

ALIGNVEST

STUDENT HOUSING

SEPTEMBER 30, 2020 – MANAGEMENT REPORT

Alignvest Student Housing Real Estate Investment Trust (“ASH REIT”) offers investors the opportunity to invest in the leading student housing REIT focused on consolidating the fragmented, institutional-grade, purpose-built student accommodation (“PBSA”) real estate sector across Canada.

Note: All dollar references herein are in Canadian dollars.

Q3 2020 HIGHLIGHTS

- ✓ On September 30, 2020, the REIT announced and distributed \$1.50 per REIT Unit (\$6.00 annualized distribution) and Fair Market Value (“FMV”) per REIT Unit of \$110.63
- ✓ The FMV of the REIT’s portfolio increased by 4.9% to \$417.8 million as of September 30, 2020 from \$398.3 million as of December 31, 2019
- ✓ Closed on the REIT’s acquisition of 1Ten on Whyte in Edmonton, Alberta
- ✓ Collected 96% of the REIT’s expected rental revenue over the quarter at its privately managed properties
- ✓ Collected 100% of the REIT’s expected rental revenue over the quarter at its university managed property
- ✓ 90% of the REIT’s privately managed beds leased as of the beginning of the academic year
- ✓ Delivered annualized return to initial unitholders of 10.7% and 11.5% assuming cash and DRIP participation, respectively
- ✓ Delivered total returns to initial unitholders of 24.1% and 25.8% assuming cash and DRIP participation, respectively
- ✓ The Canadian Government announced that as of October 20, 2020, international students will be able to return to Canada

OBJECTIVES

- ✓ To maintain and grow a diversified investment portfolio of income-producing purpose-built student accommodations in Canada;
- ✓ To maximize unit value through active management of the portfolio;
- ✓ To leverage the strategic relationships within Alignvest Student Housing’s network to increase investment opportunities and manage risk; and
- ✓ To deliver attractive and tax-efficient quarterly distributions to investors, and long-term capital appreciation

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FUND FACTS

ASH REIT DETAILS

Fund Type	Mutual Fund Trust
Fundserv Code	ASH 100
Fund Status	Offering Memorandum
Inception Date	June 2018
Registered Plan Status	Eligible (RRSP, RRIF, TFSA)
Investment Minimum	\$25,000 (Accredited Investors)
Minimum Subsequent Investment	\$1,000
Purchases / Redemptions / Valuations	Quarterly
Periodic Distributions	Quarterly
Early Redemption Penalty	Less than 1 Year: 5% 1 to 3 Years: 3% After 3 Years: 0%

ASH REIT HIGHLIGHTS

Property Value	\$417.8 million
Bed Count	3,394
Loan to Value	56%
Fair Market Value per Unit	\$110.63
Annual Distribution per Unit	\$6.00
Distribution Yield to Unitholders (RoC)	5.4%
Targeted Long-Term Returns	~15% (Net of Fees)

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MANAGEMENT OVERVIEW

With the "second wave" of the COVID-19 pandemic hitting us towards the end of the summer months, and a near-term panacea appearing less and less likely, we have continued to balance the surety of the REIT's portfolio against the pursuit of acquisitions.

During this quarter, we have spent considerable time evaluating the stability of the REIT's portfolio under a range of scenarios that include a prolonged period of COVID-19-induced uncertainty. Even with highly pessimistic assumptions regarding occupancy, collections, and operating costs, we are confident that our in-place leases and our robust capitalization will allow us to weather the storm unscathed. In fact, the September move-in results at our properties were particularly encouraging when compared to some of the scenarios we envisioned. Despite the uncertainty around university operations, the overwhelming majority of students showed up, are occupying their units, are excited to partake in the university experience, and are paying rent on time.

As at September 30, 2020, the REIT's portfolio was 84% leased for the 2020-2021 academic year (90% leased for the REIT's privately managed portfolio and 52% leased for the REIT's publicly managed portfolio) with a 2.3% rental rate increase over the prior year, and our YTD collection rate continues to be over 95%.

The impact of COVID-19 on our occupancy has resulted in a 1.2% decline in FMV per REIT Unit relative to the prior quarter. While we are disappointed with this outcome, we are pleased with the overall stability and resiliency demonstrated by the asset class, and we remain bullish on the long-term opportunity to deliver capital appreciation to our Unitholders.

With the Government of Canada's announcement that, beginning on October 20, 2020, international students will be able to enter the country as long as their learning institution has an approved COVID-19 readiness plan, we are cautiously optimistic that our occupancy figures will continue to improve in the coming quarters and believe that this will greatly assist us in the 2020/2021 lease-up cycle.

With respect to acquisitions, the REIT closed its purchase of 1Ten on Whyte in Edmonton this quarter. As mentioned previously, we are excited to formally mark the REITs entrance into the Western Canadian market and to establish the REIT as a truly national player.

