

AUSTRALIAN  
**RESEARCH**  
INDEPENDENT INVESTMENT RESEARCH

**US Student Housing REIT**  
**(ASX: USQ)**

1H'FY23 Results

22 March 2023

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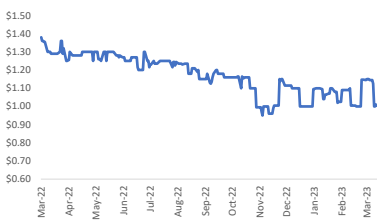
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### Key Investment Information (as at 21 March 2023)

ASX Code:	USQ
Unit Price:	\$1.00
<b>Price Target:</b>	<b>\$1.38</b>
Market Cap (\$m):	55.5
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

### Historical Market Price



### Largest Shareholders

Mason Stevens Limited	15.8%
Auctus Investment Group Limited	7.6%
Kja Holdings Pty Ltd	3.5%
National Australia Bank Asset Management	2.2%
RocketBL Limited	2.0%
<b>Total</b>	<b>31.1%</b>

Source: Iress

## STRONG RENTAL INCOME GROWTH & PRE-LEASING RATES

The US Student Housing REIT (ASX: USQ) released its 1H'FY23 results on 27 February 2023. USQ listed on the ASX on 8 March 2022, raising \$15.5m through the issue of 11.2m units at \$1.38 per unit. USQ invests in a portfolio of US student housing real estate assets within close proximity to top tier public universities across the United States of America (US) with the objective of providing unitholders with an opportunity to benefit from both stable income generation and capital growth.

### KEY POINTS

**98% Occupancy & Strong Pre-Leasing for 2023/2024 Academic Year:** The portfolio is effectively fully occupied with an occupancy rate 98% as at 10 February 2023. The supply and demand dynamics of the market has seen strong occupancy rates across the market as a whole. Pre-leasing for the 2023/2024 academic year was 63% as at 10 February 2023. The strong levels of pre-leasing suggest occupancy will remain high in the near-term.

**Strong Rental Growth Forecast for Upcoming Academic Year:** After realising 8% rental income growth for the current (2022/2023) academic year, the REIT is forecasting rental growth of 10.5% in the next academic year. Rental growth is being driven by demand of dedicated student housing outstripping supply. The new supply of student housing in the next few years is expected to be below historical levels, which suggests rental income will continue to grow and occupancy rates will remain strong.

**Cap Rates Expanding:** Capitalisation rates ("cap rates") for the portfolio of properties is expanding with the forward 12-month cap rate for the portfolio increasing from 5.26% to 5.69% over the 2022 calendar year. The expansion of the cap rates is being driven by the current macro economic environment with increasing interest rates putting downward pressure on property prices. The strong rental income growth of the portfolio has offset the cap rate expansion to some degree. While cap rate expansion is expected to continue in the near-term, the lack of new supply coming on board combined with the increased interest from investors in the sector could result in the competition for assets increasing prices.

**Gross Portfolio Value Increased 2.1% to US\$147.7m:** The gross portfolio value increased 2.1% to US\$147.7m over the half year period to 31 December 2022. All properties in the portfolio were revalued upwards over the half year period. We expect the cap rate expansion to limit the portfolio growth in the short-term.

**Conservative LVR:** At 31 December 2022, the REIT had a LVR of 60.6%. Student Quarters (SQ) believes that the target LVR level is the optimal level for the sector to enable USQ to generate attractive risk-adjusted returns. The LVR is considered conservative when compared to the LVR levels of US student housing strategies which typically range from 55%-70%. The REIT has attractive financing facilities in place with 81% of the portfolio financed by fixed interest rate facilities at attractive rates.

**December 2022 Quarter Distribution of US1.10cpu:** The REIT paid a total of US1.83 cents per unit (AUD2.69 cents per unit) for the half year to 31 December 2022. The REIT has announced a distribution of US1.10 cents per unit (AUD1.5967 cents per unit based on an AUD/USD exchange rate of 0.6866 as at 22 February 2023) for the December 2022 quarter, paid in February 2023. This was the largest distribution made by the REIT. The REIT has now paid four distributions since listing, totalling US3.34 cents per unit (AUD4.89 cents per unit). Given the nature of the academic year, distributions will likely be lumpy.

