



REIIF

Quad 2 – York University

# Forum Real Estate Income and Impact Fund

September 2022

## Primer on PBSA

Given the challenges in today's public markets, private real estate focused on the Canadian rental housing market can offer investors several advantages including - less volatility, superior risk-adjusted returns, diversification, as well as a natural hedge to rising rates and inflation. Distilling the Canadian rental housing sector further, investing in the purpose-built student accommodation (PBSA) sector provides even stronger advantages given its unique characteristics.

PBSA has several features that make it unique from other forms of rental housing, some of which are explored below.

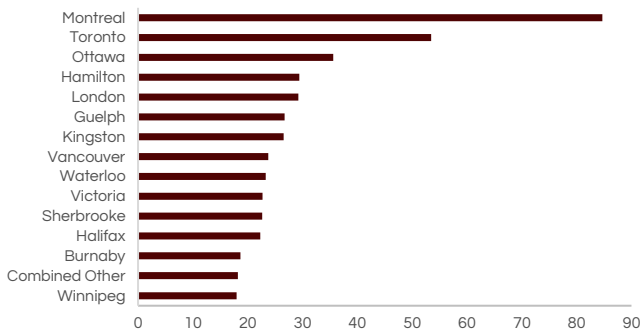
Any worthy investment proposition should be supported by strong growth tailwinds, favourable demographic trends, and market fundamentals – this primer will explore the compelling background of the PBSA market and why investors should take note of the growing real estate asset class.

## Undersupplied

There is a shortfall of several hundred thousand student housing beds in Canada, frequently referenced between a range of 450,000 - 600,000<sup>1</sup>, leaving universities across Canada faced with a severe student housing shortage. These shortages, along with broader housing supply issues in Canada have been covered in several media outlets including the [Globe and Mail](#)<sup>2</sup> as well as the [Financial Post](#)<sup>3</sup>.

EXHIBIT 1

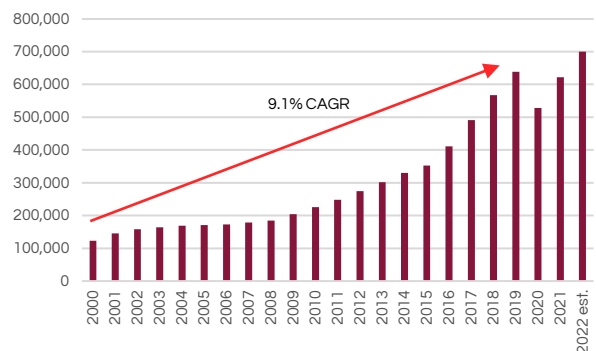
Estimated Shortfall in Canadian PBSA Beds (000)



Source: SVN Rock Advisors + Forum Internal Estimates

EXHIBIT 2

Number of International Students in Canada



Source: Statista Research Department, June 21, 2022

The international student population in Canada has grown from ~7% to ~18%<sup>4</sup> of total enrolments over the past 10 years across Canadian campuses. We expect international students to represent an increasingly greater mix going forward as:

- International students generate more revenue for universities through higher tuitions
- international students act as key driver of immigration growth

Post-secondary institutions will struggle to meet demand for on-campus accommodations without a significant new supply of PBSA.

Post-secondary institutions will struggle to meet demand for on-campus accommodations without significant new supply of housing.