However, given the increasing uncertainty in the market, we have taken a more cautious approach to capital deployment for the time being. We continue to maintain a pipeline of over \$700 million of actionable investment opportunities and remain in active conversations with potential sellers, but until we see a "no-brainer", we are inclined to preserve the REIT's financial firepower. That said, we are simultaneously working to right-size our balance sheet to minimize the drag our current cash on hand is creating on shareholder returns, while maintaining financial flexibility. We expect to resolve this imminently.



Sanjil Shah
Managing Partner

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Q3 2020 REIT PERFORMANCE

On September 30, 2020, the REIT distributed \$1.50 per REIT Unit (\$6.00 annualized distribution) payable to Unitholders of record on July 1, 2020. As of September 30, 2020, the FMV per REIT Unit decreased to \$110.63 from \$112.00 as of June 30, 2020.

Management believes the REIT's distributions to date, combined with the FMV per REIT Unit increase since inception, is an attractive result for Unitholders relative to (a) the underlying risk of the core property portfolio and (b) the public markets. Since inception, Unitholders have realized a 26% total return on their Units (assuming DRIP participation), despite the REIT holding substantial amounts of cash. Over the same period, the S&P/TSX Composite Index returned -1%, and the S&P/TSX Capped REIT Index returned -15% (June 29, 2018 to September 30, 2020).

	<u>September 30, 2020</u>
Investments in Real Properties	\$417,800,000
Cash & Cash Equivalents	48,679,200
Other Assets	1,738,895
Debt Obligations	(233,845,229)
Other Liabilities and Performance	(15,881,098)
Fair Market Value (Pre-Distribution)	\$218,491,768
Less - Distribution to Unitholders	(2,909,954)
Less - Distribution to General Partner ⁽¹⁾	(969,985)
Fair Market Value (Post-Distribution)	\$214,611,829
Number of Units outstanding	1,939,965

	Per REIT Unit				
	30-Sep-19	30-Dec-19	31-Mar-20	30-Jun-20	30-Sep-20
	\$109.10	\$111.54	\$114.00	\$114.00	\$112.63
Distribution to REIT Unit Holders	(1.50)	(1.50)	(1.50)	(1.50)	(1.50)
Distribution to General Partner	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
	\$107.10	\$109.54	\$112.00	\$112.00	\$110.63

(1) The Distribution to Alignvest Student Housing Inc. ("General Partner") is an incentive allocation calculated as 25% of the total distributions. The General Partner receives no annual management, transaction fees, financing fees, etc.

Given the on-going valuation uncertainties caused by the pandemic, Management engaged Cushman & Wakefield to conduct a third-party appraisal of the REIT's portfolio. As part of this portfolio review process, Cushman & Wakefield applied a COVID-19 adjustment to account for the portfolio's current occupancy relative to its expected stabilized performance. This temporary adjustment accounts for the Q3 decline in the REIT's FMV per Unit.

Over the next quarter, Management intends to optimize its balance sheet by reducing a portion of its cash balance, thereby limiting the drag on shareholder returns. Once more efficiently capitalized, Management believes the REIT will be better positioned to grow its FMV per Unit consistently over the long-term.

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PROPERTIES

The REIT's current portfolio consists of eight properties with 3,394 beds in five tier-1 university markets across Canada.

During the quarter, the REIT closed on the acquisition of 11024 82 Ave. ("1TEN on Whyte") in Edmonton, Alberta. The property was recently appraised by Cushman & Wakefield at a net valuation of \$7.0 million – a 9% increase relative to the REIT's purchase price.

Management continues its capital raising efforts, while simultaneously evaluating various additional opportunities to increase its presence across Canada. Currently, the REIT has a \$4 billion total acquisition pipeline, of which ~\$700 million is immediately actionable.

Property	Market	Targeted University	Units	Beds	Acquired
181 Lester St.	Waterloo, ON	University of Waterloo & Wilfrid Laurier University	91	455	Aug 2018
111 Cooper St.	Ottawa, ON	University of Ottawa & Carleton University	224	357	Nov 2018
265 Laurier Ave.	Ottawa, ON	University of Ottawa	159	518	Mar 2019
333 King St.	Waterloo, ON	University of Waterloo & Wilfrid Laurier University	126	536	Apr 2019
339 King St.	Waterloo, ON	University of Waterloo & Wilfrid Laurier University	80	419	Apr 2019
1686 Main St.	Hamilton, ON	McMaster University	107	449	Apr 2019
1700 Simcoe St.	Oshawa, ON	University of Ontario Institute of Technology & Durham College	133	588	Apr 2019
11024 82 Ave.	Edmonton, AB	University of Alberta	37	72	Aug 2020
Total			957	3,394	

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UPDATE ON INTERNATIONAL STUDENTS RETURNING TO CANADA

The Government of Canada announced that, beginning on October 20, 2020, international students will be able to enter Canada as long as their Designated Learning Institution (“DLI”) has an approved COVID-19 readiness plan.

Management believes that the return of international students will increase occupancy at first-year targeted residences, including the Annex in Ottawa given that the University of Ottawa is an approved DLI. Furthermore, the return of international students will help drive demand for the REIT’s properties during the 2020-2021 lease-up cycle for the 2021-2022 academic school year.

