

EPISODE 717**[INTRODUCTION]**

[0:00:00.0] ANNOUNCER Welcome to the Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.4] WS: This is your daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Nick Simpson, thanks for being on the show, Nick.

[0:00:33.0] NS: Yeah, thanks for having me, I appreciate it.

[0:00:34.1] WS: Nick is the founder and CEO for Simpson Building Enterprises. A real estate investment firm focused on multifamily assets. They specialize in value add and new development projects in the northeast and are currently developing an 86 unit student housing high rise in downtown Salisbury, Maryland. Nick, thank you again for your time, I'm grateful to have you on the show.

I know a lot of listeners who are very interested in student housing or interested to hear what you have to say about obviously the current market and how that if that's changed, the student housing industry and just the thoughts behind acquiring those assets but welcome to the show, want to hear a little more about your background getting into the commercial real estate space and then let's jump into your specialty and just the development side of this business.

[0:01:20.6] NS: Yeah, start it out with just a single family house that was in disrepair I guess you could say, did a lot of sweat equity. Probably \$30,000 deal to purchase the – it was foreclosed house and then we did a lot of construction about I'd say about 70,000 dollars all in and we

started renting it to college students and then one became two and then two became five and you know, just the typical story to continue to grow and we started to focus on multi-family assets because we saw the economy at scale and I've really shifted away from the single family and sold those assets off and done a lot of 1031s into larger deals and we're currently developing an 86 unit building in downtown that will serve 300 students and it will be the tallest building at our area, really be a landmark in downtown and we're proud to be a part of the revitalization that's going on currently in downtown.

[0:02:14.7] WS: Nice. You started with single family. How long ago was that and was that just to kind of supplement with the job that you had at the time or was your plan to jump into real estate?

[0:02:27.6] NS: I started investing in the housing when I was actually in school that was eight and half, nine years ago and I picked up *Rich Dad Poor Dad* on a Saturday and I think I finished it that in one day and it lit something in me that I had to get involved with it. I started a landscaping company before that and sold it before I came to college to pay for my education and I felt like I was going in slow motion so I decided to graduate in three years and I took that fourth year of money that I've put aside and I bought a house and then I didn't really know how it was going to get one or two or three.

I just wanted to start and ended up buying that first house and there was a lot that came with it and I had to go through the subdividing process but I ended up selling that lot off for more than we put down on the original house so there was my down payment for the second one in it. It just kind of started organically and took a lot of hands-on effort at that time.

[0:03:23.7] WS: Why student housing? Was that just the way it got started and you just grew your knowledge base there? Why that asset class?

[0:03:30.9] NS: Yeah, that's a good question. In this area, student housing produces the highest income that it gives you really sustainable place to invest in. In Salisbury, it's a state-run university so they're putting a lot of money behind it, you know, it's going to be in business for the foreseeable future and we felt that student housing in this area performs better than other asset classes. Multi-family does really well around here too but we just found that the returns

were the best for student housing in this area and that's why we focused on that and we really know the areas a lot of the other sponsors in this particular deal.

Growing up in Salisbury and have a lot of local knowledge that we can bring to the table for this particular deal. In other markets, we're focused on multi-family.

[0:04:13.8] WS: Why development? Why not find preexisting buildings?

[0:04:16.8] NS: There's two aspects there, one, we do get the enjoyment out of it and it was a fun thing to see a building come out of the ground but the other side of it is, sometimes the product we're looking to acquire is not in a given market. We wanted an urban style product to offer students that come from Baltimore, northern Virginia, DC, Fredrick and New Jersey in some cases even New York and they come to Salisbury and it's a rural area and it has garden style apartments.

We wanted to give that 12 story rooftop bar with rooftop deck and café type of feel to students who are used to having that and tend to live after graduating and go to inner city. We wanted to give that to them while they're here at the university. That product just wasn't available. That was the reason we just had to develop this particular product.