**Investment View & Price Target:** IIR has reduced the price target from \$1.41 per unit to **\$1.38 per unit**. This represents a 38% premium to the market price as at 21 March 2023 of \$1.00 per unit. The price target is based on a combination of a discounted cash flow model and the NTA per share. We have assigned a 50% weighting to each valuation component. USQ provides investors the opportunity to diversify the income allocation of their portfolio with a REIT that provides a unique opportunity for domestic investors with USQ being the only listed REIT globally with a focus on US student housing. Cap rates have expanded due to the increasing interest rate environment, however given enrolment growth and the limited new supply of housing, strong rental income and occupancy rates are expected to continue.

## 1H'FY23 RESULTS

US Student Housing REIT (ASX: USQ) released its 1H'FY23 results on 27 February 2023. The REIT reported a net profit for the half year period to 31 December 2022 of US\$3.49m. We note the REIT listed in March 2022 and only had a partial year of operations in 1H'FY22 with 8 of the 9 properties acquired post the IPO in March 2022.

Key Financial Metrics			
US\$'000	1H'FY22	1H'FY23	% Change
Total Investment Income	(557)	4,221	+858%
Operating Profit/(Loss)	(3,257) <sup>1</sup>	3,492	+207%
Total Net Tangible Assets (NTA)	20,495	59,089	+188%
Units of Issue ('000)	23,893	55,541	+232%
NTA per unit (US\$)	0.86	1.06	123%
Distribution per unit (US cents per unit)	0.0	1.83	+100%

1. Includes one-off transaction costs including acquisition and IPO related expenses.

There were no additions or disposals to the portfolio over the half year period to 31 December 2022. The key portfolio statistics are tabled below. The REIT has exposure to 9 properties through five investee companies. The properties are as good as fully occupied as at 10 February 2023 with the REIT announcing strong pre-leasing numbers for the upcoming academic year, which leads us to expect the occupancy rate will continue in the upcoming academic year.

The gross asset value of the portfolio increased 2.1% over the half year period to US\$147.7m with the REIT having a NTA per unit of US\$1.06 as at 31 December 2022 compared to US\$1.02 as at 30 June 2022.

As was flagged by the REIT during the 1H'FY23 period, cap rates are expanding with increasing interest rates putting downward pressure on asset prices. The forward cap rate for the portfolio as at 31 December 2022 was 5.69% (based on the budgeted 2023 net operating income (NOI), up from 5.25% at 30 June 2022. Cap rate expansion is being offset to some degree by the increase in NOI, which is being driven by the strong rental income growth being realised.

Key Portfolio Statistics	
Number of Properties	9
Occupancy Rate as at 10 February 2023	98%
Forward Capitalisation Rate	5.69%
Portfolio Value*	US\$147.7 million

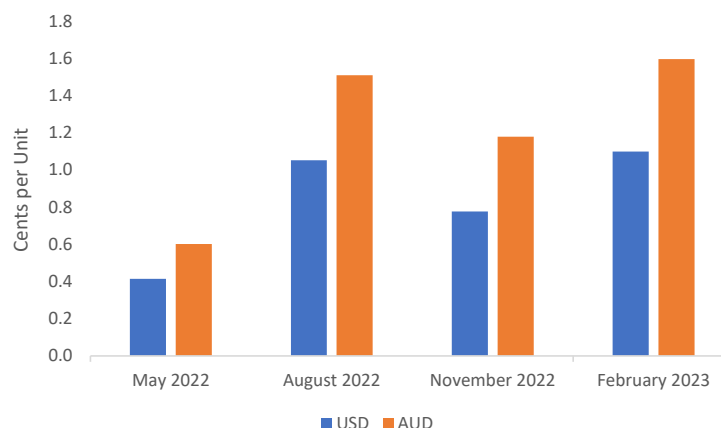
\* Based on the independent valuations by CBRE as at 31 December 2022.

## Distributions

USQ seeks to pay a quarterly distribution and has a target distribution payout ratio of 100% of Distributable Income. Unitholders will receive distributions within 2 months following the end of each distribution period, being the three months ending 31 March, 30 June, 30 September and 31 December. The REIT has paid four distributions since listing, totalling US3.34 cents per unit (AUD4.89 cents per unit). The REIT paid a distribution of US1.10 cents per unit for the December 2022 quarter in February 2023. Distributions will be lumpy given the annual property turnover and summer break which occurs in the September quarter.

As highlighted in the below chart, distributions will be impacted by the AUD/USD exchange rate. The declining AUD when compared to the USD has been value accretive to unitholders, however distributions are sensitive to foreign exchange movements.

