

Part 1: US Student Housing Thought Piece – Student Housing Introduction & the Sector at a Glance



ODYSSEY

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Executive Summary

The Odyssey Group is an Asia Pacific based asset manager focused on investing into private markets including real estate, private equity and alternative credit.

We invest in thematic opportunities within real estate, with a further focus on specific sectors that we believe represent good value in the investment cycle, that are anticipated to achieve superior risk adjusted returns. Where suitable we may employ such value-add strategies as repositioning the asset to further enhance yield and long term growth from the asset. We partner with local execution partners who have long and successful track records in the niche sectors and strategies we are most interested in.

The US Student Housing sector offers a unique and exciting opportunity to participate in one of the fastest growing sub-sectors of the US real estate market. Sector specific tailwinds, such as highest global ratio for tertiary enrolments and lack of reliance on overseas students, help it stand out versus other markets globally. We believe this makes the sector incredibly resilient in the backdrop of global uncertainty.

Unlike the United Kingdom or Australia, US students have remained on campus and combined with a projected positive rebound from COVID-19, US Universities are receiving record levels of enrolment for September 2021 and into 2022. This is helping drive the continual need for new and updated student accommodation at campuses around the country, particularly as universities allocate capital to non-housing facilities such as classrooms and sports buildings.

To further illustrate our research to date, we have completed on this sector and the opportunities we are seeing in the market, we have compiled this thought piece series for our client's interest, it is in 3 parts:

Part 1: Student Housing Introduction & the Sector at a Glance

Part 2: Deep Dive into the Industry Dynamics & Fundamentals

Part 3: Case Study & Value Proposition – Potential REIT Listing

In this segment we introduce what is Student Housing and the attention it has been getting from large institutions globally. We believe it is a sector with attractive headwind and primed to capture much of the economic reopening & recovery.

What is Student Housing?

Student Housing refers to accommodations constructed for students completing their undergraduate or postgraduate degree. There was a demand for accommodation close to campus as universities were far away from their hometowns. Surveys showed that university students in the UK and US travelled an average distance of **91** and **94** miles away from home to attend university. Location is a huge inconvenience for many students as such Student Housing assets were congregated around the universities.

Types of Student Housing

Student Housing is split into 2 parts, University-owned Housing and Purpose Built Student Accommodation (PBSA). The latter will be the focus of our investment case and thesis on the attractiveness of the sector. Despite both being Student Accommodation, there are some distinct differences between them.

1. Purpose Built Student Accommodation

Purpose Built Student Accommodations (PBSA) are constructed by private developers specifically for housing university students. PBSA can take the form of 'cluster' flats which has private rooms and communal areas with recreational facilities such as TV & pool tables. They are usually built near university campuses to make it convenient for students to attend classes.

Figure 1: Sample PBSA Room



Source: Student Quarters

2. University Owned Housing

University Owned Housing are accommodations owned and managed by the universities themselves. Compared to PBSAs, the facilities are often older and the range and quality is often lower. Again, the location is very close to the university themselves similar to PBSA.

Figure 2: Sample University-owned Housing Rooms



Source: Columbia University

Characteristics of Purpose-Built Student Accommodation:

PBSA in recent years have been gaining more attention from the students for a variety of reasons listed below and we believe these value-added qualities differentiates itself from University-owned Housing, making it an attractive sector to evaluate.

Figure 3: Lounge in PBSA



Source: Student Quarters

1. Rich community amenities

PBSA offers high quality & comprehensive amenities for students. Many PBSA offer recreational areas and communal areas for the students living there. PBSA provides the students with the correct social environment that makes the best out of the campus experience. Therefore, we believe students are intrinsically attracted to PBSA for the community and the level of amenities.

Figure 4: Communal Areas & Amenities in PBSA



Source: Student Quarters

2. Flexible leasing terms

PBSA leasing is flexible and unlike a conventional studio or apartment, PBSA allow students to lease a single bed. College students are always complaining about the education prices and PBSA offers a cheaper alternative to alleviate the high costs and we believe this makes PBSA unique as compared to University-owned Housing.

