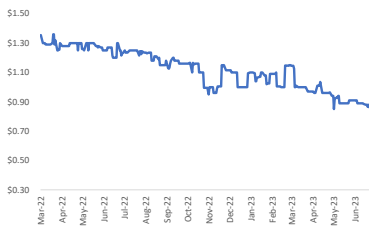




### Key Investment Information (as at 3 July 2023)

ASX Code:	USQ
Unit Price:	\$0.85
<b>Price Target:</b>	<b>\$1.38</b>
Market Cap (\$m):	\$47.2
Units on Issue (m):	55.5
Listing Date:	March 2022
Target Return:	15%p.a.
Target Distribution Yield (p.a):	>6.0%
Target Gearing (asset level):	60%-65%
Distribution Frequency:	Quarterly
Responsible Entity:	Equity Trustees Limited
Investment Manager:	Auctus Asset Management Pty Ltd
Asset Manager:	Student Quarters

### Market Price History



Source: Iress

### Largest Unitholders (as at 1 August 2022)

National Nominees Limited	17.13%
Auctus Investment Group Limited	7.95%
Kja Holdings Pty Ltd	3.51%
Netwealth Investments Limited	3.44%
Citicorp Nominees Pty Ltd	3.33%

**Top 20 Unitholders 51.70%**

Source: USQ 2022 Annual Report

## PORTFOLIO VALUE HOLDS STEADY DESPITE INTEREST RATE INCREASES

On 29 June 2023, the US Student Housing REIT (ASX: USQ) provided an update to the market regarding its portfolio. Despite pressure on property valuations in the broader market from successive interest rates increases in the US, the gross asset value (GAV) of the USQ portfolio marginally increased based on the independent valuation by CBRE as at 30 June 2023. The GAV of the portfolio of 9 properties increased \$0.05 million from US\$147.70 million to US\$147.75 million (AUS\$220 million assuming a USD/AUD exchange rate of 0.67). Expanding capitalisation rates ("cap rates") are being offset by the strong demand and rental increases.

The pre-leasing for the portfolio is strong, with pre-leasing sitting at 77.27% as at 16 June 2023 with the Manager forecasting rental increases in excess of 10.5% for the 2023-2024 academic year. This builds on the 8% rental growth achieved for the 2022-2023 academic year. Demand for student housing has proven resilient in USQ's target market despite the economic headwinds. While the inflationary environment has stemmed the growth in capital values, the demand/supply dynamics of the market place are clearly evident in the strong rental growth and occupancy rates.

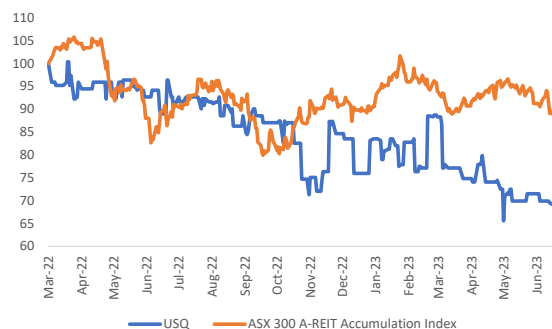
The REIT paid a cash distribution of AUD 1.61 cents per unit (US 1.08 cents per unit) for the March quarter. This was slightly below the distribution for the December 2022 quarter of AUD 1.59 cents per unit (USD 1.10 cents per unit). Since listing in March 2022, USQ has paid a total of AUD 6.15 cents per unit, with a trailing 12-month distribution yield of 6.9% based on the market price of \$0.85 at 3 July 2023.

### USQ Market Price

The market price of USQ has declined since listing to be trading near all-time lows at the date of this update note. The current economic environment is no doubt weighing on investor demand, however at these levels the REIT is trading at a substantial discount of 46% to the NTA at 31 December 2022 of AUD\$1.58 (based on a USD/AUD exchange rate of 0.67). The REIT is offering attractive value at these levels in our opinion. Even if you apply the longer-term average exchange rate of 0.75 to the NTA of US\$1.06 at 31 December 2022, which equates to a NTA of AUD\$1.41, USQ is still trading at a substantial discount.

