PURPOSE-BUILT STUDENT HOUSING: A COMPELLING INSTITUTIONAL OPPORTUNITY

Durable Demand, Constrained Supply, Institutional Momentum

INTRODUCTION

Currently, purpose-built student accommodations ("PBSA" or "student housing") represents one of the most compelling investment opportunities within the residential real estate sector. The property type benefits from structural demand drivers, constrained supply, resilient operating performance, and increasing institutional capital participation.

Unlike traditional multifamily housing, where demand is correlated primarily to employment growth and economic cycles, student housing demand is a function of enrollment trends. These dynamics create a demand base that is both predictable and relatively insulated from broader economic volatility. Historically, college enrollment at "Tier 1" public universities (primarily large, flagship state schools with competitive admissions and growing enrollment) has increased during both economic expansions and contractions, expanding at an average of 1.5% per year.

Across the US, universities provide housing for only a fraction of their student population. On average, on-campus housing accommodates approximately 20% of enrolled students, forcing most students to seek housing in the surrounding off-campus market. This structural imbalance between enrollment and housing supply, and consistent renter demand, has supported attractive operating fundamentals for PBSA properties located near major universities.

Given these dynamics, PBSA represents a compelling opportunity for Ascentris to capitalize on its residential expertise and provide its clients with access to a subset of the residential property sector with durable demand fundamentals in supply-constrained markets. As an investment firm with focus on both value-add and core risk-profiles, Ascentris specializes in rotating client capital into property sectors and markets experiencing the early stages of an economic growth cycle and capable of providing sustained income growth. While each real estate property type has different underlying growth drivers and can experience a range of return outcomes as market cycles evolve, Ascentris believes PBSA provides important diversification for a real estate portfolio through uniquely differentiated, even counter-cyclical, demand drivers. Additionally, PBSA currently presents an opportunity to generate attractive returns by capitalizing on supply and demand imbalances in select markets.

November 2023

STRUCTURAL DEMAND DRIVEN BY ENROLLMENT

Unlike traditional multifamily real estate, student housing demand is primarily a function of university enrollment rather than employment growth. This distinction creates a unique diversifier of returns through differentiated income streams that can complement institutional real estate portfolios with established allocations to the multifamily property type, as well as office, retail, and industrial.

Enrollment at four-year public universities has grown steadily over time, particularly at flagship institutions and universities located in high-growth states. As universities expand their student populations, demand for student housing adjacent to or near campus increases accordingly. However, many universities lack the financial resources or access to walkable land sites needed to deliver new student housing to accommodate demand. On average, on-campus housing accommodates just 20% of enrolled students, leaving the remaining 80% to rely on off-campus housing. Further, PBSA can accommodate only 20% of students off-campus, forcing the remaining 60% of students to secure housing at properties that were not intentionally designed to meet the specific needs of student residents (the "shadow market"). The shadow market consists of non-purpose built single- and multi-family properties that are competitively priced and located proximate to campus. These properties often have a large non-student renter base, do not meet the security and safety standards unique to student renters, and generally lack student-centric amenities such as dedicated study spaces, making them a less desirable alternative to institutional PBSA. While living in shadow market housing is a choice for some renters, it can also be the result of insufficient supply of well-located PBSA, creating a situation of pent-up renter demand.

The demand base for PBSA tends to be highly stable, as students generally secure housing proximate to campus, regardless of broader economic conditions. Student housing also benefits from a highly predictable annual leasing cycle, providing investors with greater visibility into future NOI and occupancy levels. Unlike traditional multifamily properties where leases expire throughout the year, student housing leases typically coincide with the academic calendar. Pre-leasing for the following academic year often begins eight to ten months prior to move-in, with many properties achieving full lease-up well in advance of the academic year.

CONSTRAINED SUPPLY COUPLED WITH HIGH BARRIERS TO ENTRY

Despite strong demand fundamentals, the supply of new student housing remains constrained in many university markets. Development of PBSA that underwrites to an acceptable risk-adjusted yield on cost often requires sites located within close proximity to campus. These sites, especially those walkable to campus, are difficult to assemble and entitle due to zoning restrictions, limited available land, fragmented ownership, and community opposition to new development.