[0:05:07.7] WS: The market and what you feel is going to produce the most returns and then just because there's not this type of building there is reason why you like student housing and the development side as well. It seems pretty awesome that you can recognize that and then just say okay, you know, we're going to fill that need and how did you look at the market and know those things. Maybe you can give us a couple of tips there to say okay, this is, we can fill this type of building here and we can go build this and make it work.

[0:05:35.4] NS: That definitely helps that we have offices and live and work in downtown Salisbury, we focus on other markets and tend to rely on outside information to make those decisions a little bit more but in this particular market, we really have insider track, we can see that the pieces of the local government really pushing the downtown resurgence. They have spent tens of millions of dollars in the downtown area, revitalizing all the streetscapes, adding street lights, we've watched Salisbury Maryland, Salisbury University rather put a building in

downtown and they really made a stated effort to link downtown to the university and all those underlying pieces we've gained from really knowing land living in the local market.

While multifamily is definitely a focus in the area and it really does perform really well, we just felt like the high rise was something that would be better suited for the student housing. The returns are higher and we can really put that unique product in downtown and be competitive for the long term.

[0:06:38.4] WS: You know, I'd love to talk about the development side of this business a little bit but I want to kind of jump on in to the student housing asset class just in our current market and just everything that's going on, could you just speak to there and I know the listener's wondering, wait a minute, you know, I've been investing in student housing for many years, potentially, and I'm looking at it or I was looking at it but now, since colleges aren't going back the way they were and you know, they're doing more virtual learning, things like that. How does that change the way we look at student housing and just what are your thoughts about that?

[0:07:10.1] NS: That's a great question. We started with a couple of different things, let's start with the building and what the building needs to offer and it was apparent before COVID, it was trending this way but it's really critical now that we've seen COVID become part of our lives.

One is the bed to bath ratio, you have to have a one to one ratio and those are the buildings that are performing the best, everybody has their own bedroom and their own bathroom. We've also seen the student housing market trend away from carpet anywhere in the units so it's usually a luxury vinyl in the kitchens, the living rooms and the bedrooms and that just allows the students to bring their own rugs and then leave with germs and stains and all that when they're gone.

But we also have seen that study rooms on the property and gyms on the property are really becoming apparent and it gives people the ability to stay and live on the property even during a potential shutdown and feel like they're at home. The second part of that is finding the right partners to manage the property and we're working with American Campus on this and they're the largest in the nation as far as management and they have a national partnership with Lysol that provide the desensitizing stations, they have an open in protocol that really is robust for the cleaning, the gym equipment and the lobbies and the elevators and just really making sure that

the property is performing as intended and it really is important in the harder times to make sure you have those people behind you to make sure that you're offering kind of what the students are looking for.

And then, the other side of that, it would seem, some universities not go back and we've seen some go back and one of the aspects that we're starting to look at when choosing markets is, what exposure does the school have to a loss of income if they don't bring back students. At Salisbury University, about 40% of their income comes from on campus housing, room and board. Their exposure is very high if they don't bring them back. We like that because they can feel the impact and we've seen them come back this year, I think just for that reason, they're doing a hybrid approach where half the classes are online but the other half like science classes that are hard to replicate are in person.

Going forward, we'll probably be a little bit more conservative, we don't want to just pick a really expensive school that might not be ongoing concern, Salisbury University is quite affordable, it's about \$20,000 for in state room, including room and board and I think it's in the low 30s for out of state. We think it's going to be an ongoing concern, while, some of those 50, \$60,000 a year universities, it might have a good endowment, we're just not sure that's going to be positioned well for downturns and there's a lot of different aspects you really want to get granular with to make sure that the asset is well positioned.

[0:09:55.1] WS: What's worse case there, you know, if you have that building, students come back, I've heard of one school that you know, students came back for 10 or 11 days and then they sent everyone home. What happens then? You've got all these leases, how do you handle that?

