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Risk Management and the Collegiate Real Estate Market During the COVID-19 Pandemic

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Honors Thesis

RISK MANAGEMENT AND THE COLLEGIATE REAL ESTATE MARKET DURING THE COVID-19 PANDEMIC

by
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ABSTRACT

RISK MANAGEMENT AND THE COLLEGIATE REAL ESTATE MARKET DURING THE COVID-19 PANDEMIC

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Bachelor of Arts

This thesis is a study of business risk management for collegiate real estate firms in cataclysmic events, such as but not limited to the COVID-19 pandemic. The study applies principles and frameworks for Strategic Risk Management (SRM) from Dr. Paul Godfrey's book, "Strategic Risk Management: New Tools for Competitive Advantage in an Uncertain Age." Included is an analysis of original survey data collected from Provo college students, how students responded to business decisions by local real estate management firms and university policies. The data from Provo is heavily influenced by unique circumstances for that particular market, such as BYU housing policies, social media impact, and behavior of local firms. Also included are case studies from interviews conducted in the thesis research process learning more about the decisions of firms in the market to understand consumer's responses to differing types of risk management. The essence of the solution for businesses is to define, plan for and execute SRM before, during and after any cataclysmic event. The decisions by executives on how to strategically manage risk will determine short-term and long-term financial success. The research process involved interviewing various industry experts from a variety of companies to better understand what methods are effective for establishing success in the collegiate real estate market specifically. By using strategic models, this thesis aims to establish a roadmap for businesses in the college housing market to position themselves for success.

ACKNOWLEDGEMENTS

First and foremost, thank you to my thesis committee who have been so willing to help me accomplish my goal to graduate with university honors by writing this thesis. Dr. Paul Godfrey, thank you for agreeing to be my mentor, for always providing insightful feedback, and for keeping me on track to accomplish my goal. Dr. David Bryce, thank you for reviewing my work and providing helpful suggestions. Thank you for pointing me to Dr. Godfrey whom without his help I could not have accomplished my thesis. Dr. Mark Hansen, thank you for being one of the nicest people I know and for being so willing to help when I told you last summer that I wanted to write a thesis. I also acknowledge Dr. Brigham Daniels of the J. Reuben Clark Law School who I was able to assist last summer in helping students who were struggling in the first few months of the pandemic, who inspired me to become passionate about this subject. I acknowledge the massive effort of the team of volunteer BYU students who were passionate about helping other students with their leases when COVID hit, together we collected the survey data presented in the thesis. Julie Brooks, Hannah Gladwell, and others, thank you. Vika Filimoeatu and Lauren Bushnell in the honors program office, thank you for helping keep everything on track to finish this paper on time. Further, I would like to acknowledge all the help I had from the BYU Real Estate Association and the many industry expert interviews I acquired through their network, including my internship at Berkadia which led me to many wonderful people, some of the best minds in the industry who significantly contributed to this thesis. Last, I acknowledge my peer reviewers, two of the smartest people I know, Caroline Sones (mom) and Amanda Gach. Thank you to each of you.

TABLE OF CONTENTS

LIST OF FIGURES

I. Situation

World heavyweight champion boxer Mike Tyson once said, “Everyone has a plan – ‘till they get punched in the mouth.” In March 2020, universities across the United States shut down in-person classes due to the COVID-19 pandemic. Many universities strongly encouraged students to return home for the indefinite future, placing students in a difficult position to resolve their contractual housing obligations. Students in most markets in the U.S. sign year-long rental contracts at their student housing properties off-campus. Many students became unemployed as businesses shut down, making rent unaffordable without additional assistance. A rift was created between students and their landlords, resulting in lawsuits nationwide, giving each party a strong “punch in the mouth” to overcome.

As a student at the Marriott School of Business and having experienced this crisis on a personal level in Provo, Utah, I seek to uncover how strategic risk management (SRM) can help landlords identify, forecast, and mitigate risk, while protecting their brands. My thesis question is “What strategies would have been most effective for off-campus landlords to manage business risk due to the COVID-19 pandemic?” This thesis is developed on the assumption that optimal and ethical solutions exist for pandemic-related challenges in the student housing industry. Dr. Paul Godfrey, head of the Strategic Management program at Brigham Young University (BYU), recently co-wrote a book titled “Strategic Risk Management: New Tools for Competitive Advantage in an Uncertain Age,” which outlines models including “Strategic Risk Management,” or SRM (P.C. Godfrey). Collegiate real estate managers can use these models to identify and implement optimal solutions for long-term business sustainability. This thesis will begin with an analysis of the impact of the pandemic on the college housing industry. It will continue with an analysis of strategic frameworks including those suggested by Dr. Godfrey, PEST Analysis, and the 4 Pillars of SRM. It will conclude with the application of these frameworks to face-to-face communication and customer relationships.