In addition to land constraints, the nuances specific to student housing operations and development have added a layer of complexity that historically limited participation from some real estate investors. Delivering new student housing projects requires specialized design, operational expertise, and leasing strategies that differ from traditional multifamily properties.

Recent capital market conditions have further constrained new development. During the COVID-19 pandemic, capital temporarily left the student housing development sector as universities shifted to remote learning. While demand has since recovered, rising interest rates have presented an additional headwind and limited the ability to finance new development.

As a result, national deliveries of new student housing beds have declined meaningfully relative to historical levels. Between 2014 and 2020, new PBSA deliveries averaged approximately 54,000 beds annually. However, deliveries declined to approximately 30,000 beds in 2022 and 38,000 beds in 2023, well below the historical average. These reduced delivery levels strengthened supply-demand fundamentals across many university markets may support strong rent growth for existing properties.

DURABLE OPERATING FUNDAMENTALS

The structural supply-demand imbalance has historically produced attractive operating fundamentals across the property type. Properties located near campus frequently operate at occupancy levels approaching full stabilization, particularly in markets where new development is limited. The Top 200 PBSA Markets, as defined by Yardi Matrix, were 96% occupied as of August 2023.

In recent years, student housing rents have increased significantly. National PBSA rents grew approximately 9% year-over-year in 2023, reflective of both strong demand and constrained supply.

Student housing also benefits from unique operating characteristics that support stable revenue generation. PBSA properties are typically leased by the bed rather than by the unit, allowing owners to maximize revenue potential. Additionally, most leases are guaranteed by parents or guardians, resulting in higher rent collection rates and lower delinquencies than traditional multifamily housing. These structural operating characteristics contribute to durable cash flow and predictable annual leasing cycles.

RESILIENCE ACROSS ECONOMIC CYCLES

Student housing has historically demonstrated resilience during economic downturns. Because enrollment at Tier 1 universities tends to increase during recessions as individuals pursue additional education, demand for student housing can remain stable even when broader economic conditions weaken.

During the Global Financial Crisis, student housing occupancy remained strong and rent growth remained positive in many markets. This performance contrasted with the traditional real estate property sectors that experienced declines in occupancy and revenue.

Even during the COVID-19 pandemic, an unprecedented disruption that temporarily shut down many campuses around the country, student housing properties maintained rent collection levels above 97%, thus demonstrating the durability of demand and economic occupancy within the sector. With enrollment growth as the primary contributor to demand, rather than employment,

student housing has historically exhibited lower occupancy and income volatility than traditional property types.

INCREASING INSTITUTIONAL DEMAND

Over the past decade, student housing has transitioned from a niche property type into a widely accepted institutional investment sector with a growing number of global real estate investors recognizing the favorable demand fundamentals and resilient operating performance exhibited by these properties.

A major milestone occurred in 2022 when Blackstone acquired American Campus Communities for approximately $13 billion, marking the largest transaction in the history of the student housing sector. Following this transaction, several large institutional investors, including Brookfield, KKR, Morgan Stanley, Ares, and Nuveen, expanded their allocations to student housing. This influx of institutional capital has increased liquidity within the sector and narrowed the historical cap rate spread between student housing and traditional multifamily properties.

As the sector continues to mature, PBSA is increasingly viewed as a primary property type.

POTENTIAL IMPACT OF ARTIFICIAL INTELLIGENCE

Tier 1 public universities have historically experienced stable and growing student demand. Strong academic programs make their return on investment (tuition) attractive relative to non-Tier 1 universities. Large endowments allow for state-of-the-art facilities, while nationally recognized athletic programs help create a vibrant atmosphere for students. While AI will no doubt act as a disruptor to the education system as a whole, with the full impact and corresponding outcomes likely to remain unclear for some time, Ascentris believes that Tier 1 schools are least likely to be negatively impacted by AI and may ultimately stand to benefit.

