

16 November 2023
ASX Announcement

September Quarter Distribution and Asset Manager Update

Key Points:

- September quarter gross distribution of AUD 0.53 cents per unit¹ (US 0.34 cents per unit²) to be paid end of November
- Net Tangible Assets (NTA) of portfolio based on the most recent June 2023 asset valuations of AUD 1.60 per unit (USD 1.06 per unit)
- Portfolio update including current occupancy and market outlook
- Auctus and Equity Trustees to request ASX delist USQ, strategy remains unchanged

September Quarter Distribution

US Student Housing REIT (ASX: USQ) ('USQ' or 'the REIT') will be paying a September quarter distribution of US 0.34 cents per unit (AUD 0.53 cents per unit), gross of US withholding tax, and a net cash distribution of US 0.29 cents per unit (AUD 0.45 cents per unit²).

Current Performance and Outlook

Portfolio occupancy across the 9 assets is currently 89.4% and pre-leasing for the 2024-25 Academic year is sitting at 40.57%. This is slightly ahead of the same period last year, with several properties on target for double digit rent increases.

Current Occupancy	Prelease AY 24/25	Prior Year (23/24) Prelease	23/24 Rental Average Increase	Prior Year (22/23) Average Rental Increase
89.4%	40.57%	32.3%	8.2%	8.0%

Some of the 23/24 gains are being offset by 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 Student Quarters ('SQ') to increase wages for most positions at the property level to keep key personnel and fill vacant positions. SQ estimate labor costs will rise between 5 and 7% year over year across our portfolio for the current 2023-24 academic year.

¹ Assuming AUD|USD estimated exchange rate of 0.64

² AUD cents per unit conversion will be based on prevailing exchange rates. Net of US withholding tax

More importantly, cap rates have risen over 100 basis points due to the increase in interest rates after 11 consecutive rate hikes from March 2022 to September 2023. The high transaction volume seen in 2022 drove student housing cap rates to record lows with an average cap rate of 4.77%. The average cap rate for 2023 is projected to be in the 5.50-6.00% range, which is an increase of about 20% on a year-over-year basis. SQ expect cap rates to stabilise in 2024 but will be very dependent on future interest rate movements.

Nevertheless, despite this more challenging macro environment, the assets comprising the USQ portfolio have still appreciated in value since the IPO in March last year, **up to US\$147.75M from US\$136.9M**, underscoring both the broad strength of the US student housing sector and the effectiveness of SQ as an asset acquirer and operator.

Further to the ASX announcement of September 14, 2023, the **NTA** of the portfolio as at 30 June 2023 is **AUD 1.60¹ per unit** (US 1.06 per unit). Assets in the portfolio are independently valued on a 6-monthly basis, with the next round of valuations occurring in December 2023. We look forward to providing investors with an update in the half year review.

Distributions are currently being impacted by the following:

- 'The Edge,' an asset located at Texas Tech, is currently engaged in capital expenditure initiatives through the reinvesting of its distributions. This strategic move is aimed at driving up rental rates and boosting occupancy for the 2024-25 academic year and is anticipated to bolster the asset's overall value.
- '200 Edgewood' has been affected adversely by the discontinuation of a master lease with Clark University for the 2022-23 academic year that represented around 50% of prior year occupancy. SQ is focused on both immediate leasing traffic for the current academic year along with continuing to foster relationships with local Historically Black Colleges & Universities ('HBCU') and Greek Organizations in advance of the 2024-2025 academic year to drive leasing velocity and stabilize occupancy for the upcoming year.

USQ Investment Strategy Unchanged

On November 3rd, Auctus and Equity Trustees announced the **intention to request ASX delist USQ**, enabling it to operate as an unlisted registered Trust. The investment strategy remains unchanged. The investment objective of USQ is to generate a 15% p.a. total return for unitholders over a three-to-five-year investment cycle, through a disciplined strategy of acquiring under-optimised operating assets, executing on a business plan to reposition them with a focus on Net Operating Income (NOI) growth, and then on-selling those assets for a capital gain.

Upon disposal some of the capital gain is expected to be paid to unitholders via special distributions with the balance of the proceeds being used to actively grow the portfolio. Through the holding period of those assets, it is expected unitholders will be paid regular income through quarterly distributions. This objective differs from many property strategies which focus primarily on paying unitholders income generated from stabilized assets that may experience underlying capital growth roughly in line with inflation but may be heavily impacted, positively or negatively, by the prevailing interest rate cycle.

¹ Assuming AUD|USD estimated exchange rate of 0.64

Distributions are expected to continue to flow quarterly with the payment of special distributions for asset realisations, which Auctus expect to commence once credit markets normalize.

In terms of growing the portfolio, Auctus 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. At an industry level, nearly \$4.5 billion worth of US student housing loans are expected to mature within the next two years³. These maturing loans may provide opportunities in student housing transaction volumes in 2024 and 2025.

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 USQ Responsible Entity.

About Auctus

Auctus Investment Group Limited ('Auctus') is an ASX listed global investment manager with in-excess of A\$530M 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 ('SQ') 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 10,000+ 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

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³ Walker & Dunlop Student Housing Report Fall 2023

IMPORTANT INFORMATION

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).

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US Student Housing REIT’s Target Market Determination is available <https://usq-reit.com/important-information/>. A Target Market Determination is a document which is required to be made available from 5 October 2021. It 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.