Industry Artists

From turnarounds to the finesse of fine management, Vesper Holdings' Isaac Sitt and Elliot Tamir are creating value by making the ordinary extraordinary.

Interview by Richard Kelley and Randall Shearin

In an industry where most new ground is broken with development, Isaac Sitt and Elliot Tamir and their firm, Vesper Holdings, have broken new ground by redeveloping assets and creating unique properties from existing student housing assets. While the firm buys core properties in larger markets, it is best known as a turnaround artist; Vesper made a name for itself by buying older properties and renovating them into showpieces. The company has won *SHB* Innovator awards for its properties, and it is breaking new ground with the club-like atmosphere pioneered by its Campus Life and Style (CLS) management arm. With CLS, Vesper is bringing cache and lifestyle — coupled with five-star resort customer service — to student housing, all at an affordable price point. Meanwhile, the company continues to acquire student housing properties, already topping $75 million in acquisitions this year.

SHB recently interviewed Sitt and Tamir to find out more about what's in store for Vesper, its innovative culture and its acquisition pipeline.

SHB: Where do you see the industry right now? What is your view of it over the past few years, and where do you think it's going?

Isaac Sitt: We like what we're seeing in the industry, as a whole, in the maturity level of it and the more professional nature of it from a management point of view. From an operations and reporting point of view, you can get much more professionalized information that is reliable. Axiometrics is a prime example of that. There's much more information available — we always have to double check and we do our own research — that is reliable. Today, you have a lot more information at your fingertips that allows you to make more rapid decisions and act quickly. We like that the student population has gotten more accustomed to purpose-built housing and that they are growing to appreciate it more. Generally speaking, if you pick the right assets in the right markets with the right barriers to entry, I think you're going to do very well.

Vesper's The Ivy in Tampa, Florida, is a 1002-bed project that serves students at the University of South Florida.

SHB: There have been a lot of people entering the student housing business over the past year, and part of the reason they've invested is because there is more transparency and more valid information out there. When Vesper launched seven years ago, as you just said, there was none of that. Was the lack of information something that scared you at the time, or did you view that as an opportunity?

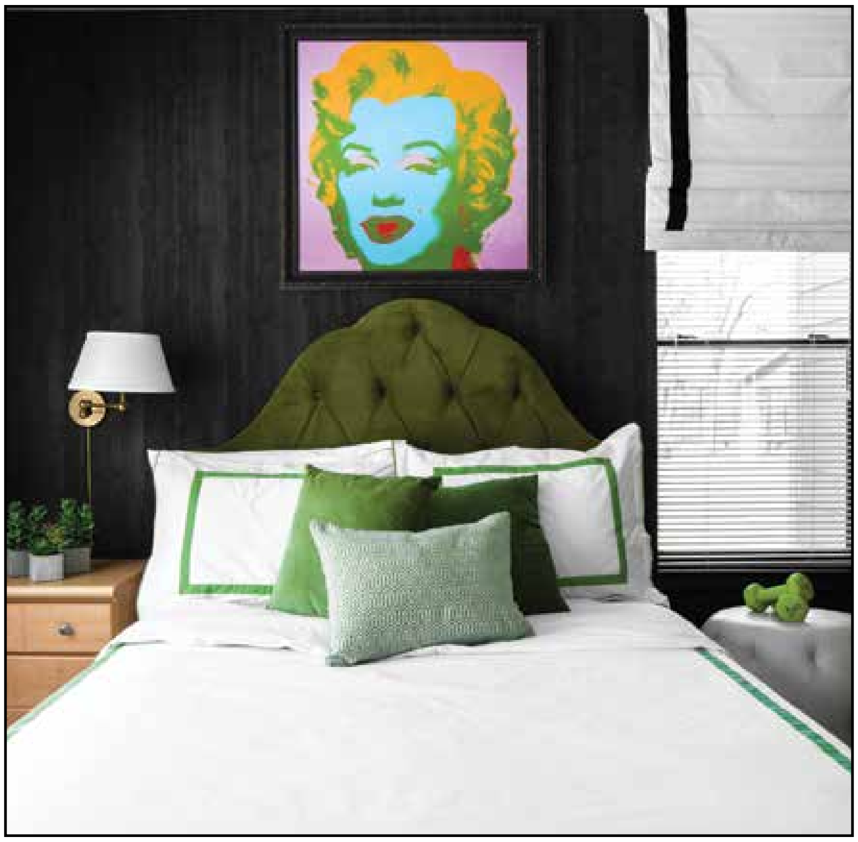
Sitt: I would say both. We viewed it as an opportunity in that we knew we were in a burgeoning industry where the competition was a little weaker. We felt like coming from the rough and tumble New York City real estate world, we had a strong background where we would be at a competitive advantage relative to the competition. That was the opportunity, whereas today, you've got a lot stronger competitors out there who are a lot wiser. The scary part is that, yes, we did have a gut instinct that this industry was about to take off, but there was not a lot of hard data to support that instinct, so we had to believe in our gut more than hard analytical data at times.