### USQ Distributions

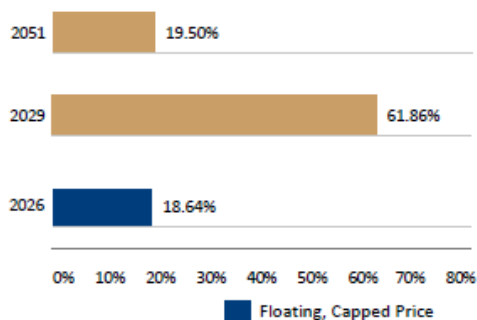


Source: USQ

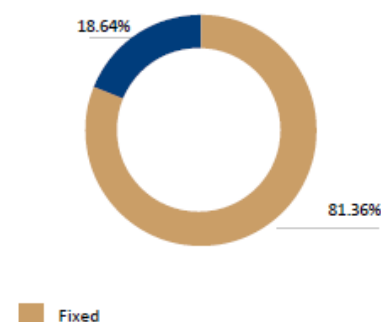
### Debt Profile

The debt profile of the REIT remains unchanged with 81% of the portfolio being financed on attractive fixed rate terms. The floating rate loan facility matures on 9 December 2023. The facility has three one-year extension options capped at 2.5% above LIBOR on a 3.3% spread through the requested extension period.

#### Debt Maturity Profile



#### Debt Type



Source: USQ 1H'FY23 Results Investor Presentation

## PORTFOLIO

As mentioned above, there were no additions or disposals from the portfolio during the half year period. The portfolio comprises nine properties located across 6 universities in 5 states. The properties are purpose built off-campus student accommodation located in close proximity to the universities. The portfolio of properties includes 1,239 beds and an occupancy rate of 98% as at 10 February 2023.

The below table summarises the key metrics for each asset in the portfolio.

Asset	University	Valuation (US\$m)	No. of Beds	Cap Rate (%)	Built/Reno	Asset Profile	Ownership
200 Edgewood	Georgia State University	\$37.3	240	4.95	2016	Core Plus	100%
607 South	University of Mississippi	\$5.7	52	5.25	2014	Core Plus	100%
Traditions	University of Mississippi	\$6.4	72	5.25	2016	Core Plus	100%
Village Walk	University of Mississippi	\$6.1	54	5.25	206	Core Plus	100%
West 100	University of Mississippi	\$5.5	60	5.25	2015	Core Plus	100%
Balcony MSU	Mississippi State University	\$12.1	116	5.00	2016	Core Plus	100%

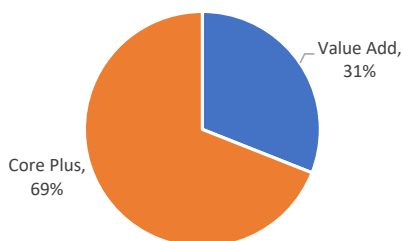
Asset	University	Valuation (US\$m)	No. of Beds	Cap Rate (%)	Built/Reno	Asset Profile	Ownership
The Edge	Texas Tech University	\$29.0	288	4.75	2009	Value-Add	90%
Clemson Living	Clemson University	\$28.1	245	4.50	2016	Core Plus	95%
Lofts on 8th	Arizona State University	\$17.5	112	5.10	2020	Value-Add	99%
<b>Total</b>		<b>\$147.7</b>	<b>1,239</b>	<b>4.89</b>			

Source: USQ

Core Plus assets represent 69% of the portfolio. 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 assets represent 31% of the portfolio and yields similar returns to Core Plus assets. These assets are typically newer properties with management issues with some needing light enhancements to improve both occupancy and returns.

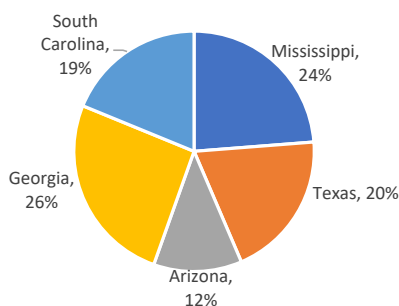
**Portfolio Allocation by Strategy**



Source: USQ

The portfolio is diversified by State with no state representing more than 30% of the total value of the portfolio. We note that while the portfolio is diversified on a valuation basis, the portfolio is currently concentrated to Mississippi with five of the nine properties located in Mississippi. While assets in Mississippi make up over 55% of the number of properties in the portfolio, they are smaller assets accounting for 24% of the portfolio by value. The REIT is seeking to add further assets to increase the portfolio size and enhance the portfolio’s diversification.