II. Complication

Over the summer of 2020, I assisted Dr. Daniels of the J. Reuben Clark Law School, as he provided legal aid to BYU students who were seeking to exit their student housing contracts. BYU housing is unique among colleges in requiring a three-way agreement between off-campus housing landlords, students, and the university. This agreement includes a force majeure clause that states students can terminate leases under the circumstances of “catastrophic loss” and/or “serious illness.” When students were asked by the university to return home due to the COVID-19 pandemic, they interpreted the clause as applicable to the financial and health-related complications they faced. A student petition at BYU gathered nearly 20,000 signatures to ask that landlords and the University allow students to cancel their housing contracts if they returned home (Brooks). The BYU student body consists of 33,000 students with 70% of students coming from out of state (Brigham Young University). The logistical realities of the request to return home thus became an issue for the majority of the student body. The issue was expounded by the rapid decrease in demand for housing near campus as students attempted to sell or cancel year-long contracts ending in August 2020.

Dr. Daniel's team and I produced the following original data by surveying fellow students via social media, as well as individuals working in the real estate management industry:

- Over **90%** of students in BYU-approved housing agreed that they should have been allowed to be released from their housing contracts due to the COVID-19 pandemic (See Figure 1).

- **70%** of students currently residing in BYU housing would choose <u>NOT</u> to live in BYU-approved housing if not obligated by the university, in major part due to the disagreements created by the pandemic.

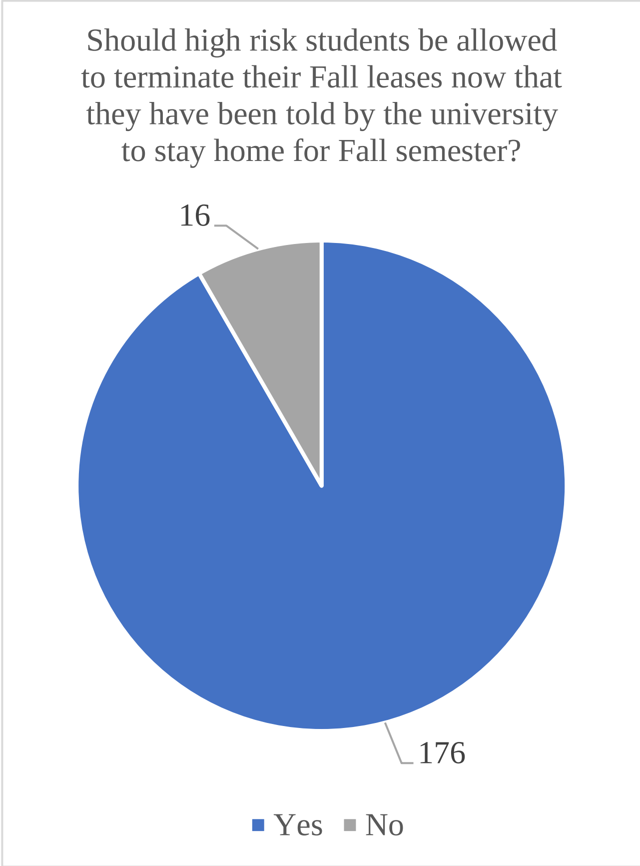


Figure 1 – Original Social Media Survey Data, Q2 2020

- Over **90%** of survey participants also agreed that high-risk students should be let out of their leases upon request. The vast majority of students agree that they have roommates who choose not to social distance themselves (See Figure 2).

- The majority of survey participants **knew someone at high risk who was unable to cancel their lease** for the 2020-21 school year (See Figure 2).