SHB: Are you actively seeking to buy properties? Or given today's heated market conditions and falling cap rates, are you taking a two-year vacation?

Sitt: We're actively out there buying; we're not adding product to the market, we're improving product. We closed $75 million worth of deals in April; we're in contract for another $50 million worth of deals right now that will close this fall. We have acquired over $400 million in student housing assets over the last 24 months. We're very actively seeking acquisitions and we're disciplined; we won't

ISAAC SITT
Co-founder,
Vesper Holdings

chase cap rates downward. We do view the market as quite frothy right now. There is a confluence of two factors right now that are driving cap rates down pretty significantly. First, the fact that developers don't sell anymore, or they sell much less than they used to. You have Aspen Heights and Landmark and the other large guys who were basically merchant builders; now they're building and holding, so that is creating less volume of product available for the marketplace, so you don't have all of that new product. That, combined with the fact that other real estate sectors are getting hit pretty hard — retail being the most obvious — has driven equity into student housing. There's a lot of capital out there looking for yield. Since the other sectors are hurting, and student housing is doing well, the equity players are coming in. It's good from the standpoint that developers will be more disciplined in what they build, because they're actually hoping to own it for the longer term. The result is that cap rates right now are being driven down, which means cap rates for core properties are at most a 5 cap and a lot of times even lower than that. Core can be defined in a lot of ways; for us that means brand new, pedestrian-to-campus at a large public school. Two years ago, these properties were probably at a 5.5 cap rate. About 15



A model unit showing the distinctive style of CLS at The District on Luther, a 1,098-bed property near Texas A&M in College Station.

percent of our portfolio is core-type assets, but the vast majority of our portfolio is value-add or turnaround deals. There has been some cap rate compression on those deals as well because you've got other folks playing in that space because the core space has gotten so frothy. We have a somewhat unique value-add strategy that separates us from our competition. We deliver a product that's very modern, sleek, unknown and unseen in the student housing space prior to us bringing it to market. We call it SoHo meets South Beach chic. We bring to our properties a very modern aesthetic, with condo-like finishes that didn't exist in the student housing space before. With design talent on our side, we can add value that others can't. Our stabilized cap rate might be a 7.5 or 8. Other potential buyers for these assets often don't think they can push it, and they don't like the risks involved and often they pass on these assets.

SHB: Do you feel pricing is out of line in the market right now because of the new competition?

Sitt: I don't think there's any outside force that is causing things to be out of whack. I don't think interest rates or the strength or weakness of the dollar have caused that. We are an industry now where developers hold their product, and it creates less available product. The other commercial real estate sectors have some challenges, and I don't see those changing overnight. I don't see retail suddenly getting better, and multifamily has been pushed up and priced very richly for some time now, so I can't say that I think there will be better deals in a year.


ELLIOT TAMIR
Co-founder,
Vesper Holdings

Elliot Tamir: The right price is in the eye of the beholder.

Sitt: The right price is what someone will pay for it, and someone will pay for it right now. Is it going to change in six to 12 months? No, I don't see it changing substantially.

SHB: How are you looking for new properties to acquire? You're an established quantity in the business; do you think that you get a bit more business because of that?

Sitt: We have a reputation of being able to close quickly and reliably. We have a motto that 'we do what we say, we say what we do.' We did a deal last year that was over $270 million all in, and we have done deals as small as $20 million. Because of our reputation, we see opportunities that others don't. We are probably the largest buyers of off-market deals over the last seven years. We have been able to source deals — two deals we did in April at $75 million were off-market. Last year, we had the big portfolio, which was marketed, but in the year prior to that I think we did $150 million in off-market deals. That has been more typical for us.

SHB: Do you ever set goals on acquisitions?