**Portfolio Allocation by State**



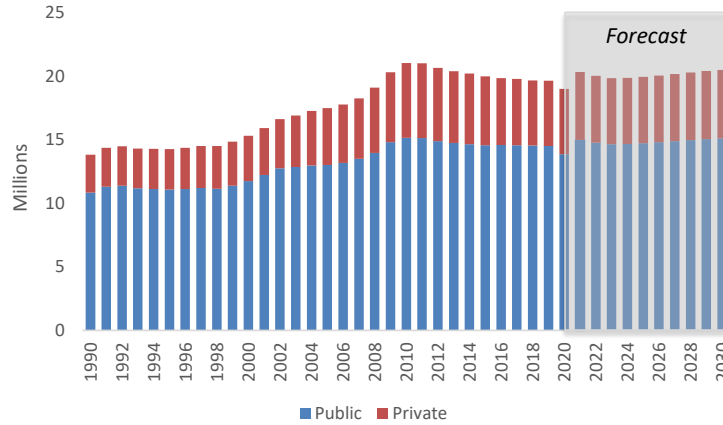
Source: USQ

## USQ STUDENT HOUSING MARKET UPDATE

USQ targets US student housing real estate assets within close proximity to top-tier public four-year universities across the United States of America (US). The market dynamic for public versus private universities and those considered top-tier versus lower-tier is quite substantial.

In the US, there are nearly 18 million students enrolled in US colleges. Public colleges and universities educate around 75% of students with many of the top-ranked universities in the world being US public universities, such as UCLA, Berkley and the University of Michigan.

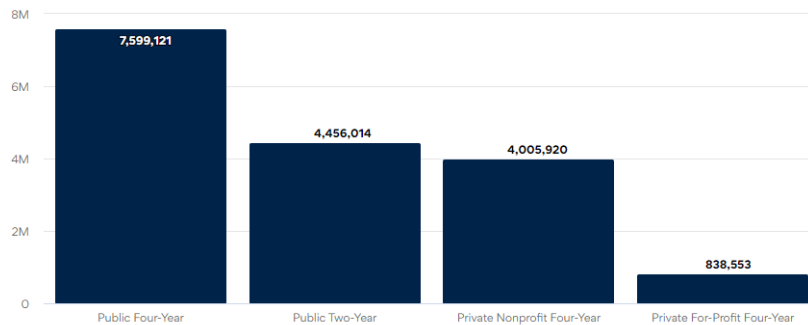
### Public vs Private College Enrolments



Source: NCES

USQ focuses on investing in student housing assets within close proximity to four-year public universities. Public four-year universities account for the largest enrolments of the university/college types, with public four-year universities representing ~42% of estimated enrolments in fall 2022.

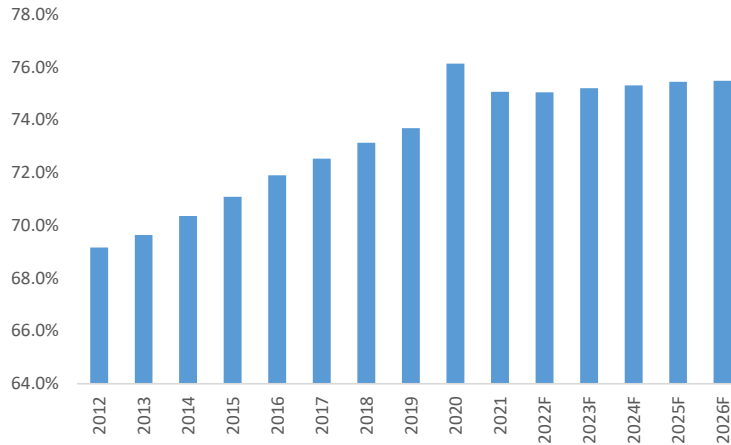
### Fall 2022 Estimated College Enrolment by School Type



Source: BestColleges

In the US, privately owned student housing makes up the bulk of student housing when compared to University owned on-campus housing. Of the total number of privately owned student housing and on-campus beds available, the share of privately owned student housing has grown to over 70% of the supply of beds. The below chart shows the importance of privately owned student housing in the market.

