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Follow the Smart Money

The largest investors continue to pour money into Student Housing

Key Dates to Note:

- *March 11, 2020: The World Health Organization declared COVID-19 a global pandemic.*
- *March 23, 2020: The S&P 500 dropped nearly 34% off record highs set only a month prior*
- *August 23, 2021: Blackstone and Landmark Properties enter a $784,000,000 Joint Venture to acquire eight Student housing properties.*
- *December 9, 2021: The Scion Group, Brookfield, and PGIM enter a $1,700,000,000 Joint Venture to purchase 20,000 student housing beds.*
- *December 14, 2021: Morgan Stanley and Global Student Accommodation create a $1,600,000,000 Joint Venture to acquire 15,000 student housing beds.*
- *July 28, 2022: U.S. Economy Shrinks for the 2nd consecutive quarter (Official Economic Recession).*
- *August 9, 2022: Blackstone acquires American Campus Communities (largest owner of student housing) for $12,800,000,000.*
- *August 24, 2022: Abu Dhabi Investment Authority (ADIA) and Landmark Properties form a $2,000,000,000 Joint Venture to develop student housing.*
- *September 21, 2022: The Federal Reserve continues to increase interest rates, stocks are in free-fall, and inflation continues at record levels.*

The past 30 months have been ravaged by social unrest, supply chain disruption, soaring inflation, and volatile equity markets. As of 9/21/2022, The NASDAQ, 207.297.9150 669 River Drive Suite 402 Elmwood Park, NJ 07407 www.AptitudeRE.com DOW, and S&P 500 are all respectively down 28%, 16%, and 20% YTD. From their January 1, 2022 levels to the March lows, the SPY, QQQ, and DIA were all down 31%, 21%, and 35%, respectively. Wall Street has ditched the once beloved tech sector for cash-flowing, secure, and predictable assets. As the outlook on the economy continues to worsen, real estate remains a stable long-term investment class, and the sub-sector of student housing will remain secure and continue to thrive.

Student Housing Remains a Sector With a Lot of Runway Ahead

As institutional interest and investment surges, this niche real estate sector continues its historic bolster onto the global financial stage as a desired and sought-after investment. Student housing sales volume in 2021 was a record-setting $11,900,000,000, a 38% increase over its previous 5-year average. As of June 2022, the student housing sector was pre-leased to 87.2%, which is nearly 8% higher than pre-pandemic levels. Although the data has not yet been released, industry professionals are confident that 2022 occupancy rates are the highest ever recorded, with rental growth exceeding 5% nationwide for student housing

Institutional capital is infatuated with the student housing sector due to the repeated resiliency the asset class has displayed during both economic downturns and upswings. As "The Key Dates to Note" demonstrate above, while the economy continues to soften, institutional investment activity continues to increase. This directly results from student housing performing well regardless of macroeconomic conditions. For example, during the global financial crisis of 2008, national enrollment hit an all time high of 18.2 million students, which subsequently increased student housing occupancy rates and put significant upward pressure on rental growth. During recessionary environments, when employment opportunities are not plentiful, masses of the population choose to attend college to re-invest in their skill set. Currently, Universities across the country are experiencing record enrollment as the job market begins to deteriorate. Institutional capital clearly understands the student housing sector is a secure and lucrative asset to be invested in while the overall economy continues to lag

Aptitude Development

Aptitude Development is well capitalized, has loyal debt relationships, and a robust pipeline of development deals. Aptitude will continue to build through the current cycle and anticipates significant rent growth as new development slows and enrollment surges. Exit opportunities will continue to be plentiful and lucrative, with values higher than originally anticipated due to higher rent rolls and the pent-up demand that will occur as buyers will be starved for high quality products.

Schools that Aptitude is invested in, such as the University of Arkansas, University of Alabama Birmingham, and Coastal Carolina University, have all seen record enrollments for Fall 2022. These Universities have a massive housing supply shortage and have contacted Aptitude for master lease negotiations. Aptitude will continue to seek markets with high enrollment growth for future developments. By developing at "no brainer locations," the assets will always be in demand. Additionally, the ability to increase rents each year with a new crop of renters and the credit backing of the parents makes this asset class truly unique.

Interest rates, construction, and land costs will continue to rise. To make the deals pencil and deliver yield to its investor base, Aptitude will continue prioritizing an efficient and functional building design. Spaces with high utilization rates, such as study pods and coffee bars, will continue to be programmed into buildings in lieu of rock-climbing walls and golf simulators. While fancy amenities have been able to sell in the past and look great in renderings, today's students (and their parental guarantors) prioritize practicality, and the rock-wall does nothing for NOI or academic success.

Aptitude will continue leveraging its industry relationships to maximize revenue and decrease expenses. All of Aptitude's consultants are synchronized and have completed many successful projects together. From civil engineers, architects, interior designers, and contractors, the entire team is operating efficiently across several projects, drastically lowering costs. From an operational standpoint, Aptitude will continue to work with the top management companies to ensure professional customer service and efficient operations.

Looking Forward

The Federal Reserve again raised interest rates Seventy-Five (75) bps yesterday. Rising interest rates will certainly not positively impact cash flows; however, Aptitude has always and will continue to hold an appropriate interest reserve in its budget. Aptitude will continue to source and develop deals with more than enough room to absorb these additional costs. Any project that is scrapped because of interest rate pressure likely had margins that are too thin for comfort with the Aptitude Investment Committee. It is important to remember that on construction projects, the funds are drawn down slowly over an 18 – 24 month period, and only a portion of the overall loan is outstanding the entire time.

Enrollment will continue to rise at prominent universities resulting in higher demand for student housing. Increased demand will lead to rental growth and offset the additional interest costs the projects will incur. When interest rates do come back down, Aptitude will be in a prime position to capitalize as buyers will be starved for newer product. Aptitude will obtain premiums for its assets, given significant rental growth ahead.

For an investor, there is no better time to enter student housing. This recessional resilient asset class has tailwinds more powerful than current economic headwinds. Unlike other development companies that utilize a fund model, Aptitude offers a unique opportunity for partners to invest directly into the bricks and sticks of individual developments. This model allows investors to understand exactly where their funds are going and become part of the project. Unlike most developers, Aptitude will continue to be hyper-selective on projects and prioritize quality over quantity. The secret sauce for Aptitude is not only its internal process for identifying markets and creating opportunities but truly understanding each market and designing an end product that fills a void rather than simply adding more of the same supply. This data directly impacts the unit mix, amenity packages, and interior design of each project so that it fits in well with each local community.

In conclusion, despite the headwinds of interest rates and construction costs, now is the ideal time to continue to push forward and build new product, albeit very selectively. Enrollments will continue to rise at top-tier universities, and supply will not be able to keep up with increasing demand. As a result, rental rates will continue to rise, increasing asset values. **Aptitude will continue on its course and only build high-quality buildings at the best locations in growing markets, resulting in strong returns for its growing investor base**. As an investor, continue to follow the smart money, avoid the day to day continued volatility in the equity markets and invest further in the stable and growing asset class of student housing.

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