Sitt: We'd like to get to 30,000 beds over the next 24 to 30 months. Before 2020, we want to be almost double in size. That's our next goal.

SHB: Stepping back just a second, what is your overall game plan? Is it to keep properties for the long-term? What is the overall strategy with your company.

Sitt: We underwrite deals for a hold that is approximately 10 years. That doesn't mean that we plan to hold them all 10 years, but we're generally long-term holders. We will sell occasionally; we have complete discretion over our capital for the most part — evergreen capital, you would call it. We will sell occasionally at a large profit. We did that earlier this year with an asset called Harbor House in Ann Arbor where we bought the asset for $13 million in July 2010 and we just sold it for $28 million. We'll also sell if we believe that a market is just headed in the wrong direction. We haven't done it yet, but we will if we see a number of developers coming to one of our markets. Barring some huge dislocation — be it a massive profit or a problem on the sales side or a problem coming into the market — we generally buy and hold. We like the cash flow.

SHB: You mentioned your equity partners, could you elaborate a little on the Vesper capital structure?

Sitt: Elliot and I both have a long history in real estate that we have parlayed into the student housing space. I was with my brother Joseph Sitt at Thor Equities for a couple of years; Elliot had done ground-up condo development in Williamsburg, Brooklyn, and was one of the pioneers in redeveloping multifamily in Bushwick in the 1990s. We made quite a bit of capital on our own doing that, and our families invested money — we parlayed that into the student housing space. For the most part, we're spending our own money, and our families' money. We also have a network of high net worth investors who have been investing with us in the New York real estate space since the '90s; they have a great track record with us. When we started in this industry in 2010, no one was out raising that high net worth money after the Great Recession. Nothing else made sense except for student housing. Folks were still liquid and interest rates at the bank weren't even a half a point, so they wanted to make sure they could make some cash flow. We have placed a couple of hundred million in equity that way over the last seven years. On the large portfolio that we bought last year, we partnered with the folks over at Prospect Street Capital — we provided one-third of the equity, they provided two thirds of the equity. If we have a large opportunity or develop a programmatic relationship with someone, we will go the institutional route, but we also have quite a bit of our own discretionary capital from our high net worth investors and our families in our Vesper fund that we can deploy at will.

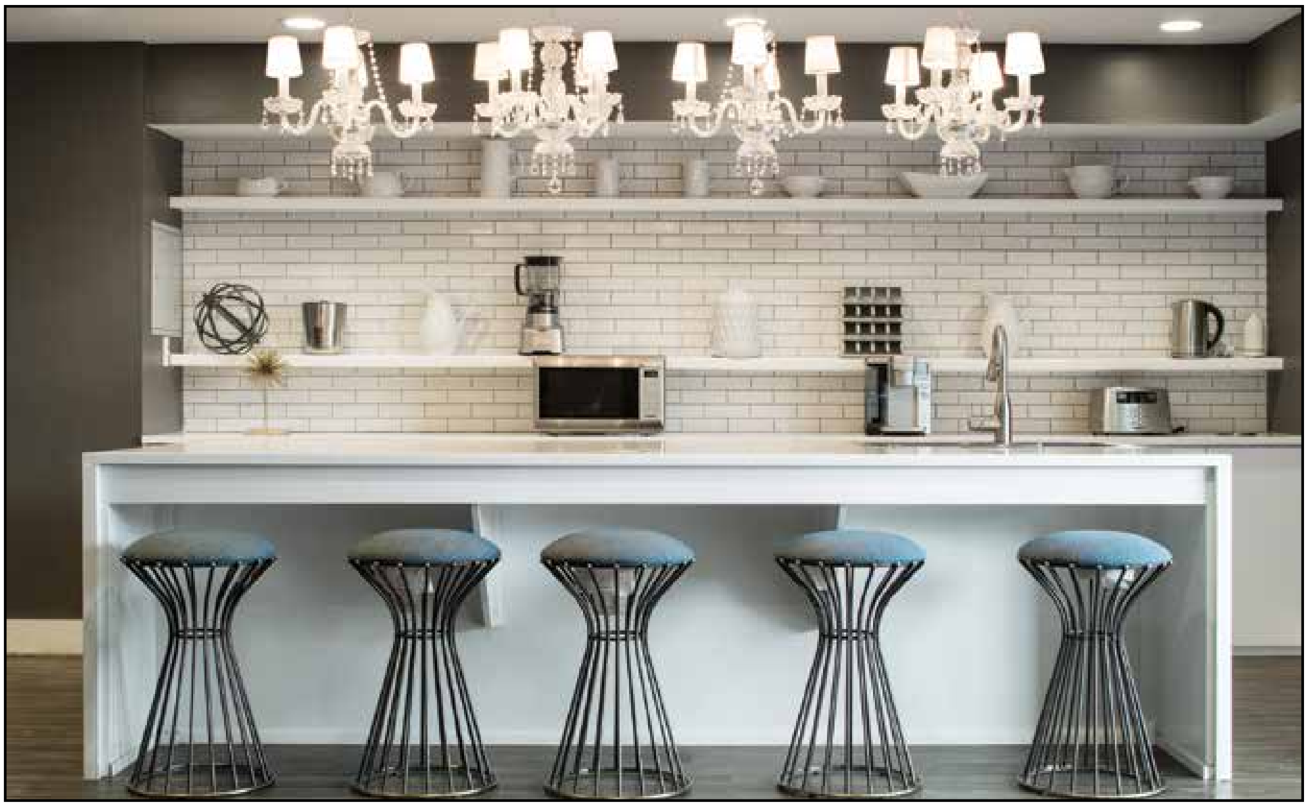
"We only buy at public universities; we feel that they are more recession resistant. Our business was born out of the ashes of the Great Recession, and we haven't forgotten those roots.