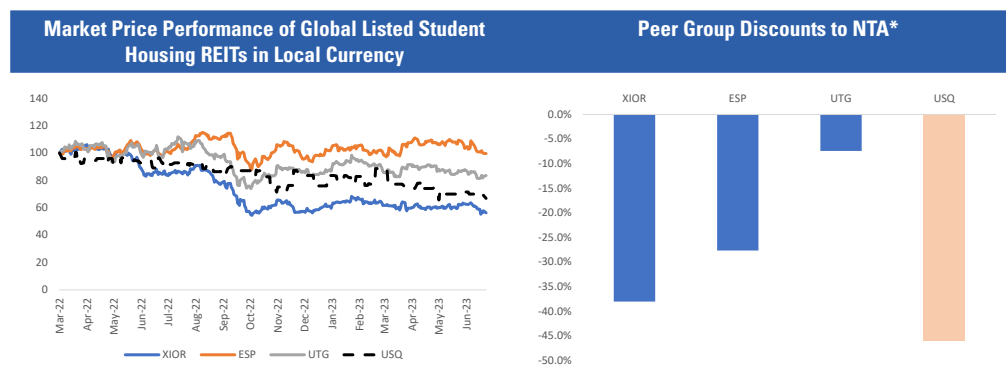
The weakness in USQ's market price has resulted in USQ underperforming the broader ASX 300 A-REIT Accumulation Index, since listing as shown below. At current prices, USQ is offering an attractive distribution yield compared to the broader A-REIT market with a trailing 12-month distribution yield of 6.9% compared to 4.83% for the ASX 300 A-REIT Index.

### Indexed USQ Total Return vs. ASX 300 REIT Accumulation Index



There are very few opportunities to gain access to student housing REITs globally through listed vehicles. As we have mentioned in our previous coverage, USQ is currently the only listed REIT providing exposure to US student housing accommodation. There are three other listed REITs which provide exposure to UK and Europe student housing accommodation: (1) Xior Student Housing NV (XIOR.BRU); (2) Empiric Student Property PLC (ESPLSE); and (3) Unite Group PLC (UTG.LSE). We thought it worthwhile to compare the market price returns of USQ's global peer group in addition to the local A-REIT market.

The below chart shows the performance of the market price of the listed student housing focused REIT peers globally, since USQ listed. We have indexed the movements in the market price for comparison purposes. USQ and XIOR have been the two REITs that have been sold down the most over the period. This has resulted in both these REITs trading at substantial discounts to the NTA as at 31 December 2022.



\*Discount is based on the market price as at 3 July 2023 and the NTA as at 31 December 2022. Source Iress, Company financial reports.

A few key stats regarding the student housing peer group portfolios is provided in the below table. We note, USQ’s portfolio is small when compared to the peer group with over 7,000 beds between USQ and the next biggest portfolio of ESP.

Peer Group Portfolio Overview				
	XIOR	ESP	UTG	USQ
Location of Properties	Belgium, Netherlands, Spain & Poland	UK	UK	US
Number of Properties in Portfolio	160	91	162	9
Number of Beds	18,000	8,543	70,000	1,239

### IIR Price Target

Given our forecasts are in line with the latest portfolio update and there has been little movement in the risk-free rate from levels in our model, we have made no amendments to our price target of \$1.38 per unit, which represents a premium of 65.9% to the market price of \$0.85 as at 3 July 2023. We will undertake a full review of our forecasts upon the release of the full year results expected in late August 2023.

The inflationary environment will continue to put downward pressure on capital values and upward pressure on operating costs, however, these are currently being offset by strong demand which is translating to strong occupancy rates and providing for strong rental income growth, which we expect will result in an uplift in the distribution amount to unitholders in FY24 period.

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