

# NOI: A BALANCING ACT

*Finding the right balance to maintaining NOI and mitigating threats is tricky, but the payoff is big for operators.*

By Amy Bigley Works

In the operation of student housing there are a lot of challenges — keeping up with demand and ever-changing expectations — but net operating income (NOI) brings its own set of challenges and complexities for operators and owners.

The threats to maintaining a high net income range from changes in the marketplace, changing demands from target demographics and a lack of managerial innovation, notes Ryan Benefiel, vice president of marketing for Valdosta, Ga.-based Ambling Management Co. and Ambling Student Housing.

While the challenges change and evolve over time, many of the current threats can be grouped into three main categories — overdevelopment, physical property management and lack of skilled talent. Each threat creates its own set of challenges for a property and its operators, but owners and managers are facing the obstacles head-on and finding solutions in the process.

### SUPPLY OVERLOAD

The student housing market has been hot for a while, and more and more developers and companies are jumping into the game. These influxes bring increased competition throughout the student housing industry and operators and managers are feeling it on all sides, from new competition seeking management assignments to new developments impacting markets and the leasing environment.

The much-discussed development boom in student housing over the past two to three academic cycles has made it difficult for operators to realize rental increases and still keep optimal occupancy rates.

“[In some markets] we see that the basic economics of supply, demand and university enrollment trends are not thoroughly vetted out,” explains Michelle Fuller, managing director of Dallas-based Greystar. “And, within one academic cycle, there is an influx of supply that affects everyone’s ability to maximize rents and achieve high occupancies.”

Students are typically drawn to the biggest and brightest building, but it’s important to thoroughly understand the market’s stu-

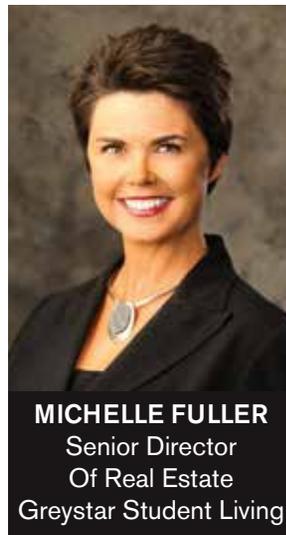
dent housing needs before pulling the trigger on a new property.

“It’s no secret that new supply, particularly at the top end of each market, has been a trend over the past few years, as has the corresponding impact on rental rates throughout those affected markets,” says Bob Clark, president of Atlanta-based Peak Campus Management.

While student housing is a highly competitive market, the properties also need to work as a whole within a market and community. Having the right balance of supply and demand, and the right blend of properties from high-end to affordable, allows the whole marketplace to operate at ideal rental and occupancy rates.

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— MICHELLE FULLER, GREYSTAR



**MICHELLE FULLER**  
Senior Director  
Of Real Estate  
Greystar Student Living

### LACK OF SKILLED TALENT

Many in the industry report that there is a shortage of highly skilled management and operational teams. A property’s on-site management team is the eyes and ears for the owners and operators and a critical aspect to creating a successful student housing community.

“As the industry sees an increase in new assets nationwide, it is becoming more difficult to find highly skilled candidates who have the experience or the ability to keep up with the pace of on-site student living,” notes Fuller.

And, the talent pool shrinks even more in secondary markets, as oftentimes the geographic location of properties is not appealing to potential job candidates.

As with any industry, truly talented candidates are hard to find, and the student housing industry is no exception. Owners and management teams want to bring in the best to be the best in their market. To do so, they need innovative management teams to develop properties into thriving and engaging communities that appeal to students and meet their needs.

### MAINTAINING PROPERTY VALUE

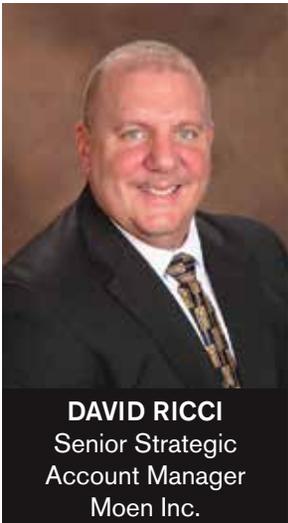
While creating an engaging environment is key to a property’s success, property management teams also have to focus on maintaining the physical property to avoid potential risks and keep utilities and water usage in line, all of which can be major hits to NOI if left unchecked.