— Isaac Sitt, Co-founder of Vesper Holdings

SHB: What do you like to buy and what does it take to get you interested?

Sitt: First of all, we buy at all large public universities — at least 10,000 students, but usually over 20,000. We only buy at public universities; we feel that they are more recession resistant. Our business was born out of the ashes of the Great Recession, and we haven't forgotten those roots. We view it as a safer investment, rather than high octane retail or multifamily deals in New York City. We want that recession resiliency, which is why we stick to public schools. We don't have to be pedestrian. Most of what we own is not pedestrian, but the average distance to campus is well less than a mile and never more than a mile and a half to the campus. What we buy depends on the opportunity as far as the location and the market. We have done some core deals right across the street from school where you're really investing in the market. If we really believe in the market and we feel as though it is going to do well, we'll buy an asset like that and go in at a lower return. Most of our portfolio is value-add. Sometimes we do turnaround deals — of course, we won the 'Best Turnaround' Innovator award from *Student Housing Business* in 2016 for our Harrison project. We are quite adept at taking an asset that has really been run down and mismanaged. We bought an asset in Lubbock, Texas, where the lawn hadn't even been mowed for months. I was in the clubhouse and there was a seniors home next door to the property. Someone from the seniors home came in screaming at the property manager that the windows to her house next door were blocked by the weeds. They had grown so tall at the property because the previous owner couldn't pay the gardener. That's an asset that we have rebranded The Holly, and it's going to be fully occupied this fall. We're going to execute a refinance, and that's in a tough, overbuilt market. We came in, we bought it right, we spent about $6 million on renovations at the property and we've turned it around. There are value-add properties as well where they are not 60 percent occupied, but in the low 90s, but they're institutionally owned — the roof isn't caving in and there's not a lot of deferred maintenance, but there is a lot of deferred opportunity. We get properties like this from owners who are more concerned about the brand new asset across the street from the university and they're allowing these older properties to rent to the low hanging fruit of the customer base. These are the students who come in during July and they want a $1,000 gift card and the ability to

The clubhouse lobby at The Scarlet, a 683-bed property that Vesper owns near Texas Tech in Lubbock, Texas.



The lobby at The Harrison, a 1,032-bed project that Vesper owns near Virginia Tech in Harrisonburg, Virginia. The project won an SHB Innovator Award in 2016 for Best Turnaround.

move-in August 1st and they're very hard on the property. They're not the leaders or the trendsetters in the university market; they attract more of the same and when you create an environment like that, you end up with a property where you're giving out a massive amount of concessions and the students are hard on the property. We've gone in a number of times and completely rebranded the clubhouse with that modern aesthetic that we're known for and we have completely traded up the customer base and pushed rents. Where some companies might be charging $900 for the stuff right across the street brand new, we'll go in and a buy a property that might be charging $500 and by the time we're done, we are charging $650 per month on average per student. For $250 less per month, which is a huge difference, the residents are a half mile from school — it's walkable but they likely won't be walking, they're probably taking a shuttle or biking — in a new-looking property that is completely renovated. They're saving $250 per month. That's what we do best.

