MULTI-HOUSING NEWS

Vesper's Founders on Strengths, Weaknesses in Student Housing

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Isaac Sitt and Elliot Tamir discuss their investment strategy, touching on both opportunities and potential obstacles.

Lounge of The Social, a 560-bed student housing property in Lutz, Fla., owned by Vesper. *Image courtesy of Vesper Holdings*

Despite a looming recession on the horizon, the student housing sector remains strong after a record-breaking performance last year. Development is in turmoil due to increasing construction costs, but investment activity is still on the rise in Tier 1 markets.

The sector's historic resilience is encouraging investors to continue to grow their portfolios. For NYC-based **Vesper Holdings**, 2022 was a milestone year. In November, the company closed on the $203 million acquisition of Sol y Luna, two towers near the University of Arizona, for one of the highest prices ever paid for a student housing asset. Vesper ended the year with a total transaction volume of $970 million and $2 billion in assets under management. The firm's property management subsidiary, **Campus Life & Style**, increased its portfolio to 29,905 beds.

Vesper Holdings Co-Founders Isaac Sitt and Elliot Tamir talked with *Multi-Housing News* about their investment strategy, and pinpointed both the strengths of the sector and its shortcomings.

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How would you describe student housing market fundamentals in the past year?

Isaac Sitt, Co-Founder, Vesper Holdings. *Image courtesy of Vesper Holdings*

Sitt: The current fundamentals of the space are extraordinary. We have been solely focused on the student housing space for 13 years and we own and manage approximately 30,000 beds. In all that time, we have never seen leasing strength close to what we are currently experiencing. Our industry normally provides steady rent growth of 2 to 4 percent per year, with occupancies in the low- to mid-90s percent.

For the upcoming school year that begins in August 2023, we are on track to achieve double-digit rent growth and occupancy in the high 90s. This is not unique to only our assets as we are hearing similar success stories from others in our industry.

What is behind this growth?

Sitt: Firstly, multifamily rents in most markets have been growing by double digits for the last couple of years. The student space was slower to react to the inflationary environment, making our rents a relative bargain compared to the conventional market for students shopping for housing. This has had the most dramatic effect on markets in proximity to major conventional ones. Much of what we own is at universities located close to these major markets.

Secondly, although overall college enrollments are down, they are still rising at Tier 1 flagship universities. We and other very large players in the space focus mainly on these markets. Consequently, for the current school year, full-time enrollment at schools where we own properties is up 1.3 percent, and freshman enrollment is up 3.5 percent.

Thirdly, new development deliveries are down significantly. This is due to the pause that happened during COVID-19 and the continuing very high cost of construction and debt financing.

Elliot Tamir, Co-Founder, Vesper Holdings. *Image courtesy of Vesper Holdings*

Please talk about the trends you're noticing in the sector today. How are you adapting your strategy?

Tamir: With the rise in interest rates and volatility in the debt markets, there has been a dramatic slowdown in transaction volume. Yet, despite this slowdown, the student housing business is enjoying solid fundamentals and very strong tailwinds. During times like these, the savviest operators are increasing their focus on asset management and value creation, or as I like to call it, housekeeping.

My executive team has been focused on strategic initiatives, culture enhancement, revenue management, unprecedented rent growth, ancillary income opportunities, as well as expense control. We will also spend more time growing our third-party management business.

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Considering the current economic instability, are there any vulnerabilities in the student housing sector? Or is it recession-proof, in your view?

Sitt: Student housing is highly recession-resilient but, of course, nothing is recession-proof. College enrollment has increased in every significant economic downturn since World War II. When there is less competition from a job market offering high-paying jobs to non-college graduates, those same young adults are more likely to choose a college education. We are therefore very comfortable that our asset class is well-positioned to withstand a probable coming recession.

The biggest vulnerability to the industry is owning assets in secondary and tertiary markets. College enrollment is currently a zero-sum game and schools in those markets are likely to experience continued enrollment declines. Also, student housing is a high management-intensive asset class. If owners do not partner with competent third-party managers, they are at serious risk of missing their lease up in any market. There are very few really competent national student housing managers that take third-party business.

Which markets and assets are performing the best?

Sitt: Our best-performing assets near major conventional housing markets have experienced a run-up in rents over the last couple of years. Some examples of this would be the University of South Florida in Tampa, the University of Arizona in Tucson and Kennesaw State University near Atlanta.

Sol y Luna was one of your largest purchases so far. What can you share about your investment strategy going forward? What type of assets are you targeting?

Sitt: We continue to focus on our targeted Tier 1 markets with supply and demand fundamentals that are likely to result in continued local market strength.

Rising interest rates have dramatically changed the transaction environment in the last few months. Solving to acceptable IRR levels is much more difficult when borrowing costs rise so dramatically. Although we strongly believe in the market fundaments of our sector, our cap rate expectation for new acquisitions has also risen. Consequently, the bid-ask spread between buyers and sellers has never been wider as sellers are much slower to lower expectations than they are to increase them when rates go down.

Sol Y Luna was a unique opportunity that made a ton of sense to us. We saw a major operational upside that allowed us to immediately push rental rates in a big way as soon as we took over. Additionally, we believe strongly in the continued strength of the housing market at the University of Arizona, particularly for the best-located assets in this market like Sol Y Luna. Lastly, we were able to assume fixed-rate debt below 5 percent with 7 years remaining on it, thus insulating us from the current interest rate environment.

20 Hawley, a 290-bed student housing property in Binghamton, N.Y. *Image courtesy of Vesper Holdings*

How do you plan to grow your portfolio in the next quarters?

Sitt: We are going to be net buyers this year, but transaction volume will probably be down. We will be buying from those select sellers that are willing to transact based on current market pricing.

With Vesper Holdings also providing property management services through its subsidiary, what can you share about how students' needs are changing?

Tamir: My marketing team recently conducted a nationwide survey of Gen Z renters and found that what they value most are quiet study spaces, a package management system and, most importantly, high-speed internet. Speed, bandwidth and a consistent connection have become an absolute must and will always be a top priority for CLS.

From its inception, Vesper and CLS have been at the forefront of adapting to the changing needs of our residents. Back in 2010, we were the first to remove gaming and convert those spaces to study pods. About two years ago, we began retrofitting package locker systems in all our communities and, most recently, we began to add dedicated Uber Eats drop-off chutes at select assets.

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What would you say are the biggest challenges in managing student housing properties today?

Tamir: The day-to-day management of student housing comes with a buffet of challenges, most of which are no different today than they were 10 years ago. But there is one in particular that all operators have seen an uptick in as of late, and that is the deterioration of our students' mental health and wellbeing…

I recently read that 73 percent of all college students reported a mental health issue during college and almost half of all students have been diagnosed with a psychiatric disorder within the last year alone. I tip my hat to the folks at American Campus Communities, Core Spaces and PeakMade for stepping up and forming The College Student Mental Wellness Advocacy Coalition, with a focus on mental wellness, its impact on students and the assistance in reaching their full potential during their college years. CLS is honored to be amongst the 24 companies that have joined this great partnership.

What are some of your predictions for the sector in the year ahead?

Sitt: I predict continued strength in the fundamentals for well-managed assets in Tier 1 markets. Once the Fed indicates it is ready to begin lowering rates, we will see the return of massive transaction volume. Institutional capital has finally taken notice of our niche industry and are chomping at the bit to invest in the space as soon as they can make the numbers work again.

#MHNTalks, Campus Life & Style, Elliot Tamir, Isaac Sitt, Vesper Holdings LLC