

# ALIGNVEST

## STUDENT HOUSING

### SEPTEMBER 30, 2018 – MANAGEMENT REPORT

#### HIGHLIGHTS

In June 2018, ASH REIT launched with over \$65 million of capital commitments and \$50 million of cash to deploy, exclusively focusing on the emerging Canadian Purpose-Built Student Accommodation (“PBSA”) market.

In August 2018, ASH acquired 181 Lester Street (“Lester”) – the premier PBSA property in the Waterloo market. Since then, ASH has launched new value-add initiatives to enhance the tenant experience, while simultaneously improving the net operating income of the property.

On September 30, 2018, the REIT announced and distributed \$1.50 per Unit (6% annualized distribution) and the FMV per Unit increased from \$100.00 to \$100.15.

#### SUBSEQUENT TO QUARTER END

On October 31, 2018, the REIT announced the acquisition of one of Ottawa’s highest-quality PBSA assets, 111 Cooper Street (“Cooper”), which is expected to close in November 2018.

Additionally, the REIT issued ~\$10 million of new Units, with limited marketing efforts from the Management team, which further illustrates the interest in the sector and the REIT.

Following the acquisition of Cooper, the REIT will continue to have substantial cash on hand and capital commitments to acquire additional PBSA assets in the near-term.

The REIT expects to raise additional capital over the next few months given the quality and scale of the REIT’s acquisition pipeline.


#### OVERVIEW AND UPDATE

We are excited about the quality of our recent transactions and the pace at which we were able to make investments on behalf of our Unitholders. To date, we have purchased two of the highest quality PBSA assets in the country and are in progress toward several additional acquisitions. Since the REIT launch, assets under management have grown to over \$125 million. As per the REIT strategy, we have commenced operating initiatives that will enhance the tenant experience, while simultaneously improving our operating cash flows.

ASH REIT purchased over 800 PBSA beds in under four months of operations. Based on current activity, we are targeting to at least double our assets within one year of the launch – making ASH REIT one of the largest owners/operators of student housing in the country. The acquisition prices of our high-quality properties remain at cap rates favourable to multi-family residential properties in each market, despite having better underlying supply/demand dynamics, tenant credit profiles, inflation protection and annual year-over-year top-line growth.

We will be in the market during the remainder of 2018, raising capital via additional offerings. Given the quality and pricing of the pipeline, we believe existing investors will benefit from increasing the scale of the REIT through the use of additional capital to acquire PBSA assets.

Should you have any questions, please reach out to us.



Sanjil Shah  
Managing Partner



Jonathan Turnbull  
Managing Partner



# ALIGNVEST

## STUDENT HOUSING

### PROPERTIES

As of September 30, 2018, the REIT owned one property – 181 Lester Street in Waterloo, Ontario. The REIT has subsequently announced the purchase of 111 Cooper Street in Ottawa, Ontario, which is expected to close at the end of November 2018.

Management is currently in the midst of multiple acquisition and development discussions and therefore, believes the REIT should more than double its assets within one year of our launch.

Property	Market	Targeted University	Units	Beds	Occupancy
181 Lester	Waterloo, ON	University of Waterloo & Wilfrid Laurier University	91	455	100%
111 Cooper	Ottawa, ON	University of Ottawa	224	357	100%

#### 181 Lester Street



Property Name:	MyRez
Year Built:	2014
Property Manager:	Canadian Campus Communities
Proximity to Campus:	0.4km
Investment Date:	August 2018
Cost of Investment:	\$45,500,000
Ownership:	100.0%
Property Website:	<a href="http://www.offcampusrez.com">www.offcampusrez.com</a>

Waterloo, Ontario is a very attractive student housing market due to the two large and growing universities (Wilfrid Laurier University and the University of Waterloo) located within a kilometer of each other, which has over 55,000 total full-time students. Currently, both of the universities offer guaranteed-housing to first year students, yet only have enough beds to accommodate 16% of their full-time students. Student population growth of 25% since 2010 (including a 161% increase in international students), combined with limited 'on-campus' options, have driven substantial investment in new PBSA assets in the market over the past seven years.

Management believes ASH REIT has acquired the premier PBSA property in the Waterloo market – Lester is one of the largest buildings in the market and is located directly in-between the two universities. The property consists of 455 beds and is 100% occupied for the 2018/19 school year, realizing an average monthly rent (inclusive of utility surcharges) of over \$740 per bed. The four-year-old building offers high-end amenities to our tenants such as in-suite laundry, a fitness studio, study lounges, games and social lounges, fully-furnished units, on-site parking and bike storage, controlled and secured access and on-site maintenance and management teams.

The REIT acquired the property for \$45.5 million in August 2018 and has recently introduced enhanced services, including the roll-out of a dramatically improved internet service to each of our tenants that will offer multiple higher speed options at premium rates. Management expects Lester to become the REIT's local 'headquarters' for managing additional properties acquired in Waterloo.

# ALIGNVEST

## STUDENT HOUSING

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The operations at Lester are on-track relative to our expectations and we are currently in discussions with the local leasing team regarding our planned turnover strategies for the next school year. As current tenants need to inform us in mid-December on their plans for the 2019/20 school year, the team has substantial time to re-occupy the beds. Our plan for rent increases is being formulated and we expect to be in the market with a new pricing strategy in early December.