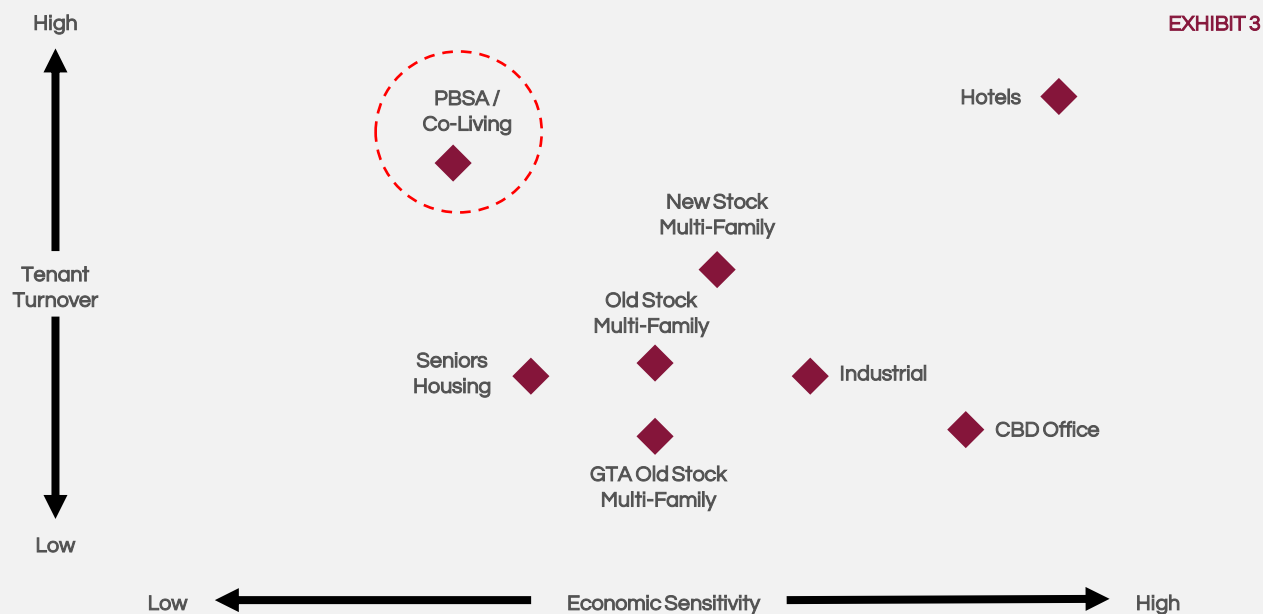
Quad 1 – York University

## Low Economic Sensitivity

When comparing PBSA vs. other real estate asset classes, PBSA stands out as being uniquely positioned in the high tenant turnover and low economic sensitivity quadrant of Exhibit 3. Transitional housing with naturally higher tenant turnover – such as PBSA and co-living communities (which is a newer housing form focused on delivering attainable housing in urban centres), benefit from annual mark-to-market of current rents, presenting opportunity for significant income and value growth regardless of rent control rules.

Cash flows that are more responsive to inflation changes, coupled with the significant supply and demand imbalance, are factors we expect to produce continued higher future rental rates. Ultimately this will mitigate the risk of potentially unfavorable capitalization rate movements driven by interest rates.

In summary, low economic sensitivity and high turnover make the PBSA sector ideally positioned for the current, volatile economic environment.



Source: Forum Internal Estimates

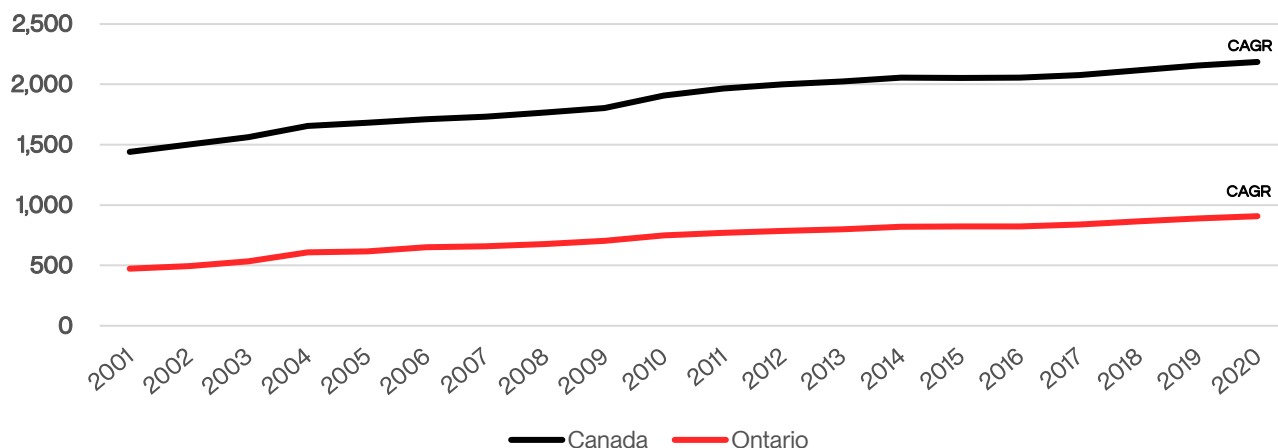
## Resilience

As fear of a global economic slowdown rises, investors should consider that recessions typically increase enrollment in post-secondary education (“PSE”) as individuals displaced from the workforce enroll to gain new skills. Since 2000, the largest enrollment increases in PSE in Canada occurred during 2000-2002 and in 2009-2011, with a growth rate of 4.2% and 3.6% respectively<sup>5</sup>. In Ontario, university applications grew 6% annually for the 2022/2023 school year – likely a reflection of a shifting labour market and reassessment of work and academic interests post-pandemic.