SHB: Do you feel as though you do value-add differently than others? Do you invest more money than other owners?

Tamir: Isaac mentioned how we are creating space that is unlike anyone has ever seen and creating tremendous value in the process. The Campus Life and Style (CLS) company-wide theme is 'Art meets Excellence.' Through groundbreaking design and an intense customer service-driven platform that provides a boutique hotel-style atmosphere exclusive to CLS, we are working really hard to create a living environment for our students that will elevate their lifestyle. When our residents and students arrive at a CLS property, they are treated as members of an exclusive club. This club provides everything that they need — quiet places to study, places to socialize, exercise and relax. For each one of those four areas, we are enhancing that experience. With our JOE bar, a branded in-house coffee bar that looks like something taken out of the Ace Hotel in New York City, residents can come in, get coffee, bring their laptop, hang out with friends and just socialize. We then have The JIM Fitness, our branded fitness center. I believe that gym size is key, but so is the design of the space and quality of the equipment. We spend an enormous amount of time and resources ensuring all three areas are covered. The feedback has been tremendous. Our pool areas, also known as The Swim Club, are designed with high end resorts in mind. We've taken a page from hotels like The Beverly Hills Hotel and brought that home to student housing, adding cushions on our lounges, towel and lotion service. We've had lines of people from other properties wanting to come to our pools and in some cases we are actually forced to hire security to control the crowds and keep people out. In terms of excellence, customer service to me is so important — we're taking it to a different level. We've developed an in-house customer service training department akin to a five-star hotel's program; it will be an industry game changer. I took a line from the CEO of Zappos, modified it a bit and recently sent it out in a company-wide memo: 'To all CLS team members, from this day on, consider CLS a customer service company that happens to provide student housing.' This is, in essence, what we are all about. If I'm successful, we will consistently fill our properties because I can tell you without question, in every market we visit, at every successful property we shop, it's not just the aesthetic that fills a property, it is the customer service of that particular site team that drives it home.

SHB: You've mentioned a number of ways in which you're creating a different management platform, but why do you feel it is important to have your own management under your roof?

Tamir: We created CLS for a number of reasons. When Isaac and I launched Vesper Holdings and got into the business, we said right away that we knew what we knew, and we knew what we didn't know. Student housing is a management intensive business, a sister to the hospitality space, and we knew that jumping in day one and managing our own portfolio would have been suicide, so we hired a third-party manager. For the most part, they'll get the job done, but at Vesper, we care deeply about things that, to some extent, fall by the wayside in a third-party platform. We felt that the employees and our residents were not really the focus. To achieve real success year over year, there are certain things that you need to do as a company that will consistently drive rent growth and increase real estate values. We created CLS because we care deeply about our employees, our residents and we believe strongly that a vertically integrated platform that combines our equity stake and management will outperform any third-party-operated asset on an apples-to-apples basis. We're in the student housing business, but we're also in the real estate business, and to that end, our core focus is adding value to our portfolio. We've been tremendously successful at achieving this goal by creating an exceptional company culture that promotes a truly enjoyable workplace environment. We support our people — we train them, recognize them and reward them.

When you do that successfully, you will automatically deliver that first class resident experience, which will translate into heads on beds. That is very difficult to achieve with third-party management.

SHB: If someone wanted to hire CLS as a third-party manager, is that something you would do?

Tamir: Absolutely not. We have no interest in third-party management.

SHB: How do you run the company, since you are co-CEOs?

Tamir: Isaac and I have two completely different roles, and that is what makes it so successful. Isaac focuses on acquisitions and finance; he brings the deal to close. I focus on operations post-close. Of course, we consult on everything and we have lunch together every single day when I'm in town; we're closer than you can imagine. We're together every day; we confide in each other, we advise each other on everything. Sometimes in my world, I will not see something that is obvious and Isaac will point it right out and vice-versa. Generally speaking, on a day-to-day basis, we each have different roles and we each have our departments. CLS is based in Austin, and I'm based in New York, but it works because of the talent that I have in Austin and the fact that I'm constantly traveling. I visit the Austin office every month and I visit our properties quite a bit. I would venture to say that I visit our properties probably more than any other CEO in the industry. It is so important to me that I touch and feel each of our assets as many times as possible and that I give plenty of face time to all site folks from the GM to the part time porters and everyone in between. We talk either in a group or individual setting about how things are going for them and for the property. I always ask what we as a company can do better and love to listen to their ideas and promote communication. We also just shoot the breeze and discuss mundane every day topics. I want them to feel secure in knowing that I am not this CEO sitting on the 80th floor of a Manhattan skyscraper, but that I'm here for them in a supportive capacity at any time.