### 111 Cooper Street



Property Name:	1Eleven
Year Built:	2014/15
Property Manager:	Campus Living Centers
Proximity to Campus:	0.4km
Investment Date:	November 2018
Cost of Investment:	\$55,000,000
Ownership:	100.0%
Property Website:	<a href="http://www.1eleven.ca">www.1eleven.ca</a>

Management believes Cooper is situated in a top-tier student housing market given Ottawa's current population of 60,000 university students (37,000 at University of Ottawa and 25,000 at Carleton University), it's consistently higher-than-average growth and the lack of on and off-campus PBSA assets that service the universities. The two universities currently have ~8,500 residence beds available for their students, servicing only 14% of their total full-time enrollment. Additionally, there are only ~2,000 off-campus PBSA beds in the market that service the two universities, which represents 3% of total enrollment. The enrollment at universities in Ottawa have increased 6% over the past five years, and in 2018, the number of applicants to the University of Ottawa grew by 15% year-over-year – the largest increase of all major Ontario-based universities by a factor of almost 2x – ultimately amplifying the already significant demand/supply imbalance.

Cooper is a 16-storey building that opened its doors to students on September 1, 2015, as the premier, off-campus, PBSA property in the Ottawa market. The property accommodates 357 students in 224 fully-furnished 1-bedroom, 2-bedroom and 4-bedroom units and is 100% occupied for the 2018/19 school year with a waitlist of 100 students, realizing over \$1,000 per bed per month. Cooper is located approximately 400 meters from the center of the University of Ottawa campus and is approximately a 10-minute commute to Carleton University. The property offers an attractive set of high-end amenities to its tenants, including a unique modern lobby, study lounges, a high-end gym, a yoga studio, games and social lounges, on-site laundry facilities, on-site parking, secure bike storage, high-speed internet, security and controlled access, and on-site maintenance and management teams.

The REIT is acquiring Cooper for \$55 million and is expected to close the purchase in November 2018.

# ALIGNVEST

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## STUDENT HOUSING

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### M&A ENVIRONMENT

Management is very excited about the progress we have made over the past three months, acquiring 181 Lester in Waterloo and announcing the purchase of 111 Cooper Street in Ottawa. Management's ongoing discussions with potential PBSA vendors/developers have exceeded our expectations with respect to the quality of assets available, as well as the scale of the roll-up opportunity. In addition to our acquisition/consolidation strategy, we have had numerous preliminary discussions with high-quality local and national developers about working in tandem to fuel our acquisition pipeline with attractive, brand-new product, starting as early as the 2019/20 school year.

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### FINANCING ENVIRONMENT

The REIT has recently entered the market to finance our planned purchase of Cooper. The response by traditional lenders has been positive and we received multiple financing options for the purchase. The recent increase in Government of Canada Treasury bond rates have negatively impacted the fixed-rate financing market; however, we have been able to secure an attractive spread-to-treasuries relative to historical pricing in the sector and believe the lenders' understanding and appetite for the sector continues to improve.

Management of the REIT continues to discuss acquisition facilities with various lenders as a possible strategy to increase our consolidation flexibility and speed to close.

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### REIT ACQUISITION STRATEGY

Management's over-arching strategy remains the same – we will seek to consolidate the fragmented and emerging PBSA market in high-quality university markets across the country.

We have become more granular over the past three-to-six months in our approach to various markets/opportunities which warrant a brief discussion:

#### Targeted Markets

Management has not shifted from our initial views of targeting markets/beds that support 'tier-1' universities across the country. We have become more knowledgeable over the past six months from our in-depth diligence of various markets and have expanded our near-term target markets to include certain markets outside of South Western Ontario. South Western Ontario remains a priority given the quality and quantity of available assets and ability of the REIT to manage the assets as a cluster that can realize some real local economies of scale to lower risks and enhance NOI growth.

#### Targeted Assets

Management has begun to classify targeted built PBSA properties into a few categories to help understand the various risk/return profiles of different properties since "not all properties are the same". Similar to other real estate segments, we have started to position properties in various categories based on their underlying risk/return profile. We currently position properties as being (a) nomination, (b) core, (c) value-add, (d) repositioning and (e) development. When we started seeking properties to acquire, we focused exclusively on 'core' type properties – high quality assets with stabilized near-100% occupancy in tier-1 markets. We continue to focus the lion's share of our time/effort on acquiring these type of properties; however, we have also come to appreciate certain unique opportunities that are becoming available that can either enhance our returns or de-risk the portfolio. We believe some upcoming acquisitions will include value-add and/or

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## STUDENT HOUSING

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nomination type assets, which we believe will offer additional asset diversification at an attractive risk/reward balance to the REIT.

### Development

Management has been engaged in many discussions with high-quality local and national developers about working together on projects in our targeted markets. Although early in our life cycle as a REIT, we feel it is important for us to start thinking about working with developers to ensure we have a robust pipeline of acquisitions in the future after we have substantially consolidated the fragmented 'already built' market across the country.

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### CONFERENCE CALL DETAILS

We will host a conference call to discuss ASH REIT's Q3 2018 operating performance and the REIT's longer-term strategy on Thursday, November 22, 2018 at 1:00PM. Please register for the call using the following hyperlink.

[November 22, 2018 – Conference Call Registration](#)

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### STANDARD DISCLOSURE

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