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Transcript

Code 53

A Student Housing Leader Takes Us Back to School

Donna Preiss:

When the market is increasing, then that's when you'd like to be in conventional because each month you can raise your rents. On the other hand, if the market's slowing off and taking a dip, student housing provides incredible safety.

Alison Johnson:

Welcome back to Code 53: The Apartment Podcast. I'm Alison Johnson with NMHC, and I'm joined as always by my co-host Kevin Cameron.

Kevin Cameron:

On this show we bring you into the conversation with apartment industry executives, leading experts in the multifamily sector, and a diverse group of practitioners.

Alison Johnson:

To help you learn everything it takes to create communities, from business strategy, to design, to finance and leadership.

Kevin Cameron:

And today we're headed back to school for a look at how student housing as a sector is innovating and expanding with an emphasis on quality.

Alison Johnson:

And one of student housing's top women leaders is here to share her experience and insights into one of multifamily housing's least understood asset classes. Coming up we have Donna Preiss, the president of The Preiss Company, on why you shouldn't overlook this segment of the multifamily market.

Announcer:

The Code 53 podcast is brought to you by NMHC, the National Multifamily Housing Council, the place where leaders of the apartment industry come together to guide their future success. From owners to managers and developers, NMHC's members create thriving communities by providing apartment homes for 40 million people, contributing \$3.4 trillion annually to our nation's economy.

Alison Johnson:

While student housing's premier annual event has been waylaid by weather, Code 53 is here with an exclusive interview with a remarkable and successful businesswoman who has built so many communities around the country, giving college students a positive first experience in a multifamily housing setting.

Kevin Cameron:

Donna Preiss is the president of one of America's largest privately held student housing companies. The Preiss Company, based in Raleigh, North Carolina, specializes in development, acquisition and management of off-campus student housing.

Alison Johnson:

Donna, welcome to Code 53.

Donna Preiss:

Thank you. It's great to be here.

Kevin Cameron:

So, Donna, back in May, NMHC released the latest benchmark data for the student housing industry. That data was a 90 day look back at what operators were experiencing in the first quarter of the year coming off the pandemic and reflected a relatively healthy market. But just recently student housing providers just finished their turn for the new school year. So, with that in mind, give our listeners a little bit of a feel of what they should understand about the current demand for student housing.

Donna Preiss:

Well, first of all, since we're going back to school, I have to tell you that student housing gets an A+. This past year was an incredible year. It exceeded everyone's expectations. Right out of the gate we were doing fantastic. Velocity was great. We were raising rents. We were concerned that maybe by the end of the year things would catch up, but it never did. It continued to accelerate. We ended up the year at 99.1% occupancy for the beginning of the school year. We had rent increases of 6.2. These are phenomenal, numbers that I can tell you that when we all decided to buy these projects, nobody had these in our performers. So, we are all thrilled.

Kevin Cameron:

That's fantastic. 99% occupancy.

Donna Preiss:

It's going to be tough to beat that next year again.

Kevin Cameron:

I mean, students want to get back on campus, right? After a year plus away, they want to get back and learn in person.

Donna Preiss:

Yeah. The pandemic absolutely brought that into focus, that even when the schools closed down the students did not leave. I mean, we stayed at about 70% occupied even when the schools themselves were closed. So, students wanted to be away from home and parents wanted students away from home.

Kevin Cameron:

Now that we know that it's performing well today, you all at The Preiss Company got hooked on student housing very early. So, what originally attracted you to this asset class? And is that still the same reason you're still operating those properties today?

Donna Preiss:

So, I think it was two things, serendipity and demographics. Serendipity, we just happened to be brought a development project that was close to NC State, and looking at it we became aware of the changing demographics and got really, really excited. We also saw that there was an opportunity that we could bring some new technology in that we thought could give us a foot up. And so that was our beginning. We started developing kiddie condos, which if you aren't familiar with what those are, they're dorm condos. 50% of them have to have a student living in it whose parents have signed the loan. And basically we did 400 of these in Raleigh. We did 400 of them in Clemson. Then in the beginning, we were absolute rock stars for one reason.