[0:10:09.8] NS: Fortunately, we feel that when we open the building in August of 2022, knock on wood, we're all past this and we don't have to have this as a talking point. But if it is here and that is something we have to deal with. We've seen the off campus housing perform nationwide slightly better because they're not forced to return capital. We've seen students want to stay at school because they don't want to do the COVID thing with mom and dad and quarantine with mom and dad. The students actually stay at campus and they have their own bed and their own bathroom and happy living away from home.

But just doing the classes virtually. Certainly you're going to see a dip in your occupancy that is not great, that's where you want to run the sensitivity test, you want to see what it takes to push, you don't want to drop your institute low because that hurts your future projections but it's definitely a sensitive thing and if it really becomes something that's going to change the way, just across the board, we're never going to have weddings, never going to have baseball, football, all these fun things, we're not going to have in our lives anymore then of course, multi-family is a backup for any student housing property, it just wouldn't perform as well. Hopefully that's the doomsday.

[0:11:19.5] WS: Right, anything else trending in student housing that the listeners should know about whether they're an investor or whether they're an active operator.

[0:11:28.9] NS: The students are increasingly more interested in having fully furnished units than ever before. We did a survey recently, this one's standing out to me because we just got some information back from the students. What's the number one amenity that they wanted and right below high speed internet is fully furnished. They really want to just come to school and leave it, they don't want to have to get the huge moving truck and come to school anymore and offering really quality furniture. I mean, it needs to be robust and sturdy to handle the student housing class but you do want to offer a decent mattress and decent couches that are actually comfortable and doesn't seem like an institution.

[0:12:14.1] WS: Right, you know, I would think then though, it's kind of like you were talking about with the carpet or the rugs, you know, all that staying there, it's got to be something that can be cleaned easily but something that's comfortable, you know, that's going to be difficult, right? It seems like they're fearful of the virus or whatever it may be that they would want their own things but then I can see that being a problem of bringing all that stuff in and out from all these locations all over the world potentially. You know, what are your thoughts behind that?

[0:12:41.2] NS: It's actually fun to pick this stuff and work – American Campus really brings a lot of that data to us and they show us some of their properties and how they perform with certain types of furniture, we make sure that there's no surface that can't be easily cleaned, something that you can spray on it and wipe it away.

We don't do any cloth couches or even the beds have a really nice covering around them that make sure really nothing is permeating into the mattresses and that way, we can really wipe away those types of services and that way we can use that for the future but we have seen other housing complexes that have those cloth materials and they don't look good after years and that's definitely going to hit your cap X if you are trying to keep up with that stuff.

[0:13:25.5] WS: For sure. Let's jump into the developer side of the business a little bit and maybe you could just highlight, you know we have a few minutes left, highlight just the track of the developer versus the typical syndicator or operator. You know we talk about a lot on the show. Developing is a different base kind of every time but I personally would love to know more about it as well and there is a lot of listeners as well but maybe you can just speak to being a developer, the differences that you have seen and learned.

[0:13:52.9] NS: Sure. You know timelines are definitely more extended typically and you know getting the project zoned and then getting all of your blueprints and your construction pricing in place that takes time. So we started with this particular property. We wanted to make sure that we could have the highest building in the area. We wanted to increase the density and we wanted to have a walking bridge directly from the building to the parking garage.

So that all of the students have somewhere to park and all of that takes quite a bit of time to get approvals from the city and then once you have the concept in place, you get schematic drawings done with the architect. You don't need to get the full CD level prints completed. You just need to have a general idea of what you're looking to build and that allows you to go and get high level pricing that this is just passing the sniff test.

Once that checks the box, then you can invest in those really expensive blueprints and that all has to be done well ahead of even of talking to investors. So you know, you're going to have to have this GP partners ready to foot the bill and in some cases, you could be talking many, many hundreds of thousands of dollars for the prints for building this size. So once you get those completed, then you get your guaranteed maximum price from your general contractor and that allows you to pass the bird mouth. They have to have a completion guarantee at that price there.