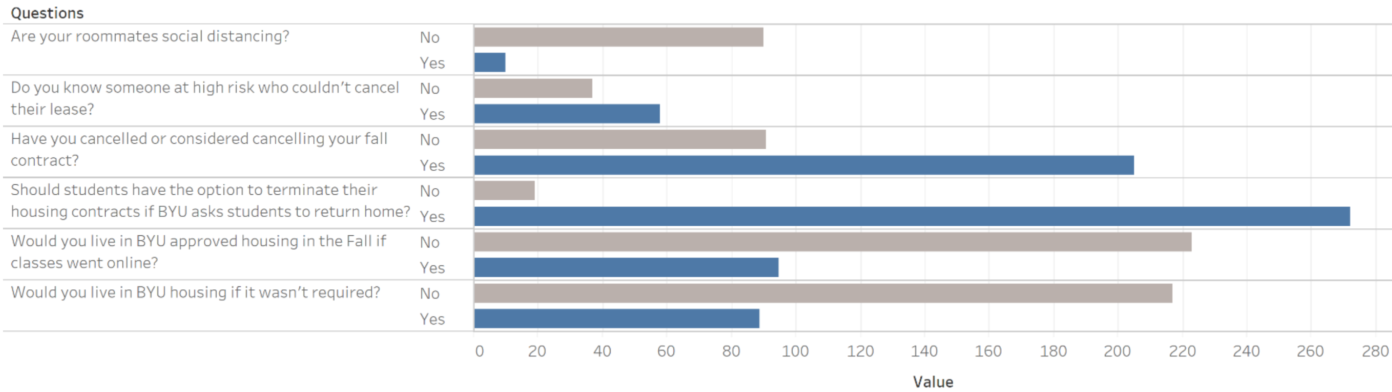


Figure 2 – Original Social Media Survey Data, Q2 2020

These results reveal the extreme dissatisfaction of being required to pay rent for housing where the students were not living. The data also reveals other issues related and non-related to the COVID-19 pandemic regarding off-campus housing. These survey findings motivated my desire to research the subject of off-campus housing during the COVID-19 pandemic, because of how controversial the issue was for the entire BYU community. BYU off-campus housing under these conditions provided an excellent case study in how university housing is affected by disruptions to the market.

Initially the college market suffered dramatically, however, it rebounded more quickly than other real estate sub-markets. As a result of university decisions to send students home in March:

- Campus real estate companies like American Campus Communities Inc. dropped on the stock market **30 points below the S&P 500** since March 2020. (See Figure 3, (Putzier))

- Delinquent non-government backed mortgage bonds secured by student housing rose to a peak of **13.7%** on July 1st, 2020, <u>the most delinquent mortgage bonds in the industry since at least 2005.</u> (Lin)

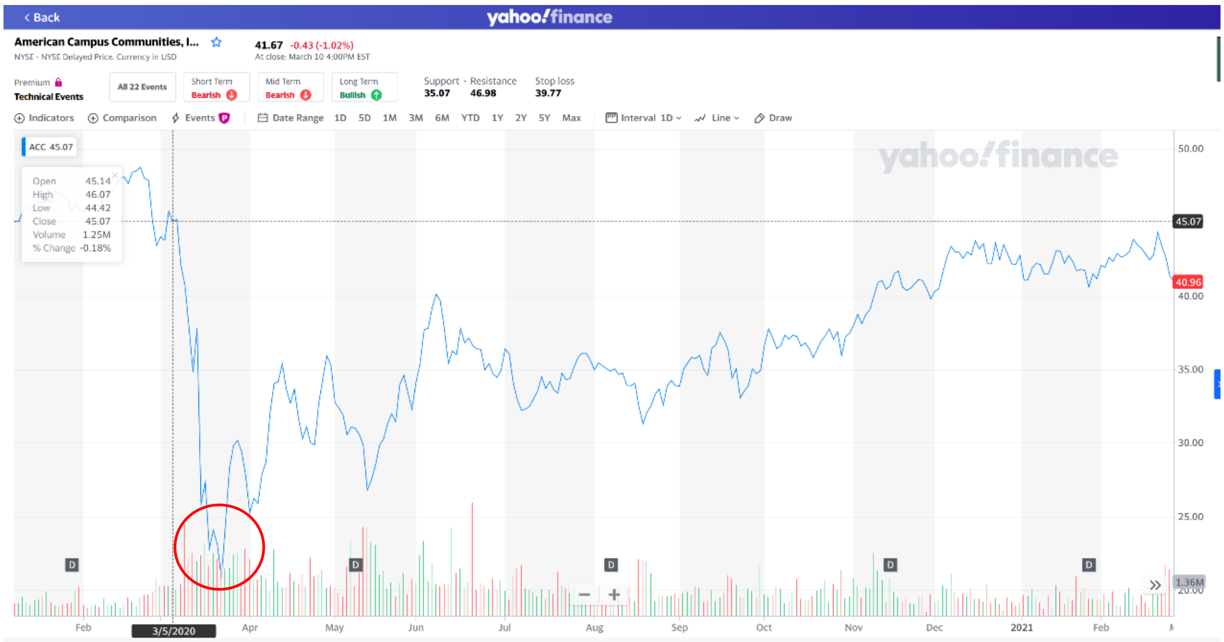


Figure 3 - American Campus Communities, NYSE (Yahoo Finance)

- **52%** of college-age adults decided to reside with their parents in the ensuing months (R. Fry).