Donna Preiss:

Well, first of all, there was very little purpose-built student housing, but the big thing that gave us a competitive advantage was that we were able to bring high speed internet to the students. Up until that time students had to either live on dorm or they had to go to the library to be able to get high speed internet. So, we were able to bring T1 connections to the students, and that T1 connection was a thousand times faster than the dial-up that they were using. But then to fast forward to see where we are today. Now we have to bring a Meg to each student and that's a thousand times faster than it was then. But anyway, but the thing I think that we like about it is it continues to change. What made you good last year, you're going to need to improve it this next year. But it also creates a high varied entry. So, that means that if you're in the space and you have experience, then you're rewarded for that experience.

Alison Johnson:

It sounds like since you've been involved in the industry things have not only matured, but moved quickly. Student housing property management models are really different from conventional multifamily markets or at least I perceive them to be different. You're delivering a service to the academic community and students are there 24/7, way more than what residents in conventional apartments are. So, can you give everyone who's listening a little bit more insight as to what are the needs of the residents that you're serving and how that impact the life cycle of your asset?

Donna Preiss:

Well, I'll tell you that students, when we began in the late 2000s and we compare that student to today, there's a lot of consistencies and there are a lot of differences. Both times we've been that bridge between being independent and the young adult. Then, as now, students walk into your project and they say, "Is this a place where I can thrive? Am I going to be able to study and make good grades? Am I going to be able to make good friends here? Am I going to enjoy it?" So, those are parts of the experience that have remained the same. The big difference that we've seen though is the level of stress that these students are under and anxiety. If you look at it, the percentage of drug use and of suicides, unfortunately, is on the increase. And it's something that we have to deal with. That's been a big change.

Kevin Cameron:

Looking forward, now that you've leased up your buildings for this year, you're obviously looking forward to the next academic year. So, two questions. One, taking in the high demand you had this year, is this an anomaly post-COVID? Do you see that happening going forward? And then also as you're looking to plan out for the next academic year and future investments down the road, talking about what you just touched upon about the needs of students and the changing needs of students, how are you at The Preiss Company incorporating that into your future plans?

Donna Preiss:

It's been such a up and down time for students and for owners of projects. It's made planning very difficult. Starting off, if we go back three or four years ago, when we did projects we intended to be in those projects for five years. And what happened is that with the interest rates and the cap rate compression, the accelerated rents, basically we were shooting past our monetary goals in a year and a half instead of five years. So, what happened is it created a lot of disruption. Now, owners were making money, but for us we're an owner and we're a manager. And when you move staff members across the country to be in a project and then 18 months later say, "Oh, by the way, we're going to sell that project," that creates an issue. It's a bigger issue for us than it is in conventional.

Donna Preiss:

In conventional, you tend to have a larger presence in a market. Student housing, we may only have one or two projects in a market. So, if you sell that project, that becomes an issue for your staff if they want to stay with you. So, it's really been a big issue. I

mean, we did a billion dollars right up to the pandemic. This 15 month period we're in now we'll do one and three quarters billion dollars worth of transactions. That's a lot of transactions. It's actually too many, and it's been very difficult for us to stabilize our staffing. I mean, it's a great problem to have. Nobody's going to be upset with us. But I mean, it's created a lot of stress and it compounds capital planning for projects. Because if you think that you're going to sell a project, then you will put off some of your capital expenditures. Because one of the most attractive things you can say about a project when you put it on the market for sale is, it's value-add, right?

Donna Preiss:

So, you want to be able to say, "Oh, if you spend these dollars, you're going to be able to get much better rents." But it creates issues for us in the planning because we look at dollars as defensive and offensive. Defensive dollars are those dollars that we use to keep properties safe and well maintained. Offensive dollars are those dollars that we use to raise rents. So, we, for example, had a project here in Raleigh that we had a business plan to go in and upgrade 30% of the units for X increase. The renewals without the work got us as much as we were going to get had we spent the money. So, our partners came and said, "Well, why are we spending this money? We're already getting these returns." So, it's been a difficult market to plan in. I wrote an article for Student Housing Business in March, and I went back and looked at that article and it said, they asked the question, "Are you concerned at all about interest rates?" And in March I was like, "No, I'm not concerned at all."

Donna Preiss:

And you think about how much everything has changed since then. I think that there going to be, on the one hand, a larger demand for student housing because it is very resilient to downturns. If you think about the way that we lease, our biggest leasing month is October. So, coming up in October we will lease more beds for the next school year than any other single month. Think about that. That being the case, they're saying, "Well, we might not see a recession before maybe 2023." Well, if you're in the conventional business, you're redoing your rents every month.