The COVID-19 pandemic ushered in a new form of teaching which included the use of technology to deliver curriculum – one may reasonably assume this would have had an adverse impact on the PBSA market as students could study from anywhere, however, Forum’s experience as an asset manager through this era indicates otherwise. In the case of the Quad Student Residence - located on campus at Canada’s third largest university, York University – the Property maintained almost full economic occupancy and rent collection during COVID-19.

**EXHIBIT 4**

### Historical Student Population Growth - Canada & Ontario



International student population has grown from ~7% to ~18% of total enrolments over the past 10 years across Canadian campuses; international students are expected to represent an increasingly greater mix going forward.



Frequent mark-to-market through natural turnover offers a natural hedge against inflation.



There continues to be an opportunity to capitalize on fragmented ownership and a secular shift in student preferences to safe, high-quality, and amenitized housing in close proximity to schools.

## What's next for PBSA?

The investable PBSA market is primed for significant growth.

Globally, the more mature US, UK and European PBSA markets have seen large investors such as CPPIB, Brookfield and Blackstone make significant investments in this sector, driving higher valuations and lower capitalization rate spreads to traditional multi-family housing. Blackstone, acquired the largest U.S. student housing portfolio for US\$12.8 billion in April of 2022 – highlighting the value of purpose-built properties located in close proximity to campus with high barriers to entry<sup>6</sup>.

In Canada, the PBSA sector has witnessed growing demand from institutional investors, as the underlying attributes of strong total return potential and inflation-hedged cash flows are ideal benefits for long-term, income-oriented investors in this market environment.

Furthermore, while PBSA capitalization rates in the more mature US and UK markets trade at +0.50% spreads to traditional multi-family housing, in Canada the spread is wider at +1.07% on average, representing opportunities for higher cash flows and long-term value appreciation<sup>7</sup>.

## REIF and PBSA

**REIF invests in impact-driven, institutional-quality properties, which provide long-term, inflation hedged, and stable cash flows, with the opportunity for capital appreciation across Canada.**

At present, REIF has a strategic 50% target weight to PBSA, where current investors benefit from "trophy" PBSA assets located in supply-constrained major markets.

Moving forward, REIF's proprietary access to Forum's \$800M+ development pipeline of stabilized rental housing assets and acquisition pipeline allows Forum to drive alpha in the portfolio for investors. Prioritizing acquisitions that offer inflation protection through higher tenant turnover is a benefit Forum believes to be particularly compelling and advantageous in this market environment – approximately 50% of REIF's development pipeline is in PBSA, providing REIF investors access to over

\$400M+ of newly constructed student housing over the next several years.

In summary, public markets continue to experience significant volatility wreaking havoc on investor portfolios – uncertain future economic growth, strained supply chains, multi-decade inflation highs, tightening monetary policy and geopolitical challenges are various drivers of disappointing performance. In our view, there is a strong case to be made for investing in institutional caliber PBSA assets, with an institutional-quality manager like Forum Asset Management, underpinned by stable rent growth and strong demand, creating sustainable income streams and capital appreciation potential for REIF investors.

## SOURCES

1. Rental Housing Business: [Huge Demand for Student Housing makes it a lucrative opportunity for investors](#)
2. The Globe and Mail – July 2022: [Students are struggling to secure housing in Canada's overheated rental market](#)
3. The Financial Post – August 2022: [Rents are so high in Toronto that students are living in homeless shelters](#)
4. Statistics Canada – December 2022: [University & College](#) enrollments by status of student in Canada and province of study, 2019/2020
5. Ontario University Application Data - April 2022
6. BMO Capital Markets – April 2022: Blackstone's Acquisition of American Campus Communities
7. Bonard Global – 2020: Static spread of -0.50% between London, UK PBSA and multi-family assumed for entirety of historical data. London, U.K used as proxy for U.K

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