**Percentage Share of Privately Owned Student Housing**

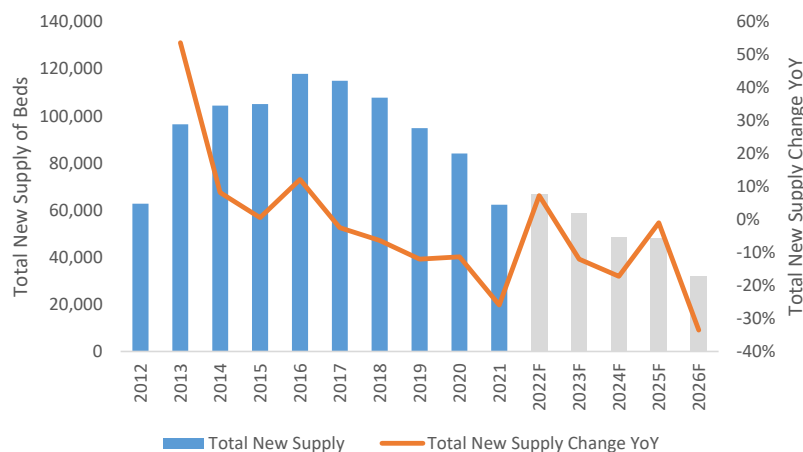


Source: RealPage

A driving factor of current rental growth strength in the student housing market is the supply/demand imbalance in the market. As shown in the below chart, the annual new supply of student housing (both privately owned and on-campus) has declined year-on-year since 2016. This during a period where enrolments continue to grow. The supply was forecast to increase in 2022 when compared to 2021 before declining again. According to Yardi, the “student housing supply at a number of universities with increasing enrolment hasn’t been sufficient to house the incoming class. A problem that used to be unique to California schools has now become more widespread, with stories of universities making deals with local hotels to house students who can’t find on-or off-campus student housing options.” While rental growth is expected to abate it is expected to remain strong in the short-term. This is reflected in the forecast rental growth by USQ for the 2023/2024 academic year.

In an article in Multi Housing News published on 4 January 2023, Timothy Bradley, Principal of TSB Realty, was quoted as saying “overall new purpose-built student housing supply levels will settle in the 25,000 beds over the next few years, or about 60 percent of the typical annual volume. This level of supply cannot keep up with demand due to enrolment growth, shifting consumer demands and ageing existing inventory, which is a positive indicator for continued outperformance in top-tier markets as well as future cap rate stability, if not compression.”

**Total New Student Housing Supply**

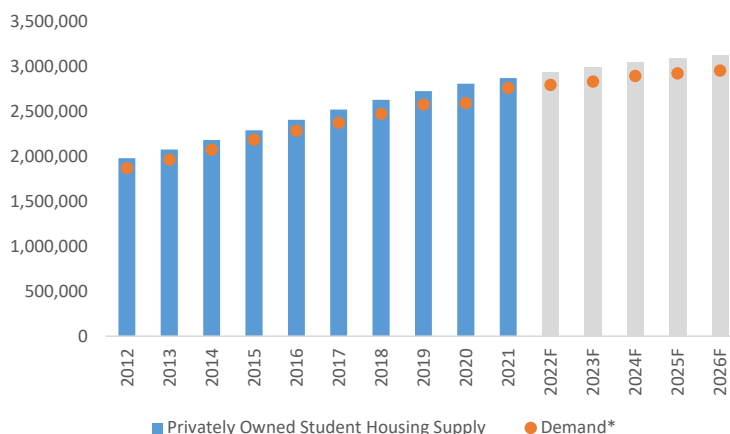


Source: RealPage

Focusing on privately owned student housing, the demand (occupied beds) has been strong since 2012 with low vacancy rates. With enrolments forecast to continue to increase and the limited new supply, occupancy rates are forecast to remain strong through to 2026 across the market.



**Privately Owned Student Housing Supply**

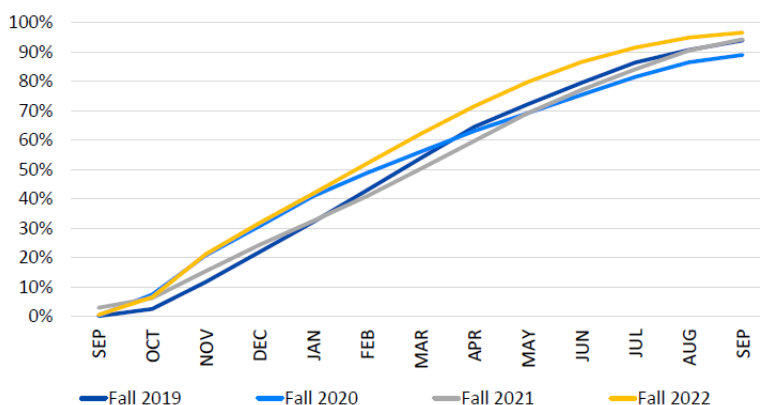


\*Occupied beds.

Source: RealPage

The strength of the market is further reiterated by the strength in the pre-leasing numbers. For the 2022/2023 academic year, student accommodation pre-leasing hit a record high of 96.6% across the Yardi 200 universities<sup>1</sup>.

