

# CAP Rates, Rent Growth, and IRRs

## Class A Student Housing: High IRR Without High Risk and Not Cycle Driven

Campus Capital Partners focuses on Class A student housing, a multifamily niche that historically maintains occupancy and credit performance through all economic cycles and interruptions. With stable cap rates and leverage, strong IRRs are driven by reliable, rising cash yields supported by market fundamentals and highly disciplined site selection. Our edge is quite simple: scarce new supply + rising enrollment = sustained rent growth.

## Challenge 1: How can you deliver a favorable high cash yield and above average IRR?

### Solution 1: Disciplined Assumptions and Leverage

Our model seeks desirable returns from a well-balanced set of assumptions. For example, the following hypothetical performance inputs yield a 6.3% annual NOI growth:

1. **Cap Rates** -Static at ~5.5% for acquisitions and dispositions.
2. **Interest Rates** -Modeled at ~4.5%, consistent with normalized forward expectations.
3. **Leverage** -65% debt / 35% equity.
4. **Rent Growth** - 5% (track record) with typical 3% or less expense rate growth

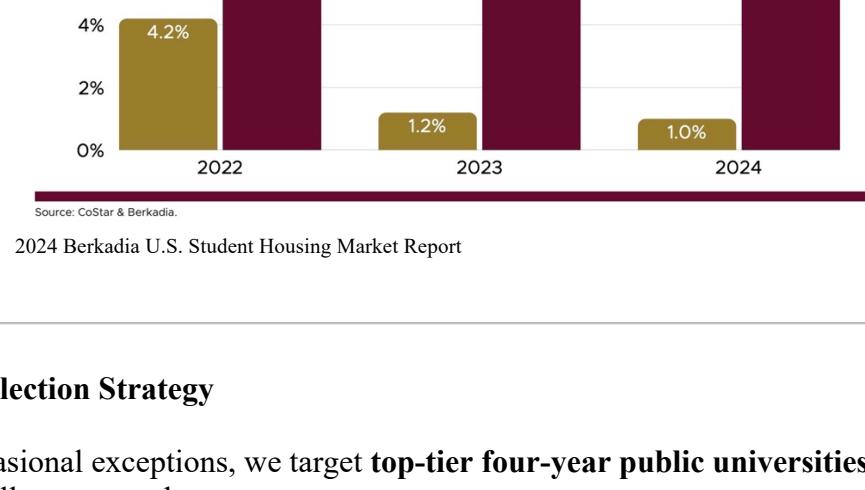
$$\text{NOI Growth} = \frac{100(0.05) - (100 \times 0.40 \times 0.03)}{100 \times (1 - 0.40)} = 6.3\%$$

## Challenge 2: Is 5% annual rent growth realistic?

### Solution 2: Supply-Demand Fundamentals + Operational Discipline

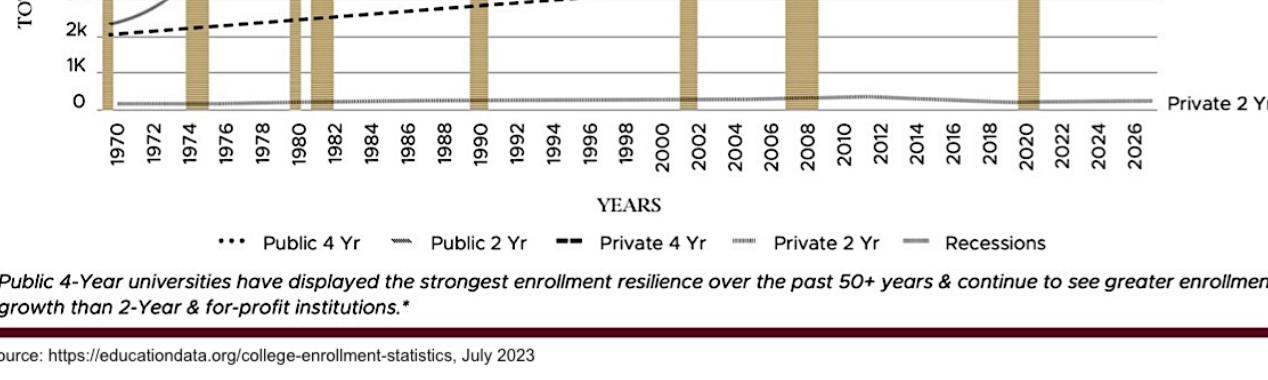
#### A. 100-Year Demand Anchors

- Student housing consistently outpaces conventional multifamily in rent growth.
- Growth is driven by proximity to long-standing universities, often 100+ years old.
- Since land adjacent to campuses is finite, rising enrollment increases demand without proportional supply growth.



#### B. University Selection Strategy

- With occasional exceptions, we target **top-tier four-year public universities** with steady, long-term enrollment growth.
- By contrast, enrollment at two-year colleges or smaller private institutions has historically ebbed and flowed.
- Four-year public schools show the most durable and consistent demand growth and therefore the highest historic and projected rental rate increases. (see graph below).



Public 4-Year universities have displayed the strongest enrollment resilience over the past 50+ years & continue to see greater enrollment growth than 2-Year & for-profit institutions.\*

Source: <https://educationdata.org/college-enrollment-statistics>, July 2023

#### C. Walkable-to-Campus Advantage

- In student housing, *location is the #1 amenity*.
- Developable land adjacent to campus is limited, and redevelopment is costly.
- Students strongly prefer walkability over commuting, paying premiums for beds close to campus.
- As four-year public enrollment rises, campus-adjacent properties experience **compounding rent growth effects**.

## The Strategy in One Sentence

By acquiring properties within walking distance to campus at universities with growing enrollment, Campus Capital Partners drives sustained rent growth that consistently outperforms both the broader student housing sector and multifamily market, supporting favorable cash yields and above average IRR targets.