Donna Preiss:

If you're with us, we're looking at five to 8% rent growth for the next year, and we're already writing that into our leases. So, our folks are signing leases now for then all of 2023 at these increased rates. So, it's a very positive thing. When the market is increasing, then that's when you'd like to be in conventional because each month you can raise your rents. On the other hand, if the market's slowing off and taking a dip, student housing provides incredible safety. Which the pandemic really highlighted that, because who would ever have guessed that we would have a situation where college presidents told the kids just to go home. We didn't know what was going to happen, in all honesty. But as it turned out, our leases held, we did great, which I think at the end of the day ended up showing student housing to be a stronger niche than some people had thought.

Kevin Cameron:

Yeah, absolutely. I did have one clarifying question when you were talking about how your monetary goals surpassed what you had expected in a shorter amount of time when you started. What is your average hold right now on a student housing asset?

Donna Preiss:

Well, so we're selling a portfolio right now that we've had for 10 years and that's a fund that their loan is maturing and they have a concern about what may be coming in the future. They've made really good money. They didn't want to sell it because they were getting really good returns just by holding the asset. But some of our other folks, we looked at bringing some properties out. I mean, in addition to the accelerated rents, the cap rate's just got so low that these partners just couldn't stand it. They just had to sell. And we understood that. But I mean, I don't know that I could tell you right now what an average was. I know that when we do our performers, we look for three to five year holds, thinking it might sell in three but it needs to be good for five. But we have not been keeping things anywhere close to that long.

Donna Preiss:

Folks in student housing, and I'm sure probably true in conventional too, have never seen markets like we've seen recently. And I think it's healthier that the markets do cool off. In fact, from our standpoint, we believe that it's like Warren Buffet said one time, that when the tide goes out you can see who has their bathing suits on. And I think that's sort of what we see too. If everybody's making money, then everybody can do it. But when things get a little tighter, then your banks start looking a lot more carefully at the experience and the financial wherewithal of the operator. The equity starts looking at that a little more closely. And all of those things really benefit us as somebody who's been in the industry as long as we have. So, we tend to do well during these periods.

Alison Johnson:

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Alison Johnson:

Balancing the financial stability of an asset, not only the tenure that you hold the asset but for the tenure of the lease for these students, is part of it. And then the other part is creating a quality of life. As an owner/operator, you have to balance these two services to two very different stakeholders. Many people do consider student residents to be less sophisticated, but there was definitely an arms race, the amenity arms race of years ago about swimming pools and pool halls, but then that transition to study rooms and

computer centers or kitchens. What you're seeing are renters at their first entry into the market. What have you experienced that helped you think about how The Preiss Company needs to evolve its approach to the way it manages and delivers an asset?

Donna Preiss:

Good student housing really resembles the hospitality model in that we're providing... It's sort of a business on real estate. And if you were to contrast conventional housing with student housing, you're going to find that the salaries are higher on the student side, expenses in general are higher on the student side, because you need additional skill sets. Number one it's a transactional business. I mean, you're doing new leases every single year. So, you have to have people who are in constant lease up. The other thing is we always had social programming. I mean, student housing has always had that. But in all honesty, it probably was more about the pool parties and Taco Tuesday and those food events. And now it's become a little different. We have a program. It's called Coach, C-O-A-C-H. The pillars are dealing with culture. You've got core and life skills.

Donna Preiss:

But the bottom line is that now those activities that we're doing are much more serious. I mean, we're doing ethnic and cultural months supporting and highlighting culturally-driven local businesses, CPR certification, and a lot of seminars on handling things like their student loans, anger management, stress release, things like helping you with writing resumes, getting head shots, doing head shots for you for your LinkedIn account. But a lot of things that we normally in the old days we didn't do, we found that we need to do. But maybe probably one of the bigger things that we've done is that we and some of the other national student housing companies have partnered with the Hi How Are You program. It's a mental health coalition. And basically what we're doing is trying to find residents where they are and how we can help them. We're going to be using this company called Ipsos.

Donna Preiss:

They're a national polling company, and we're going to try to create for the first time benchmarks on student thriving. So, we can measure where the problem areas are and how students are evolving. The first one's going to be done at the end of this year. But I think as we start to get our arms a little bit around the mental health challenges and how they're changing, we can target together that programming. The other thing is also, again, we go back to the thing with the staff, because the staff also has a lot more anxieties and probably mental health challenges than... I mean, I think America, they're feeling it right now. We're all still coming out of this period with some issues. So, what we tried to do is figure out how we can be helpful to them, because if they're not healthy and happy then we can't really help students along that path.