FALL & WINTER 2020 TEACHING APPROACHES

Property	Fall 2020 Plans	Winter 2020 Plans
University of Waterloo	Majority of classes are online with some in-person classes for upper year students	Same as Fall
Wilfrid Laurier University	Majority of classes are online with some in-person classes for upper year students	Same as Fall
University of Ottawa	Majority of classes are online with some in-person classes for upper year students	Same as Fall
Carleton University	All courses of all levels will be completed online	Majority of classes are online with some in-person classes for upper year students
McMaster University	Majority of classes are online except for a few select courses where in person instruction is required	Majority of classes are online except for a few select courses where in person instruction is required
Ontario Tech University	Majority of classes are online with some in-person classes for specific programs	Not yet announced
Durham College	Roughly 50% of programs offer in-person component; remaining 50% of programs are online	Same as Fall
University of Alberta	Combination of in-person, remote and online instruction	Same as Fall

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LEASING & COLLECTIONS UPDATE

2020-2021 Academic Year Leasing Results

As of September 2020, the REIT's *privately managed* portfolio was 90% leased for the 2020-2021 academic year with a 2.1% rental rate increase over the prior year.

As of September 2020, the REIT's *university managed* property was 52% leased for the 2020-2021 academic year with a 3.9% rental rate increase over the prior year.

The table below provides the REIT's current leasing status as compared to the REIT's previous lease-up cycle. The update is broken down by privately managed properties and university managed properties.

Property	Bed Count	Occupancy (%)			Market Rental Rate (\$)		
		Sep-19	Sep-20	Change (%)	Sep-19	Sep-20	Change (%)
Privately Managed Properties (Target 2nd-Year Students and Above):							
myREZ on Lester	455	100%	100%	0%	\$716	\$739	3.3%
1ELEVEN	357	100%	67%	-33%	\$1,063	\$1,026	-3.5%
King Street Towers	955	100%	99%	-1%	\$656	\$677	3.1%
West Village Suites	449	100%	99%	-1%	\$664	\$696	4.8%
17Hundred	588	90%	78%	-12%	\$605	\$606	0.2%
1Ten on Whyte	72	N/A	65%	N/A	N/A	\$848	N/A
Subtotal⁽¹⁾	2,876	98%	90%	-8%	\$708	\$723	2.1%
University Managed Properties (Target 1st-Year Students):							
Annex	518	100%	52%	-48%	\$1,043	\$1,084	3.9%
Total⁽¹⁾	3,394	98%	84%	-14%	\$760	\$778	2.3%

(1) 2019 figures not inclusive of 1Ten on Whyte.

Since the onset of COVID-19, Management has been encouraged by the REIT's leasing velocity and students' desire to reside in university cities with their peers, regardless of the university's teaching approach (online, hybrid, in-person). The REIT's portfolio experienced very little "no shows" and a significant portion of residents are currently occupying their units, which bodes well for the REIT's on-going collection rate and next year's lease-up cycle.

Management did however notice more apprehension among incoming first-year students. Because this demographic is moving from home for the first time, they have been more reluctant to relocate to campus while online classes remain the overwhelmingly preferred teaching method. In response, the majority of universities adjusted their housing policies, requirements, and expectations for first-year students, which resulted in a fall term occupancy decline relative to the prior year. For example, the REIT's university-managed property in Ottawa, the Annex, which is a purpose-built rental with bed/bath parity that targets first-year students, had a ~45% decline in occupancy relative to the prior year. While this is a highly disappointing outcome, the number of inquiries and requests for on-campus beds for when in-person classes resume gives Management comfort that the Annex, and other new, purpose-built, rental properties will fare well in the very near future relative to traditional student housing alternatives.

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Fundamentally, Management does not believe that COVID-19 will result in a systemic long-term impairment to the Canadian student housing market. Enrollment at most tier-1 universities continues to increase year-over-year, suggesting that demand for student beds continues to grow. Importantly, Management believes that demand for new, on and off-campus, purpose-built rentals will increase relative to dormitory-style residences and converted multi-tenant single-family homes in a world that is increasingly focused on hygiene and social distancing. This bodes well for the REIT's current portfolio.

Rent Collections

The REIT's rent collection remained strong during the quarter and in-line with internal benchmarks.

For the privately managed portfolio, July, August, and September's rent collections was 97%, 95% and 93%, respectively, and year to date, the REIT has collected 96% of its rent. Management expects August and September rent collections to catch-up to July over the following weeks.

Separately, the university managed asset collected 100% of its rent over the quarter.

CONFERENCE CALL DETAILS

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Management will host a conference call to discuss the REIT's Q3 2020 operating performance and the REIT's longer-term strategy on Thursday, November 12, 2020 at 2 PM EST. Please register for the call using the following hyperlink:

[Q3 2020 Conference Call](#)

STANDARD DISCLOSURE

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First Canadian Place
100 King Street West – Suite 7050
Toronto, Ontario M5X 1C7
www.alignveststudenthousing.com