**Yardi 200 Pre-leasing**



Source: Yardi Student Housing Webinar, Fall 2022.

**Universities Serviced by USQ Portfolio**

Looking at the USQ portfolio, the largest university based on enrolments is Arizona State University with 55,413 enrolments in 2022. We note that this refers to only the Tempe campus. The second biggest was Texas Tech University with 40,528 enrolments in 2022.

Enrolments are an important consideration when USQ are selecting an asset with the Manager’s looking for both historic and projected enrolment growth at a university as growing enrolments drive potential student housing demand. All universities serviced by the portfolio have experienced enrolment growth from 2013 to 2022. Clemson University has experienced the highest level of enrolment growth over the period with enrolments increasing 33.6% from 2013 to 2022. Enrolments at all the universities grew by double digits over the period with Arizona State University enrolments increasing to all time highs in 2022.

1. Yardi 200 universities are the top 200 universities across all major collegiate conferences.

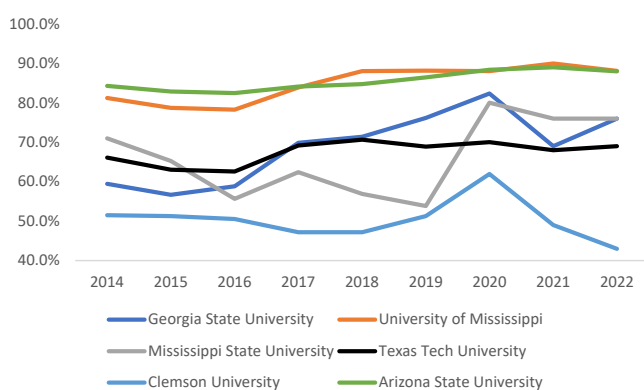
Enrolment Growth at USQ Universities										
University	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Georgia State University	32,165	32,556	32,058	32,237	32,816	34,316	35,041	36,360	36,979	36,233
YoY Growth Rate		1.2%	-1.5%	0.6%	1.8%	4.6%	2.1%	3.8%	1.7%	-2.0%
University of Mississippi	19,431	22,503	23,212	23,610	23,136	22,456	21,617	21,014	21,853	22,967
YoY Growth Rate		15.8%	3.2%	1.7%	-2.0%	-2.9%	-3.7%	-2.8%	4.0%	5.1%
Mississippi State University	20,161	20,138	20,873	21,622	21,883	21,974	22,226	22,986	23,086	22,649
YoY Growth Rate		-0.1%	3.6%	3.6%	1.2%	0.4%	1.1%	3.4%	0.4%	-1.9%
Texas Tech University	33,111	35,158	35,859	36,551	36,996	38,209	38,742	40,322	40,602	40,528
YoY Growth Rate		6.2%	2.0%	1.9%	1.2%	3.3%	1.4%	4.1%	0.7%	-0.2%
Clemson University	21,303	21,857	22,698	23,406	24,387	24,951	25,822	26,406	27,341	28,466
YoY Growth Rate		2.6%	3.8%	3.1%	4.2%	2.3%	3.5%	2.3%	3.5%	4.1%
Arizona State University (Tempe)	48,707	50,208	51,729	51,592	51,524	52,029	53,494	52,386	54,866	55,413
YoY Growth Rate		3.1%	3.0%	-0.3%	-0.1%	1.0%	2.8%	-2.1%	4.7%	1.0%
<b>Total</b>	<b>174,878</b>	<b>82,420</b>	<b>186,429</b>	<b>189,018</b>	<b>190,742</b>	<b>193,935</b>	<b>196,942</b>	<b>199,474</b>	<b>204,727</b>	<b>206,256</b>
<b>YoY Growth Rate</b>		<b>4.3%</b>	<b>2.2%</b>	<b>1.4%</b>	<b>0.9%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>2.6%</b>	<b>0.7%</b>

Source: Data USA, University websites, RealPage.

The acceptance rates of universities varies year-to-year. Those universities that have low acceptance rates have the ability to increase enrolments by adjusting the admission criteria. Those universities with high acceptance rates can be vulnerable to a decline in enrolments.

The universities that USQ are exposed to had an average acceptance rate of 73.4% in 2022. Georgia State University has increased its acceptance rate the greatest from 2014 to 2022 with the acceptance rate increasing from 59.4% in 2014 to 76.0% in 2022. We note the acceptance rate hit a high of 82.4% in 2020. The acceptance rate at Clemson University was at a low for the 2014 to 2022 period in 2022 at 42.98%. This was after rising to 61.9% in 2020. The Clemson University acceptance rate is the lowest acceptance rate of the universities USQ is exposed to.