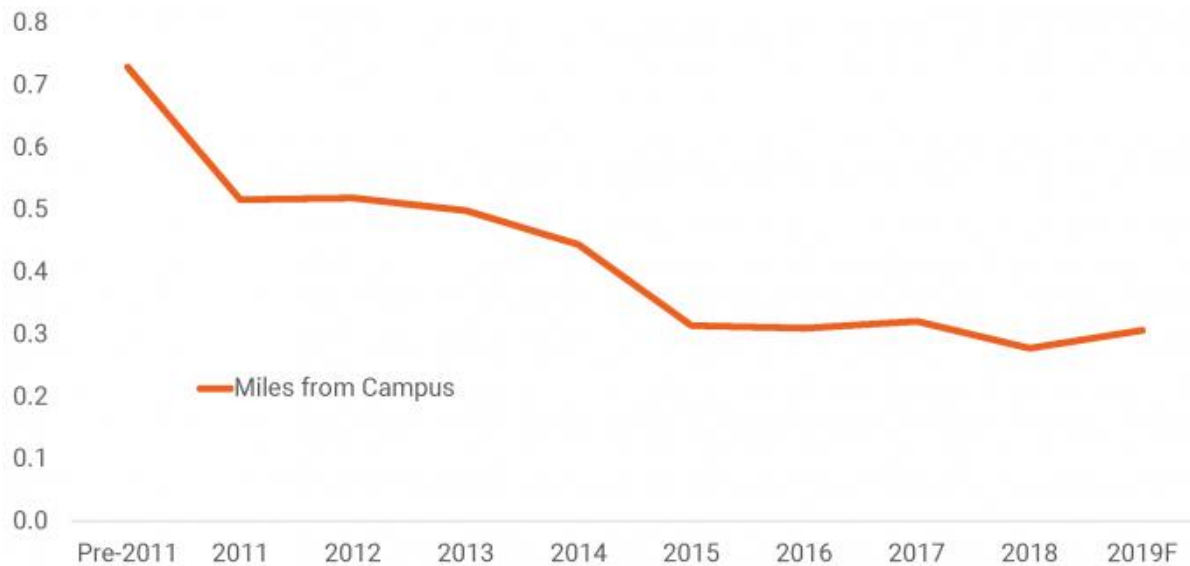
3. Proximity to college campuses

Students prefer renting PBSA closer to the campus for convenience and PBSA are strategically built to bridge this pain. This is evident that in the United States (US), we have seen the decreasing distance of PBSA to campus in order to attract students in Figure 5.

Summary

This list of attractive characteristics captures the main selling points of PBSA. We believe that the premium amenities and little to no trade off to University-owned Housing in terms of distance, PBSA stands to disrupt much of the market share by appealing to the needs and wants of students.

Figure 5: Average Distance from Campus



Source: Realpage

Emergence of Purpose-Built Student Accommodation (PBSA) as a fast-growing sector in Real Estate

Figure 5: Global Transaction Volume

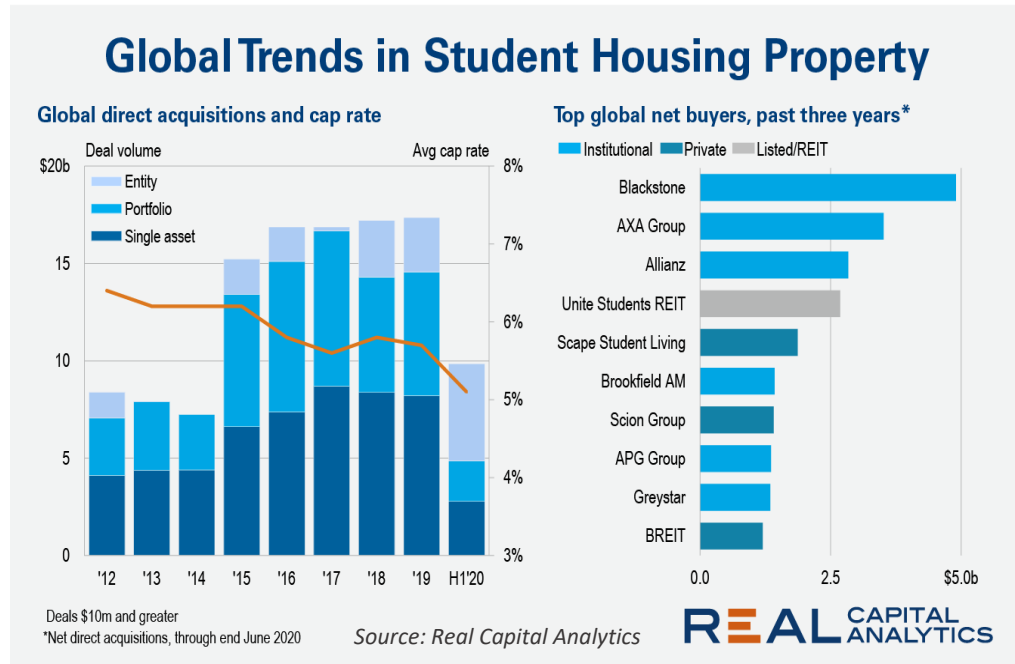
PBSA acquisitions has been gaining traction over the years, amounting to roughly **US\$16bn globally** in 2019 as seen in Figure 5. Despite the pandemic in 2020 creating fear in the markets, there were still meaningful market activity in the first half of 2020, reaching **US\$10bn** for the 1H'20.