Effective operators need to perform routine maintenance checks to ensure a property does not have any potential liability issues, such as moisture intrusions, trip hazards, or lighting and security issues. Having a proactive stance on property management will keep risks at bay and allow residents to enjoy the property and its amenities.

Beyond routine property management, implementing a water-saving strategy through the use of efficient fixtures and plumbing can make a significant difference in a property’s NOI and monthly expenses. Water usage and utilities are a huge portion of a property’s operating costs and the benefits of under-

standing a property's water usage and investing in improvements can be significant.

"Property owners or potential buyers need to understand the projected earnings of an apartment community to determine whether it is a viable investment or a feasible project," says David Ricci, senior strategic account manager of North Olmsted, Ohio-based Moen Inc.



**DAVID RICCI**  
Senior Strategic  
Account Manager  
Moen Inc.

Properties are typically valued by looking at their NOI and cap rates; the better the NOI and cap rates, the better the property or potential deal. From the property management side, better plumbing products mean better cap rates, lower water usage and increased energy savings.

Reducing a property's maintenance expenses and repair costs is a proven method for increasing NOI; and by analyzing a property, operators and management teams can pinpoint areas for improvement to help reduce utility costs. When the deficiencies are determined, owners can work toward solutions that will improve the property and resident's experience, ultimately increasing NOI.

Typically a significant portion of budgeted maintenance expenditures is dedicated to plumbing repairs and fixtures, but when re-evaluating plumbing and fixtures it's important to consider the total cost of ownership over the life of the fixtures instead of solely the initial purchase price. Installation costs, repairs and replacement parts can have a negative impact on NOI, ultimately depressing the value of a property, but purchasing high-quality products, while initially more capital intensive,

can reduce repairs.

Installing high-quality fixtures and plumbing can make a difference in water savings for a property, but considering the

costs over the life of the fixtures and plumbing is key to reducing water bills and usage, notes Ricci.

Switching to low-flow faucets and easily installed plumbing fix-

tures can benefit all of a property's stakeholders from residents to owners and maintenance professionals. Property managers are able to improve operational effi-

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ciency, while maintenance supervisors and technicians benefit from reduced plumbing repairs, which allows them to focus on other duties. Everyone wins —

managers and maintenance supervisors find ways to lower repair and maintenance expenses, while still meeting the high expectations and standards of residents.

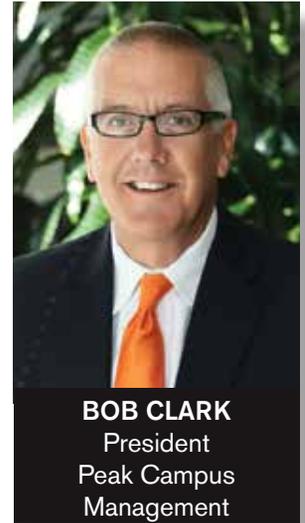
Water usage has always been a challenge for the student housing industry, but the manufacturing industry is listening and creating high-quality faucets and plumb-

ing parts that have a reduced lifetime cost due to higher quality parts, which last longer and reduce maintenance and repair needs.

## MARKET SHIFTS

Beyond the physical challenges of student housing properties — overdevelopment, lack of talent and property maintenance — market shifts from expectations of residents to changes in the local community can have major impacts on NOI.

“At Peak, we take an in-depth look at the changing dynamics of each market throughout our portfolio before each leasing season begins, and then develop a strategy that we believe will allow us to best compete,” says Clark.



**BOB CLARK**  
President  
Peak Campus  
Management

Being aware of the shifts can be the key to running a successful property or being faced with operational obstacles.

