

# US Student Housing REIT

## Return to campus drives value and yields

US Student Housing REIT (ASX:USQ) was incorporated in July 2020 and listed on the ASX in March 2022 raising an additional \$15.5m at an issue price of \$1.38 per unit (a \$45m raise was targeted). USQ is a Real Estate Investment Trust managed by Auctus Investment Group (ASX:AVC) intended to invest via Delaware companies (for US tax reasons) in purpose-built student housing near top-tier public universities in the USA. The US assets are managed by Student Quarters – an Atlanta-based asset manager with more than US\$1b under management and a track record from 2013 in this property sector. As usual, the REIT itself is ungeared while the underlying properties are currently geared within the target range 60%-65% at an LVR of 61.1%. USQ is unusual in the Australian REIT sector as a short-term residential leasing-focused vehicle. The REIT currently sits at the bottom of the Australian REIT sector by portfolio size. NTA per unit rose to US\$1.02 (A\$1.48) at June 30.

### Business model

USQ invests in existing high-quality, purpose-built student accommodation in the US. The REIT has a portfolio of nine assets including one acquired since listing. Students lease accommodation while at college with rental rates and occupancy levels the key revenue drivers. The sector was extremely resilient during COVID with average occupancy above 90%. USQ reported pre-leasing of 96.7% at 15 August 2022 for the upcoming 2022/23 academic year at rental increases of 8.0%. The assets are good quality with the oldest built in 2009 and diversified across five states and six universities. Georgia is the largest exposure at 26% of portfolio market value. USQ should benefit from the lowest new supply of student housing since 2011, suggesting rents and occupancy rates are likely to be firmer. The properties are geared with 62% of debt falling due in 2029 for an average maturity of 10 years and 81.4% of exposure at fixed rates. Properties are capitalised at rates between 4.75% and 5.25% giving a fair market value for the portfolio of US\$144.6m.

### Quarterly distribution of US\$0.015 per unit

The REIT reported a 5.6% increase in portfolio valuation for the financial year and delivered the prospectus-forecast distribution for the June quarter. Funds appear to be fully invested in properties under the mandate. Despite interest rate rises, market activity appears favourable with good rental and occupancy trends. If portfolio performance is maintained, it seems likely that Auctus will attempt to increase the size of the fund through an additional equity raise when securities markets are favourable.

### New to the market but with promising execution

The average yield of the listed REIT sector is 5.8% with USQ not yet delivering a track record with which to gauge likely distribution levels. The broader REIT sector is trading on a PER of 8.4x and price/book of 0.9x.

### Historical earnings and ratios (in US\$m unless otherwise stated)

| Year end | Revenue | EBITDA adj.* | NPAT adj.* | NPAT rep. | EPS adj.* (c) | EV/Sales (x) | EV/EBITDA (x) | PER (x) |
|----------|---------|--------------|------------|-----------|---------------|--------------|---------------|---------|
| 06/22a   | 7.2     | 3.1          | 3.1        | 3.1       | 6.0           | n.a.         | n.a.          | 15.0    |

Source: Company data; \*EBITDA, NPAT and EPS adjusted for one-time, non-cash items; USQ reports in US\$

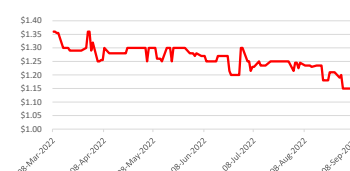
## REIT / Real Estate

9<sup>th</sup> September 2022

### Share Details

|                         |          |
|-------------------------|----------|
| ASX code                | USQ      |
| Unit price (8-Sept)     | A\$1.15  |
| Market capitalisation   | A\$63.8M |
| Units on issue          | 55.5M    |
| Net cash at 30-Jun-2022 | \$1.9M   |
| Free float              | ~78%     |

### Share Performance (since listing)



### Upside Case

- Continuing improvement in vacancy rates
- Property portfolio expansion
- Continued impetus for divestment by universities

### Downside Case

- Occupancy rates fall due to unforeseen circumstances
- Interest rates undermine property valuations
- Debt funding costs rise

### Catalysts

- Additional property purchases
- Equity raising to expand portfolio

### Comparable Companies (Aust/NZ)

US Masters Residential Property Fund (ASX:URF),  
Elanor Retail Property Fund (ASX:ERF), Garda  
Diversified Property Fund (ASX:GDF),  
Auckland Real Estate Trust (ASX:AKL)

### Board and Management

|                 |                    |
|-----------------|--------------------|
| Philip Gentry   | Non-Exec. Director |
| Michael O'Brien | Non-Exec. Director |
| Russel Beasley  | Non-Exec. Director |

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# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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