The sector has also seen global attention as seen from the

cross-border inflows, accounting for 40% of the total investment over years spanning from 2015-2018, higher than the **26%** across all real estate sectors. The higher inflow compared to other sectors illustrates the level of confidence they have for the sector in the real estate space.

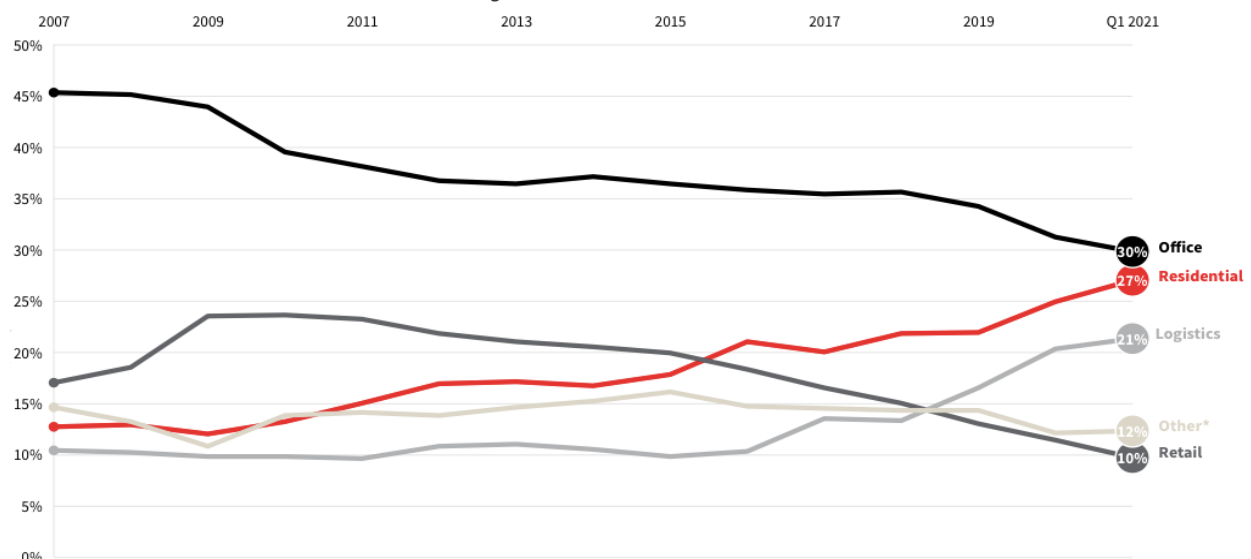
The pandemic destabilised many other real estate sectors, Student Housing was one of the few resilient sectors. From JLL, investors have been allocating more to Residentials (includes Student Housing), chasing up to Offices, a difference of 5% in Figure 6.

Student Housing is gaining recognition as an institutional asset class



amidst its resiliency and growth. As traditional sub-sectors underperformed, there is a demand for niche assets positioned in a sectoral tailwind for higher yield. To give scope to our investment case, we evaluate geographical differences between the different markets in US, UK and Australia and elaborate the reasons why we are focused on US.

Figure 6: Real Estate Investment Share



Geographical Differences (US vs UK vs Australia)

We are focused on US Student Housing due to the various geographical differences that we observed through broad census data as shown in Figure 8.

Figure 7: Geographical Data

	US	UK	Australia
Total College Student Population	20m	2.4m	1.5m
Domestic College Student Population	18.9m	1.9m	1.1m
Population under 18	73.9m	13.0m	6.4m
Student proportion	5.8%	3.6%	3.9%

Source: US, UK & Australia Census

We are more **confident** in the US Student Accommodation than other parts of the countries for the reasons below.

- US is still the largest market out of the three in terms of total college enrolment. Assets in US will stand to have the highest average occupancies out of the three.
- Secondly, US has a low international student proportion of only **5.5%**. On the other hand, UK and Australia's international student proportion is **20%** and **30%** respectively. There is lesser reliance on international student to fill up the beds and given the on-going air travel restrictions, this minimises the level of risk.
- Thirdly, US has a **substantially higher** population under the age of 18 compared to Australia and the UK. This is a favourable demographic for the demand of Student Housing and bodes well for investors in PBSA.

Figure 8: Interior of University-owned Housing Room



Source: Adelaide Student Housing

Figure 9: Interior of a PBSA



Source: Student Quarters

The reasons stated above gave us the confidence in US sector and prompted us to dive deeper into the industry dynamics and fundamentals when faced with uncertainty in economic conditions and favourable macro environment. In the next part of the thought piece, we will uncover the industry dynamics and deeper fundamental analysis of the sector to build a full investment case.

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