[0:15:14.6] WS: A guaranteed maximum price.

[0:15:16.7] NS: Yeah, GMP that's what you want to obtain before approaching investors because then you could really say, "Here is what we expect to hit." We have a contingency budget, we don't want to use it but if we do, it is still there but the general contractor is on the hook for bringing that project in on time and for that price, otherwise there is liquidated damages, so.

[0:15:36.8] WS: How close do you expect that to be to that guaranteed price? Will it be right on it most of the time or do you expect it to be less?

[0:15:44.3] NS: So, there is different parts of the construction phase that are more exposed to things going wrong and that is truly out of the general contractor's control and one of those major obstacles is demo. So we had three different buildings that we acquired and then consolidated in to one lot and we have already torn those buildings down, found asbestos, found tanks on the ground. All of those are unknowns that you can't blame them for.

You really do have to pick up the bill but we have already taken that, kind of de-risk it for investor and we have already done that obstacle. Throughout the regular part of construction, you really don't want to see a general contractor go above three to four percent of a new construction that's really well flushed out. You know if there is really good drawings, there is really no reason for the general contractor to go above that because you are getting all of your pricing ahead of time.

And you really holding, you know it is their job to hold those contractors to the task of getting it done. If you don't have drawings that are completed though, it is really not their fault. If you are making changes in the field, that does cost money. So it can be dependent on the developer but as well as the architect to make sure that you're getting it done ahead of time. That way you can really lock in and investors can feel comfortable.

[0:16:55.9] WS: What does the team look like versus normal operation or syndicator's team?

[0:17:00.5] NS: One of the major differences of having is we like to partner with the contractor. It is not necessary to do this but we actually have the partner who owns the construction company. He owns the concrete plant though. They self-performing the concrete work. It really allows us to make sure that our timelines are going to be met. You can take away some of that risk. I meant the structure of the building is one of the major parts of the timeline.

And having the ability to self-perform that really allows us to feel more comfortable especially with student housing. I mean if you are doing multi-family, you come in monthly. It is not as big of a deal. You are doing some preleasing but you are expecting to not be completely leased out before you start but with student housing, August of 2022, I mean I don't want to be calling 300 kids and saying, "Hey, you're coming late." So one of the differences is definitely having a partner who understands the construction side of it.

The other side is we have developers in the team as well. So they've gone through the process. They can bring different contacts as far as materials and just different sources for flooring and cabinetry and it really helps drive the cost down. So having developers on the team as well I think is a little bit different than your typical syndication.

[0:18:14.2] WS: Nick, what's been the hardest part of the syndication process or commercial real estate piece for you?

[0:18:20.4] NS: You know I think this particular deal, we were a little surprised with the institutional level money or just the funds in general wanting to see a minimum of 10,000 or 15,000 at a university but they're not looking past that at all. They don't want to see or they don't want to invest the time to find out, "Okay, it is a state run college" and they have spent hundreds of millions of dollars in the campus in the last five years.

It is clearly a priority of the state. It is not going anywhere. They just lump colleges as a whole, anything below 10,000 they're just worry that it is not going to be in business for the long term. We feel you've got to take it one step further in that educational process. It has definitely been something I'll keep in mind for the future. I mean nothing we can overcome but it was definitely an obstacle I didn't foresee.

[0:19:07.5] WS: Okay, and did you have to get different lending or go to a different lender or?

[0:19:11.2] NS: Yeah, so the banking partners have been great. We just had to go further down the bench to raise the capital and we're still re-piecing together some of the final aspects of our syndication on this. COVID was definitely a disruption. We were moving ahead in early spring but decided to just hold the property as a demo and once the demo is complete, we didn't want to again call those students and say, "Hey, you're going to live in a hotel for the first few months." That is not good way to start so.

[0:19:38.4] WS: With student housing, how do you prepare for a downturn?