These statistics starkly contrast against the drastic growth of the industry in the last decade:

- Investment in the college housing industry rose from $2 billion annually in 2011 to <u>$11 billion</u> in 2018, **a 550% increase in 7 years** (S&P Global)**.**

- The national student housing market was forecasted to rise from 1.03 million beds in 2010 to 2.84 million beds in 2021, a 1.81 million beds or 175.7% increase over the last decade (Statista).

Together, the difference between pre-and post-March 2020 statistics confirms the college student housing industry was peaking before the pandemic and that landlords needed to reconsider their business strategy.

III. Solution

Cassie Kozyrkov in the Harvard Business Review said “during an extreme shock, your historical data sources may become obsolete. Then it doesn’t matter how good your information was yesterday. You need new information” (Kozyrkov). The COVID-19 Pandemic was just such a shock. The last major pandemic which shut down schools was the Spanish Flu of 1918. At that time, higher education looked very different. Less than one in five 17-year-olds would graduate high school, let alone consider college (Snyder). A century ago, the U.S. economy was not comparable to today either. The shocks happening now are influenced by the technological and educational shifts that have occurred since that time. It is more common to reference more recent economic disturbances, such as 9/11 and the great recession of 2008, when trying to compare the impact of the COVID-19 pandemic. The New York Times looked at both events (9/11 and the great recession) and considered multi-family housing in Manhattan. They used sales contracts and median sale price to determine which was worse in comparison (Kolomatsky). New York Times found that although 9/11 had a negative shift, the market quickly returned to normal. In comparison, the housing market crash of 2008 lasted through 2009-2010.

The impact on the real estate market due to the COVID-19 pandemic seems to fall somewhere between 9/11 and the Great Recession in duration. After the initial months of the pandemic, the market did return to normalcy, taking only a few months to recover, with each month being far better than the last. I used both published data and industry data from Berkadia Commercial Mortgage, who conducted a survey of 865,000 beds in April, May, and June 2020 to determine the progression of the student housing industry (Berkadia). The results tell a story of quick recovery in comparison to other areas of real estate including other multi-family units, office, and retail. Collection percentage and pre-leasing were the primary market health indicators because those statistics help determine the capitalization rate, or the financial return on investment of a property, a major factor that investors consider when evaluating a property acquisition.

I interviewed over a dozen industry experts to determine what forms of SRM were successful in helping firms cope with the COVID-19 pandemic. I also referenced Dr. Paul Godfrey's book "Strategic Risk Management: New Tools for a Digital Age" to create a framework of how to define SRM from a very broad market overview to the individual manager level. I sought to address what businesses could or should have done during the pandemic to maximize long-term growth. Through this approach, I was able to create a roadmap for college housing landlords on how to navigate a major market disturbance. This roadmap was developed from my personal, volunteer, and industry experience, in-depth interviews with industry experts, the study of data collected during the pandemic, as well as a review of relevant literature on the subject.

A. Defining Strategic Risk Management

According to Dr. Godfrey, SRM should fall under the responsibility of the Chief Risk Officer (CRO), who collaborates with the Chief Strategy and Chief Financial Officers (See Figure 4). Dr. Godfrey writes that SRM encapsulates traditional risk management, enterprise risk management, insurance/claims, and safety/security of the firm. The worst possible outcomes of any strategy for the CRO can be defined by the questions "what's the worst that could happen?" or "what will keep it from working?" versus the best outcome questions which are: "what's the best that could happen?" and "what do we need to make it work?" (See Figure 5).

Perspectives	Downside Risks of Strategy "What's the worst that could happen?"	Upside Risks of Strategy "What's the best that could happen?"	Downside Risks of Strategy "What will keep it from working?"	Upside Risks of Strategy "What do we need to make it work?"
Office of the Chief Risk Officer	Inability to identify and mitigate downside • Brand damage • New correlations • Known/unknown unknowns	Correctly perceive and realize opportunity • Brand extension • New correlations • Known/unknown unknowns	Gaps and delays in risk data • Inadequate modeling • Decision-making biases • Failure to communicate • Unknowns become knowns	Knowledge of opportunity evolution/timing • Brand creation • New correlations • Unknowns become knowns
Office of the Chief Strategy Officer	Competitive parity—no advantage • Suboptimal choice • Opportunity costs • Unacceptable return on investment	Quantum shift in competitive advantage • Optimal choices • Exercise strategic options • Solid return on investment	Ease of replication • Faulty execution • Market timing • Lack of resources • Poor competitive intelligence	Create barriers to imitation • Capital investments • Knowledge and learning • Excellent market knowledge

