

Part 3: US Student Housing Thought Piece – Value Proposition – REIT Potential & Case Study



ODYSSEY

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Executive Summary

Odyssey is an asset management firm that is focused on seeking out attractive investment opportunities in the private markets. We invest in thematic opportunities in sectors we believe represent good value and are anticipated to achieve superior risk adjusted returns.

We often employ value add strategies such as refurbishment, reorganisation and repositioning, which increase the capital appreciation and cash flow generation over time. Where strategically advantageous, we partner with local execution partners who have long and successful track records in the niche sectors and strategies we are most interested in. One such sector that we have been building a position in is Student Housing in the United States.

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, helps 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 centres.

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 base our investment case with case study from the public markets and introducing the potential for IPO as an exit option. We believe that IPO of such a niche unique asset that is gaining institutional recognition as an asset class will be a popular and well-received, providing investors further upside and liquidity.

Part 3: Case Study & Value Proposition – REIT Potential

Real Estate has historically performed well against inflation, as such the anticipated inflationary pressure over the next 3 to 5 years is likely to support the investment thesis of investing into US Student Housing. In addition to this, we believe there is further value in bringing a resilient, fast growing asset class such as Student Housing, public ahead of the significant industry and sector tailwind.

To substantiate this argument, we look at the performance of the only listed Student Housing REIT, American Campus Communities (NYSE: ACC) against the broader REIT market to evaluate its outperformance and the supporting metrics.

Case Study

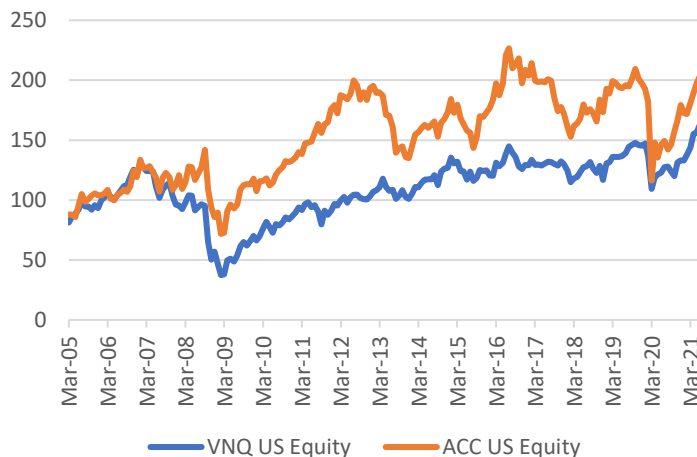
ACC has outperformed the Vanguard Real Estate ETF (NYSE: VNQ) since 2005. This has been driven by increased investor interest and their desire to gain exposure to the US Student Housing sector.

Attractiveness in the Public Market

Student Housing is predominantly made up of private investments and as mentioned previously have been garnering a lot of interest and investment from institutional investors. However, to give a proper case study and performance of the sector, we benchmarked ACC to VNQ in Figure 19.

Overall ACC has outperformed VNQ since 2005. This supports ACC's, and in general, proving the student housing sectors, resilience across the different economic cycles over the past two decades compared with general US REIT market. Furthermore, generally we have seen that alternative REITS have been gaining popularity in recent times as investors seek diversification and consistent yield.

Figure 19: Normalised Performance ACC, VNQ ETF



Source: Bloomberg, Odyssey

Figure 20: Fulton Place - SQ



Source: Student Quarters

Public Comparables

ACC have outperformed its comparable REITS in different sub-sectors with a similar market cap as seen in Figure 21.

- ACC trades at **~4% pa** yield while similar REITS trades in a range of **3.0-3.75% pa**.
- Student Housing in both the private and public markets has generated strong, stable cashflows from its yield and funds from operations (FFO).
- All REITS used for comparison have similar market capitalisation. The rationale behind this was that REITS with higher market cap could use their scale to reduce operating and capital cost efficiencies as a percent of revenue as well as debt and equity capital cost. This could give them an unfair advantage and thus not lend itself to an appropriate comparison. Yet, ACC still has **significantly higher** yield when compared to larger cap REITS like Prologis.

Figure 21: Selected Comps

| | ACC (SH) | DEI (CRE) | STAG (Logistics) | EPR (Specialty) |
|------------------|----------|-----------|------------------|-----------------|
| FFOM/share | 1.91 | 1.71 | 1.92 | 0.01 |
| Dividend Yield | 3.86% | 3.09% | 3.75% | 3.21% |
| Market Cap (USD) | 6.7bn | 6.4bn | 6.4 bn | 4.0 bn |

Source: Bloomberg, Odyssey

Rapid Recovery from the Pandemic

Supporting the analysis in our Thought Piece – Part 2, much of the operating metrics have improved since the pandemic, providing support for the recovery and resiliency of the US Student Housing sector.