SHB: What have been some of the challenges you've encountered over the last seven years?

Tamir: The single biggest challenge this industry faces is development. If the developers get out of the way, there's no end to what we can do in terms of delivering a fantastic workplace environment, an amazing resident experience and creating tremendous value for our real estate. When a developer comes into a market that is already saturated or that was 88 percent pre-leased the prior year with stagnant enrollment growth and low barriers to entry, builds 2,000 beds and thinks they are going to fill up, they are smoking crack. Instead, you end up having to drop rates considerably and give tremendous concessions — what do you think that does to NOI and the value of the real estate? Don't get me wrong, I support the general concept of real estate development in all of its forms, but the market conditions must call for it. As Isaac mentioned earlier, developers today seem to be retaining the assets they build as opposed to being merchant developers and unloading at first lease up, and so one would think they would be more astute in choosing their sites wisely. Time will tell.

The JIM Fitness Center at The Holly in Lubbock, Texas.

SHB: We see that quite a bit in some markets, the second someone announces a big project…

Tamir: In some cases, time will solve the problem because of enrollment growth, but in other markets it is getting worse.

SHB: What about with personnel? You hear a lot about the challenges of finding people in general, and then, of course, finding good people is another matter. How has CLS dealt with that?

Tamir: There are some secrets that we have that are proprietary, so I won't tell you those. I can tell you this: growth from within is the best way to solve that problem. It's easier said than done, but if you have the right company culture, you're almost un-poachable. Isaac's son is a wonderful kid, he's 18 and he's started working with our company and has been camped out at a few of our assets and is getting the pulse of what's going on and learning the business. The other day he said, 'you know, Elliot, it's very interesting, you have a lot of people that really love what they do and really love the company and I noticed that a couple of your competitors came to steal some of your people and they wouldn't go.' It's because they love the company, its culture, they love the growth opportunity, they love where they are and they believe in our mission. The answer is stop looking out to everyone else, and look from within. Work on the people you have — recognize them, train them, support them, reward them and the right ones will grow with you. The problem is that nobody pays attention to their own people; they run around looking elsewhere for that one person. It hardly ever works out when you poach someone from another property anyway. We look for attitude, not aptitude; raw talent that has attitude that we can shape into what we want them to be.

SHB: You both have been in real estate for a long time — a lot in New York City — and a lot of different property types. What are your impressions of the student housing space compared to other sectors of the real estate business?

Sitt: Student housing is much more management intensive. Retail real estate, you work it up front, sign a 20-year lease with Victoria's Secret — or at least you used to — and you think about it again in 19 years. This industry is extremely management intensive — two-thirds of the tenants, on average, turn over every year, which makes it quite a busy year every year. The industry is still somewhat of a small industry. I actually like most of the people in this industry. It has been primarily the large operators that have been the same since I entered this space. There are new equity partners, but the big guys have been around, and you see them at every conference, and they're folksy and they share information. There's a camaraderie about it that is unlike other sectors of real estate and I appreciate and like that. Another thing that is interesting is there are very few people in student housing in the Northeast. It's unusual.

SHB: The industry may have this perception of you two as these manic guys in New York City working 24/7. What do you like to do when you're not at work?

Tamir: For me, I love to spend time with my family. I have a wonderful wife and three great sons, ages 16, 13 and 11. I've been married for 17 years. We are big into cars — I have a collection of sports cars — we go driving upstate and down by the Jersey shore. It allows for great quality time and special memories with my boys. Separately, I also am an avid big game hunter; I go hunting a couple of times a year.

Sitt: I have four kids who I enjoy spending time with. I've been happily married for 23 years. We have two boys, aged 21 and 19 and two girls, age 17 and 13. They keep me quite busy — we go to sporting events all the time, concerts. On my own, I'm an avid cyclist and runner — Soul Cycle and Barry's Boot Camp, those are my favorite places. **SHB**