[0:19:41.5] NS: Again, I think that is critical to pick your management team well. Watching American Campus work, we are not even don't have to engage in the property. They have kept us up to date with trends in the market they have all of the data behind it and I really think that is the best piece of advice. I mean sure, you want to be locally involved. You want to make sure that you're watching what the school is doing and have a good understanding and good channels to get the information from the school.

You really want to stay engaged and put the time in to get to know the people at the university that will be able to tell that the correct information. I really think and this is true even with multi-family properties, the people you are working for or working with, the management teams are critical.

[0:20:25.3] WS: Knowing what you know now, what would you have done differently on your first commercial real estate deal?

[0:20:30.9] NS: When I was growing, we were doing a lot of everything. I was doing single family student rentals. I had started to get into mixed use commercial. I was getting into shopping centers commercial. It really is a lot of everything on a smaller level and the lack of focus didn't let me get really good at one particular avenue. So, student housing, multifamily in a certain market, that is the defined goal right now. We are not deviating from that.

We don't want to look at anything else and we want to get really, really good at that and then expand the market, probably not expand the product type. We know what we want and just expand what we're or where we are looking rather than what we are looking at.

[0:21:12.5] WS: So, increased level of focus.

[0:21:15.1] NS: Yeah, absolutely.

[0:21:16.2] WS: What's the number one thing you have done recently to improve your business that we could apply to ours?

[0:21:20.3] NS: Picking up Sam Zell's, *Am I Being Too Subtle?* He is the top of our game, he is one of the best real estate investors out there and his book is phenomenal.

[0:21:29.0] WS: I read that as well just a few months ago. So tell me, what is your best source for meeting new investors right now?

[0:21:35.5] NS: Right now with COVID, definitely social media platforms have been critical getting the deals out there. Watching some deals start to do the videos. We added the video to ours to get people's attention. So it is not just one little – just a newsfeed of article or something. We wanted to give something with a little bit more flavor and of course, the podcasts that just like yours are a great way to get ears and eyes on the deal.

[0:22:01.6] WS: Are you doing 506(b) or (c)?

[0:22:04.3] NS: C yeah, I want to make sure that we can discuss returns and do that yeah.

[0:22:10.3] WS: What's the number one thing that's contributed to your success?

[0:22:12.9] NS: I think it is probably this inner fire to make sure that over the long term, you know it takes 10 years to become an overnight success. It is one of my favorite sayings and it doesn't happen overnight and you know I am okay with that. I am okay for the long term being just have to – you know, I am impatient but I think the second layer to that is having the focus

and I am solely focused on real estate. This is all I do and being able to pick this as my career has been definitely one of the biggest advantages I think.

[0:22:45.6] WS: How do you like to give back?

[0:22:46.9] NS: I like to work with the Zaching Against Cancer Foundation. We lost a friend in high school to brain cancer and his foundation provides care to individuals. There's a lot of money behind cancer research but there is not a lot of money behind providing the people who have cancer. Just the human, they're needs and so they go and provide transportation to chemotherapy for people who don't have cars or they provide cleaning the house or just the random things that you don't think are big deal until it happens to you and they provide that support. They really do some great things and the stories behind it are phenomenal.

[0:23:25.3] WS: Nice. Well Nick, I am grateful for you sharing that and giving back in that way. It is interesting that they do need care or assistance along the way as oppose to just finding the cure, which is extremely important also but you know I have enjoyed hearing just your student housing side, the development side. You have really shed a lot of light on I think a lot of questions that I think the listener and myself have about that asset class right now.

You know just everything that's happening, so grateful for your time. Tell the listener how they can get in touch with you and learn more about you?

[0:23:54.5] NS: Yeah, they can always get a hold of me with email at nicksimpson@simpsonbuilding.com or they can check out our website and that is simpsonbuilding.com.

[END OF INTERVIEW]

[0:24:02.4] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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