#### University Acceptance Rates



Source: Data USA, RealPage

## FINANCIALS

Below we provide the key forecast assumptions and forecast financials for the REIT. We have provided the financials on a Group basis. The financials are provided in US dollars (US\$). Movements in the AUD/USD will have an impact on the Australian dollar value of the financials.

The financial forecasts are based on the current portfolio. The Managers intend to grow the portfolio, however there have been no forecasts provided with regards to the potential timing of acquisitions and which of the properties in the pipeline will be targeted first. As such, the forecast financials do not include any acquisitions. In the event the REIT acquires additional properties, the REIT will likely have to raise capital to fund the acquisitions.

## Key Forecast Assumptions

We have made a number of assumptions that form the basis of the forecast financials and the price target. Assumptions regarding the key revenue and balance sheet drivers are tabled below. We note that these are assumptions and may differ to the actual results.

We have increased the cap rate assumptions in FY24 and FY25 and reduced the vacancy rate given the lower than expected vacancy rates for the current year and strong pre-leasing for the next academic year. The increased cap rates have resulted in a reduction in the forecast growth in the GAV and NTA.

Key Assumptions			
	FY23F	FY24F	FY25F
Rental Revenue Growth	8.0%	10%	5%
Vacancy Rate	3.1%	3.3%	3.4%
Cap Rate	5.25%	5.7%	5.7%
Acquisitions	0	0	0
Disposals	0	0	0
Property Value Growth	2.3%	0.1%	2.0%
Units on issue	55.5m	55.5m	55.5m
GAV per unit (USD\$)	2.66	2.66	2.71
NTA per unit (USD\$)	1.09	1.10	1.15

## Financials

Our forecast rental revenue has increased slightly due to lower than expected vacancy rates for the current year and the expectation of lower vacancy rates in the near-term than previously forecast. The increased cap rates have resulted in a reduction in the forecast valuation growth of the portfolio. We have forecast the portfolio value to be flat for the FY24 before growing again in FY25. The reduction in the portfolio value growth rate has resulted in our Net Profit forecasts declining from our previous forecasts.

Income Statement (US\$M)			
June Year-End	FY23F	FY24F	FY25F
Rental Revenue	11.83	12.99	13.63
Other Revenue	0.73	0.80	0.84
<b>Total Revenue</b>	<b>12.56</b>	<b>13.78</b>	<b>14.46</b>
Property Expenses	-4.98	-5.46	-5.69
Management Fees	-1.41	-1.47	-1.51
REIT Overheads	-0.25	-0.27	-0.29
Other Expenses	-0.05	-0.06	-0.06
<b>EBIT</b>	<b>5.86</b>	<b>6.53</b>	<b>6.92</b>
Interest Expense	-2.21	-2.20	-2.20
<b>PBT</b>	<b>3.66</b>	<b>4.32</b>	<b>4.72</b>
US Corporate Tax	-0.01	-0.01	-0.01
<b>FFO</b>	<b>3.65</b>	<b>4.32</b>	<b>4.71</b>
Gain on fair value of investee company properties	2.81	-0.30	2.61
<b>Net profit/loss of the year</b>	<b>6.46</b>	<b>4.02</b>	<b>7.33</b>

REIT Distributable Income (US\$M)			
June Year-End	FY23F	FY24F	FY25F
Net Profit	3.65	4.32	4.71
Less: Debt amortisation	-0.38	-0.38	-0.38
<b>Distributable income from the REIT</b>	<b>3.27</b>	<b>3.94</b>	<b>4.33</b>
<b>Distribution per unit (cents per share)*</b>	<b>4.41</b>	<b>5.69</b>	<b>7.26</b>

\*Assuming a payout ratio of 100% of distributable income.

