, Berkadia 2023 Student Housing Market Report

<sup>2</sup> Yardi Matrix Student Housing Report Q1 2023

<sup>3</sup> JLL – National Student Housing Capital Markets Q4 2022; ‘CPPIB, GIC and the Scion Group Acquire 24 U.S. Student Housing Properties for US\$ 1.1 billion’ (2018); ‘Student Housing Goldman Sachs in JV with Blue Sky PE’ (2016); ‘Blackstone Funds Complete \$13 Billion Acquisition of American Campus Communities’ (2022)

<sup>4</sup> Institute of Education Sciences - National Center for Education Statistics ‘Undergraduate Enrolment’, May 2022

## STUDENT HOUSING INVESTMENT PROPOSITION

### STABLE CASH ON CASH YIELDS

- As outlined below, US student housing It is an inflation-hedged asset class with strong current yields and further expected appreciation

### DEMAND OUTLOOK STRONG

- Continued demand for US public four-year university education. Enrolment is expected to increase by 1.1 million new undergrad and 220,000 new graduate students from 2020 to 2031<sup>1</sup>
- International student enrolment in the US post-COVID has shown robust expansion of 3.8% in the 2021-2022 Academic Year; A survey conducted by the International Institute of Education indicate that international student enrolment rose by 9% for the 2022-2023 Academic Year<sup>2</sup>

### UNDERSUPPLIED MARKETS

- The beds to total enrolment ratio in USQ markets is 54.7%<sup>3</sup>, with further tailwinds driven by low supply and strong enrolment

### UNIVERSITY SELECTION CRITERIA

- Education affordability is driving increasing market share to top public universities. Online and distance learning models are not replacing the university experience

### DEFENSIVE ASSET CLASS

- Student housing has typically outperformed other real estate sectors during economic downturns and corporate real estate market cycles<sup>4</sup> – most recently through the pandemic with US student housing asset class achieving a national increase in rental rates in 2020.
- Total post-secondary enrolment in the United States increased from 17.2 million students in 2006 to 20.4 million students in 2011 – an expansion of approximately 19% during the Great Financial Crisis<sup>5</sup>

### INFLATIONARY HEDGE

- Robust rental rate growth and expansion of NOI in the USQ portfolio of 8% for the current academic year and over 10.5% anticipated for the 2023-2024 Academic Year to counteract rising interest rates, operating expense inflation, and expanding cap rates

### ROBUST PIPELINE OF OPPORTUNITIES

- Access to off-market deal flow and operational expertise is a competitive advantage for USQ

<sup>1</sup> 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.

<sup>2</sup> The Wall Street Journal – ‘International Students Return to U.S. Colleges...’. November 2022 Melissa Korn

<sup>3</sup> RealPage Market Analytics – Pipeline Delivieres. February 2023

<sup>4</sup> National Center for Education Statistics, 2020 Tables and Figures (Table 302.10).

<sup>5</sup> Census.Gov – ‘Postsecondary Enrollment Before, During and After the Great Recession’. June 2018



## GROWTH INITIATIVES – CLOSING THE GAP TO NTA

### New Assets

**Look for strategic acquisitions**  
to enhance diversification

### Yield

**Continue to demonstrate strong yield**  
targeting rental growth in excess of 10.5% for 2023-2024  
academic year

### Marketing

**Grow USQ's presence as the only globally  
listed pure-play US student housing REIT**  
by educating the Australian market on the strong sector tailwinds and demand  
drivers



Lofts on 8th | Tempe, AZ



Balcony MSU | Starkville, MS



Traditions | Oxford, MS



## Important Notices

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the US Student Housing REIT ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). The Investment Manager for the Fund is Auctus Asset Management Pty Ltd ("Auctus") ABN 30 610 804 263, AFSL 517083. This presentation has been prepared by Auctus to provide you with general information only. In preparing this presentation, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Auctus, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.

US Student Housing REIT's Target Market Determination is available <https://usq-reit.com/important-information/>. A Target Market Determination describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

## STRATEGY

<b>INVESTMENT STRATEGY</b>	Acquire and manage high-quality purpose-built student housing assets at large top-tier public universities, and drive value through operational strategy and capital upgrades
<b>ASSET PROFILE</b>	<b>Asset Class</b> Core-plus, Value-add and select Opportunistic
	<b>Target Universities</b> Public 4-year universities with 10,000+ students, historic and projected enrolment growth, large off-campus resident demand, favourable supply dynamics and low student debt default ratios; ~240 qualified US university markets
	<b>Locations</b> Less than 1 mile from campus / center of campus activity
	<b>Product Size</b> ~200+ beds
	<b>Vintage</b> 2015 or newer
	<b>Rent Class</b> Upper half of market
<b>INVESTMENT TARGETS</b>	<b>Asset Price</b> Minimum of \$20,000,000 total per asset. Auctus and SQ agreement provides Auctus with exclusivity on assets between \$20M-\$40M and optionality for assets above this.
	<b>Asset Debt</b> 60 to 65% loan to cost, non-recourse
	<b>Target Returns</b> Annual return of 15% p.a. (incl. a >6% p.a. initial yield paid quarterly)

There can be no assurance investment will achieve its objectives, actual returns may result in lower returns than forecast. All figures in USD unless otherwise stated.

## KEY SELECTION CRITERIA

Investment and Asset Management teams apply targeted criteria, starting with pricing discipline on asset acquisition, and filters including location and enrolment trends, that ultimately focuses on student housing assets at top public US universities.

State population growth	University rankings in terms of research and sport	Students (10,000+) and enrolment growth
Average market occupancy & rental growth	Known and expected new supply over investment duration	Age of asset (2015 or newer)
Ratio of on and off-campus beds to student population	Student loan default rates	1 to 1 Bed/Bathroom parity
Walking distance to campus (within 1 mile) and student nightlife	Asset size: mid-size assets face less competitive pricing pressure than larger assets/portfolios	Ratio of foreign students to total enrolments

## ASSET PROFILE

## CORE PLUS

These assets command a higher yield premium in comparison to Opportunistic but still present a strong capital growth opportunity. Core-Plus assets increase cash flow with light property improvements, management efficiencies or by increasing the quality of tenants.

These properties tend to be of superior quality and have a great track record of occupancy.

## VALUE-ADD

Value-Add yields similar returns to Core Plus but can be:

- well positioned assets but in distressed markets
- newer properties with management issues
- adolescent properties needing light enhancements to remain competitive or a combination of all three.

## OPPORTUNISTIC

Opportunistic properties may have little to no cash flow at acquisition but have the potential to produce strong cash flow over time.

The intention is to add value through a higher initial capex spend to reposition the asset, ideally leading to better cash flow and potential cap rate compression.



US  
STUDENT  
HOUSING  
REIT

## CONTACT

**US STUDENT HOUSING REIT**

575 Bourke Street

Melbourne VIC 3000

E: [enquiries@auctusinvest.com](mailto:enquiries@auctusinvest.com)

W: [www.usq-reit.com](http://www.usq-reit.com)