Donna Preiss:

So, we've tried to do some different things. Before, actually a year ago, we went through and gave a minimum of about 9% pay raises. Some folks got as much as 25%. And we

also have been looking this whole past year on things that we could do. We implemented 12 month paid maternity leave. We also have increased the period of time that fathers can be out and we've included adoption and some of those other things as part of that, being able to take time off. We also created a geography friendly travel stipend for medical procedures that aren't available in your marketplace. So, if you are a man and you have prostate cancer and you determine that the Da Vinci device is going to be the best solution for you, that's not available everywhere. So, what we're going to do is if there's a medical procedure that you need that's not found in your geography since we've moved you to help us, then we will pay for your travel to go do that.

Kevin Cameron:

That is phenomenal. You guys are really doubling down on that quality of life aspect for not only your residents, but your staff as well. I mean, going back to Alison's comment about the amenity arms race of what features can you put in your building, it seems like you're now shifting to the services arm race. What can you provide to your residents in your buildings to ensure that they have a positive quality of life throughout the time they're living in that building.

Donna Preiss:

And so often we've got these hundred million, \$50 million projects that folks are working in. We were looking at salaries and we were thinking, "Okay." And a lot of decisions are made on the spot. I mean, that just is how life is, and these folks need to be paid accordingly. And also some of the folks, the lower paid folks also, we are so pleased with our partners in that we had just bought some of these assets and we had told them, "Well, this is what the payroll's going to look like." And when the pandemic came and we realized that our industry was going to be able to continue working and that they were going to be asked to take some potential chances with their health, we looked at it and we went to our partners and we said, "Number one, we're going to do heroes pay," which was a significant stipend for them working, "but in addition we're going to raise wages across the board."

Donna Preiss:

And not one partner questioned it or had a problem with it. And I really think that that's... And it's interesting to me about this crisis. This crisis has done more to raise the minimum wage in America than Congress ever could, right? I mean, and I'm all for it. It's interesting when we look at the inflation and people say, "Well, the two pieces that are pushing it the most is the cost of housing." Well, I probably don't mind so much that the price of housing is going up, but I also am happy to see these lower wages go. I think in our industry, it's helpful because if our folks have to work two jobs to make a living, that's going to make them not as successful doing the things that we need them to do.

Kevin Cameron:

If there's any listener out there who's looking to make the jump into student housing, I think you've just made a very great pitch for The Preiss Company as an employee. And I

mean, obviously, Donna, you all have really revolutionized the business when it comes to student housing and you have such a storied career having led the largest woman-owned and operated company in the space, in the student housing and conventional space. So, for those listening out there that may be looking to make the jump to student housing or may be just be starting out in the sector, do you have a piece of advice you would give to them to follow along your success route?

Donna Preiss:

Well, I always think about Forrest Gump saying, "Life is like a box of chocolates. You never know what you're going to get." And I think that most of us would agree that our lives have been like this. You think about it. I graduated in 1974 fresh out of UNC and the world that I graduated into didn't have portable computers, cell phones, emails, texts, Facebook, any of those things. And I would tell you today that my life's passion is student housing. I never did my first student housing deal until I was 45 years old.

Donna Preiss:

So, the key on all that to me is, be present. Don't accept the status quo. Don't let somebody else narrate your life. Raise your hand. Get noticed. Whatever it is you're doing, try to win at that. The other thing that's interesting about student housing is as you look at it, basically we're an immature industry. And primarily right now the CEOs of most student housing companies were the company founder, right? Well, potentially it takes different skills to start a company than it does to run a mature organization. So, I see there's going to be a lot of need for some additional leadership in the student housing industry, and I look forward to all those changes.

Alison Johnson:

There's no better way to end this interview than the encouraging advice and guidance that you just provided. Thank you so much, Donna Preiss, president of The Preiss Company, for joining us here on Code 53: The Apartment Podcast.

Donna Preiss:

Alison and Kevin, it's been a pleasure to be with you.

Kevin Cameron:

Thank you so much, Donna, and thanks to everyone out there for tuning in today. Please make sure you're downloading and sharing our podcast. Coming up on our next episode, we're going to be talking about rent control. On paper it may look like a 10, but it's just bad housing policy. Subscribe, make sure you're the first to know when that episode drops, and tell your friends about Code 53: The Apartment Podcast. We'll see you next time.