Figure 22: ACC Operating Metrics

| | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21E ¹ |
|-------------------------|--------|--------|--------|--------|--------------------|
| Rent Collections | 93.7% | 94.6% | 97.6% | 97.3% | TBD |
| RHP Rent Relief | \$8.6 | \$4.7 | \$0.9 | \$0.8 | TBD |
| Rent Refunds | \$15.1 | \$2.1 | \$1.5 | \$1.3 | \$0.9 |
| SS Rev Growth | -14.2% | -9.3% | -9.0% | -6.4% | 6.4% |
| FFOM/sh Growth | -33.9% | -30.4% | -18.1% | -18.6% | -1.4% |

Source: American Campus Communities Annual Report 2020

- ACC's rent collections have risen from 93.7% in 2Q20 to over 97% in 1Q21. This signals optimism for ACC as it looks to stabilise its operating cash flow.
- ACC was also able to provide rent relief in the form of Resident Hardship Program (RHP). This initiative was to support of the students that were struggling to pay their rent. This temporarily decreased ACC's revenue and profitability. A sharp fall in rent relief from US\$8.6 million to US\$800,000 in the latest quarter indicates two things, that more students are financially sound and can pay their rent and a reduced drag on earnings, compounding further yield for investors.
- Much of the business operating metrics that drove growing funds from operations each year has recovered to pre-pandemic highs which is a testament to the resiliency and optimism of the sector.

- With respect to the improving operating metrics back to pre-pandemic highs, the sector is riding on the recovery tailwind and we believe that ACC's potential is very strong due to the proven resiliency. A REIT listing in this sector is likely to be highly sought after by investors looking for stable, recovery-focused assets to gain exposure to.

Summary of Case Study

Using ACC as a benchmark, it is reflective of the sector's recovery with many of the operating metrics returning to pre-pandemic highs much like the investment case we proposed in Part 2.

Furthermore, the price outperformance on the equity markets against a tracking ETF illustrates the attractiveness of Student Housing at least for REIT investors. Hence, we believe there is a huge opportunity to IPO the assets due to the uniqueness of the asset as well as the rarity of a sizeable portfolio in that Student Housing.

Value Proposition - REIT Potential

Our value proposition from the investment case and case study has led us to establish these benefits; The attractive investment fundamentals behind Student Housing as an Asset Class has been attracting investors. Hence there is a possibility of a REIT listing, we can attain scale and liquidity for the early investors. Scale is particularly rare and as such, commands a premium for its rarity and the expertise.

Scale & Liquidity: The REIT potential could generate a lot more scale for the portfolio and liquidity for early investors where they could look for an earlier exit with higher returns. Portfolio scale will stand to increase from the additional equity financing from the IPO.

We believe scale of the portfolio is extremely important in generating higher returns. From CBRE's research, there are significant compression for acquisition of large portfolios. Hence, having large scale in such niche assets is obviously rare and commands a premium. This is evident seeing that there is not a clear market leader currently. Therefore, we are optimistic that a REIT listing will eventually lead to significant compression and returns for early investors.

Conclusion

We remain confident that the US Student Housing sector is well positioned to take advantage of the existing student demand for quality properties that meet students modern needs. We further anticipate the economic tailwind owing to the post COVID recovery and the factors discussed in our 3 Part Thought Piece demonstrate the robustness of the sector and the cyclical opportunity that is presented at this time.

The ACC case study directly supports the sound fundamentals and anticipated full recovery of the sector back to pre-pandemic highs. This is further supported by ACC's operating metrics which demonstrate the continued profitability of the sector. Furthermore, the outperformance of ACC compared to the REIT index further supports the rationale of taking a private US Student Housing portfolio, public, via an initial public offering. It is anticipated that an IPO will in turn provide investors an uplift in valuation and increased liquidity, in an otherwise illiquid asset class.

Overall, we believe that the US Student Housing is a sector that stands to gain significantly from the recovery. We have come to this conclusion from a deep understanding of sector-wide trends, industry dynamics & fundamentals which has not changed prior too or anticipated to post the pandemic. Ultimately, we believe that this is a niche real estate asset class that is gaining institutional attention for good reason and an IPO will allow existing investors to benefit from the listing and for new investors to gain access to this sector via the public markets.

Figure 22: ACC Boyle Heights



Source: American Campus Communities

This is a very interesting opportunity, with the prospects of higher liquidity and returns. The Student Housing Market has seen large investments from institutions lately and an IPO of a second Student Housing REIT listing could generate a lot of market demand, see the supporting article link below:

<https://www.bloomberg.com/news/articles/2021-04-22/mapletree-is-said-to-explore-1-billion-student-housing-reit-ipo>

Contact Us:

For more information regarding Student Housing, please contact the team on their details below:



Alex Walker

CEO, Co-Founder

M: (65) 8182 1191 O: (65) 6592 8262

Email: alex.walker@odyssey-grp.com



Daniel Vovil

Co-Founder & President

M: (852) 9725 5477 O: (852) 2111 0668

Email: daniel.vovil@odyssey-grp.com



James Wheeler

Managing Director – Head of Distribution

M: (852) 9441 7968 O: (852) 2111 0668

Email: james.wheeler@odyssey-grp.com



HONG KONG SAR (Head Office)

11F, The Lucky Building, 39 Wellington St, Central
Hong Kong

Tel: +852 2111 0668 | Fax: +852 2111 0768

Email: hongkong@odyssey-grp.com



SINGAPORE

36 Armenian Street #05-10,
Singapore 179934

Tel: +65 3163 9192 | Fax: +65 6592 8261

Email: singapore@odyssey-grp.com

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