AI presents a meaningful risk to higher education by accelerating the adoption of alternative credentialing pathways and increasing pressure on traditional tuition-based models. However, Ascentris believes most, if not all, Tier 1 public universities possess the brand strength, demand durability, and financial resilience to withstand potential enrollment declines through additional investments. Further, it remains a possibility that Tier 1 universities could be the beneficiaries of sector consolidation should secondary and tertiary universities experience weakened financials and enrollment contraction, thereby resulting in shared gains across students, faculty, and funding.

The primary enrollment threats from AI are not that higher education disappears, but that the value proposition of certain degrees becomes less compelling. A very viable risk is that AI makes shorter, cheaper pathways such as certificates, bootcamps, employer training, and embedded workplace learning more credible for a wider array of entry-level roles. This is especially evident in industries where employers are shifting toward skills-based hiring rather than formal degree screens.

AI creates a credible risk to the white-collar labor market by reducing demand for routine cognitive work, particularly in entry-level and support-intensive roles, which may erode the perceived necessity of certain traditional degree pathways. Over time, that pressure is likely to be

concentrated in institutions and programs with weaker employment opportunities and alumni networks, while stronger universities tied to elite outcomes may remain comparatively resilient.

AI is likely to widen the gap between universities that can quickly adapt curriculum, delivery model, and employer alignment and those that cannot. Well-capitalized and adaptable institutions may use AI to improve outcomes and relevance, while some less financially stable secondary and tertiary schools may see sharper downward pressure on enrollment if students perceive their programs as expensive, slow-moving, or poorly connected to current and future demands of the labor markets.

STRATEGIC FIT

Over the past 10 years, Ascentris has successfully invested and managed over $2.5B of capital across the US housing markets. The student housing sector is a strong fit with Ascentris' experience, capabilities, and track record. The property type rewards investors that can identify supply-constrained markets, secure well-located sites near campus, and execute complex residential development projects if required.

Ascentris possesses extensive experience in ground-up residential development, adapting real estate to meet the specific needs of the local market and renter demands, executing on value-add multifamily investments and bringing institutional asset management to every investment, all of which position the firm to compete effectively within the student housing sector.

CONCLUSION

The PBSA investment strategy offers a unique combination of structural demand drivers, constrained supply, resilient operating performance, and increasing institutional investment, which contributes to the sector's strong occupancy levels and outsized revenue performance across economic cycles.

Given these characteristics, student housing represents a compelling opportunity for Ascentris' clients to deploy capital into one of the most structurally advantaged segments of the institutional housing market.

Currently, the most attractive investment opportunities are likely to exist at Tier 1 universities with the following characteristics:

- Large student populations (typically greater than 25,000 students)
- Strong academic and athletic programs
- High application and matriculation rates
- Positive enrollment growth
- Limited on-campus housing capacity
- Development sites located within walking distance of campus
- Moderate to high barriers to entry for new development

Universities meeting these criteria typically exhibit the strongest housing shortages and the most durable rent growth potential.

November 2023

ABOUT THE AUTHOR

Jeff Higgins is a Managing Director at Ascentris and has been with the company since 2012. Jeff has experience acquiring, developing, and managing multifamily, student housing, office, retail, and industrial investments. He is primarily responsible for managing existing investments and sourcing new opportunities in the Southern California and Arizona markets for Ascentris. Additionally, he oversees the company's national student housing platform. Jeff graduated from the University of Colorado with a B.S. in Business Administration and a concentration in Finance. He resides in Denver with his wife and two sons.

ABOUT ASCENTRIS

Ascentris is a Denver-based real estate private equity firm that manages a series of fully discretionary institutional investment vehicles focused on value-add, core-plus, and core strategies across major property types and markets throughout the United States. Since 2003, the Ascentris management team has followed an investment philosophy and organizational structure designed to identify opportunities ahead of the market while delivering a high-level of service, transparency, and accountability to investors. Ascentris is a privately held, management-owned, SEC-registered investment adviser* committed to putting investors' interests first.

*Registration does not imply any level of skill or training

Sources: Berkadia National Student Housing Market Report; Yardi Matrix Student Housing Report (August 2023); Newmark National Student Housing Market Report; RealPage 2023 Student Housing Outlook; CBRE Student Housing Outlook (2Q 2023); Ascentris PBSA Research Findings (2023)

November 2023