Key Metrics (US\$)			
June Year-End	FY23F	FY24F	FY25F
NOI margin (%)	60.3%	60.4%	60.7%
EBITDA margin (%)	46.7%	47.4%	47.9%
FFO YoY growth (%)	na	18.2%	9.2%
Dividend YoY growth (%)	609.8%	20.3%	10.1%
Total return on NTA (%)	12.0%	6.5%	12.4%
ROE (%)	24.0%	11.4%	6.6%
Distribution Yield (based on forecast NTA at end of financial year)	4.0%	5.1%	6.2%

Balance Sheet (US\$M)			
June Year-End	FY23F	FY24F	FY25F
Cash and cash equivalents	2.21	2.94	3.55
Other	0.25	0.25	0.25
Value of Investee Company Properties	147.70	147.70	150.61
<b>Total Assets</b>	<b>150.16</b>	<b>150.89</b>	<b>154.41</b>
Investee Company Borrowings	88.26	88.18	88.09
Other	0.94	0.94	0.94
<b>Total Liabilities</b>	<b>89.21</b>	<b>89.12</b>	<b>89.04</b>
Total equity at the beginning of the year	56.62	60.95	61.77
Profit/loss of the period	6.46	4.02	7.33
Capital increase over the period	0.00	0.00	0.00
Dividend paid	-2.13	-3.20	-3.72
<b>Total Equity</b>	<b>60.95</b>	<b>61.77</b>	<b>65.38</b>

Cashflow Statement (US\$M)			
June Year-End	FY23F	FY24F	FY25F
Net Cashflow from Operations	2.77	4.32	4.71
Net cash flow from investing activities	-0.29	-0.30	-0.30
Net cash from/(used in) financing activities	-2.22	-3.29	-3.81
Net Increase / (decrease) in cash and cash equivalents	0.26	0.74	0.61
Cash and cash equivalents at the end of the period	2.21	2.94	3.55

## PRICE TARGET & INVESTMENT VIEW

### Price Target

We have reduced our price target for USQ from \$1.41 per unit to **\$1.38 per unit**. The decline in the valuation is largely driven by the increase in WACC which was driven by an increase in the risk-free rate. The target price represents a 38% premium to the market price as at 21 March 2023 of \$1.00. The target price is based on a combination of a discounted cash flow model and the NTA per share. We have assigned a 50% weighting to each valuation component.

The price target is based on the current portfolio and does not assume any acquisitions. We note that acquisitions will impact the price target. We have assumed the properties will not be disposed of and that the REIT will successfully refinance the borrowing facilities as and when they are due.

<b>USQ Valuation</b>	
<b>DCF</b>	
Enterprise Value	\$119.7m
Net Debt	-\$75.2m
Total Value	\$44.5m
Units on Issue	55.54m
Value per unit (USD)	\$0.80
<b>NTA</b>	
NTA per unit as at 31 December 2023 (USD)	\$1.06
DCF Weighting	50%
NTA Weighting	50%
AUD/USD FX Rate	0.69
<b>Price Target (AUD)</b>	<b>\$1.38</b>
<b>WACC Assumptions</b>	
<b>WACC</b>	
Beta	1.13
Risk premium	6.0%
Risk-free rate (10-year gov. bond)	3.9%
<b>Cost of equity</b>	<b>10.7%</b>
Cost of debt (pre-tax) %	4.1%
Tax rate	0.1%
<b>Cost of debt (post-tax) %</b>	<b>4.1%</b>
<b>WACC</b>	<b>6.7%</b>
<b>Capital Structure</b>	
Debt	61%
Equity	39%

## Investment View

USQ provides a unique opportunity for domestic investors with USQ being the only listed REIT globally, with a focus on US student housing. US student housing supply is not keeping up with demand which is providing favourable dynamics for property owners with strong rental income growth being realised across the market. Due to economic conditions and difficulties with financing, new supply is expected to be below historical levels which is expected to drive rental growth in the short-term, although the growth rate is expected to slow in coming years.

Cap rates are expected to continue to expand given interest rates are still increasing, however given the reduced new supply expected to come online in the next few years and the increasing demand for the sector by investors, the expansion may begin to subside as prices are influenced by competition for assets.

The REIT has secured long-term debt facilities at attractive rates. All but one of the debt facilities is fixed which is a key positive in the current increasing interest rate environment. All but one facility is currently structured as interest only with options to extend the Interest Only period. We expect the Managers will extend these terms and be able to refinance upon the maturity of the facility.

One of the unique aspects of the student housing market is that the leases are for 12 months or less with the leases being for the school year. This provides the opportunity to reprice rents on an annual basis. As announced by the REIT, the properties have generated strong rental income growth for the current school year and the Managers are expecting this strong rental income growth to continue into the next year given the current supply/demand market dynamics.

The Managers of the REIT have a number of investment opportunities in the pipeline, however the growth aspirations of the Trust will be determined by the ability of the Trust to raise capital. The REIT is exploring the option to dual list in the US to take advantage of capital raising opportunities in the US to reach its growth aspirations. The dual listing will have an impact on Australian investors, however the full extent of these impacts will not be known until further details emerge.

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