Student’s expectations are continuing to rise, especially in regards to customer service. Residents are expecting properties to provide more services to meet their overall needs, from general repairs to timely responses. To meet this trend, Greystar focuses on trying to provide a high level of operational expertise to be on the leading edge of technologies, notes Fuller. Additionally, the company surveys its residents twice a year — at move-in and in March — to evaluate its level of service and student satisfaction.

Staying tuned into a property’s core demographic is vital to keeping ahead of market shifts and changes. And taking the time to



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fully analyze the marketplace and its needs is the easiest way to stay competitive in the student housing market when it comes to attracting and retaining residents.

Changes in the market, city and university can also create new threats to NOI. And, these threats can influence the marketing and operational decisions of owners and operators given the potential impact on leasing velocity and rental rate growth.

"Through Ambling's strong relationships with key players in the market and university, we have achieved great success in minimizing these potential threats to our NOI growth," says Benefiel.



**RYAN BENEFIEL**  
Vice President  
of Marketing  
Ambling

## FINDING THE BALANCE

Discovering the balance between increasing NOI, mitigating threats and operating a successful property may seem like a jigsaw puzzle at times, but finding the sweet spot is rewarding even if it is for a brief period time.

Ultimately, the balance is often in the details, from water faucets and plumbing fixtures to routine maintenance checks and supply/demand balance. Being able to embrace the challenges and use them as opportunities for innovation and growth is a key to creating a successful community. For Ambling, being flexible and quick to act, as well as overall strategic planning, have proven vital to increasing NOI for its student housing assets and overcoming threats, notes Benefiel.

Student housing is truly a micro-market business with micro-market strategies, explains Clark. At Peak Campus Management,

its platform is designed around keeping all the key players in its operations team focused on each asset's NOI goal. The company does so through consistent and

comprehensive measurement and management of the details.

"We know that student housing is a business of a lot of details, and that when you get those details

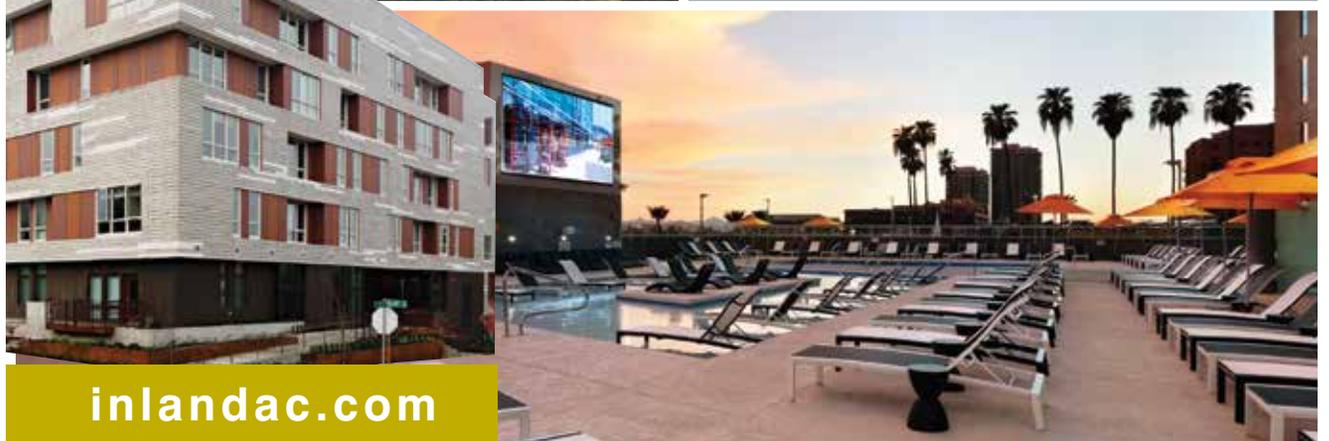
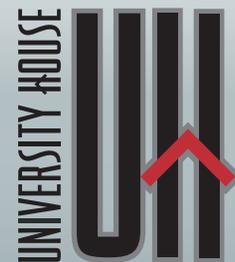
right, NOI will be the certain byproduct," says Clark. **SHB**

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