Figure 5 - The Complementary Roles of the CRO and CSO (Godfrey)

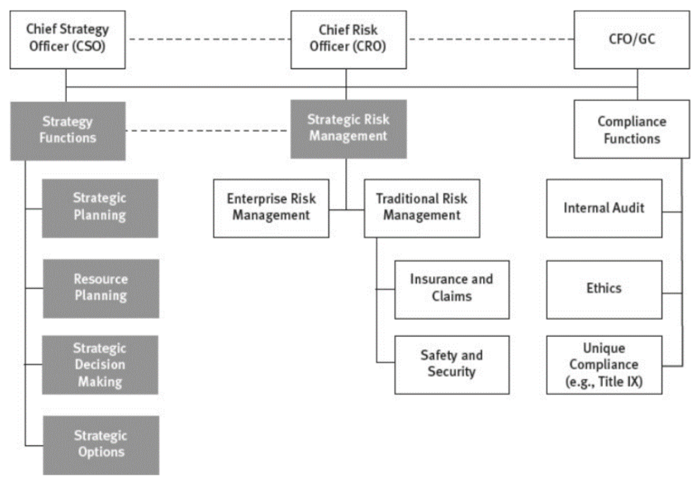
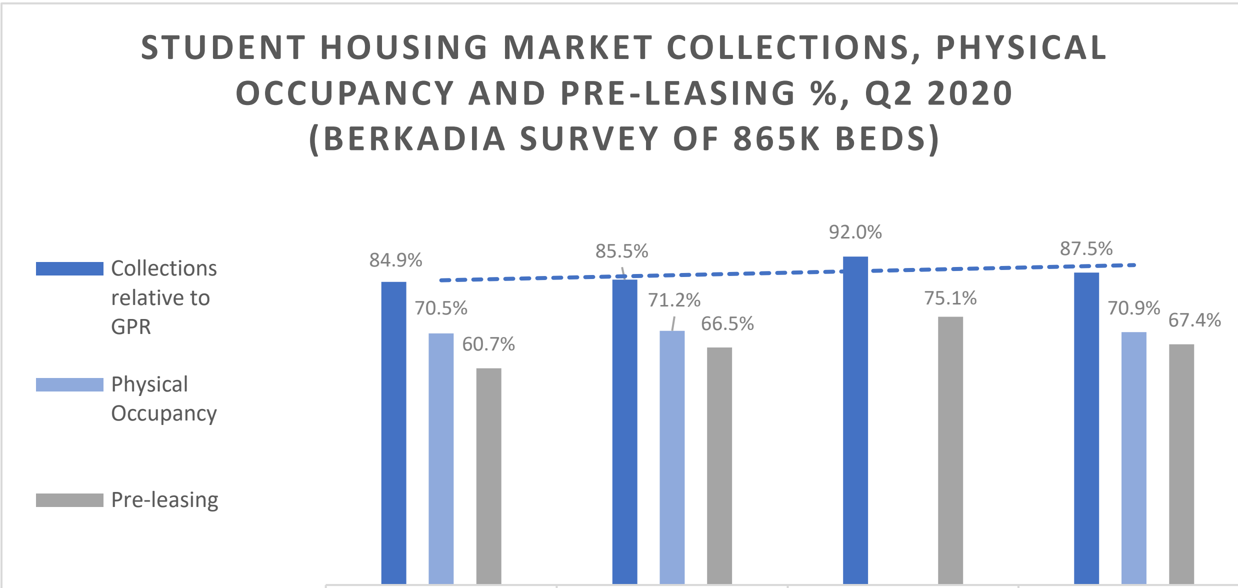


Figure 4 - SRM and the Risk Function (Godfrey)

SRM identifies, forecasts, and acts on potential positive and negative future outcomes for the firm. Risk is a double-edged sword; it can win victories, yet it can also inflict self-harm when improperly handled. One particular goal of SRM is strengthening the brand. While some firms during the COVID-19 pandemic have demonstrated excellent SRM to positively benefit their brand for years to come, other firms have damaged their brand through a lack of effective SRM. Though the long-term effects of the COVID-19 pandemic remain to be seen, the general principles of SRM point towards lasting positive results if applied to the collegiate housing industry.

B. Relevant Literature and Available Data Analysis

On a microeconomic look at the monopolistically competitive student housing landscape, preleasing and physical and economic vacancy (collections relative to Gross Potential Rent or GPR) are determinants of the economic health of each firm. Berkadia conducted a survey of a collection of student housing properties totaling 865,000 beds nationwide in the months of Q2 2020 (April-June) on each of these factors (see Figure 5). The data shows steady progress from the March shutdown which initially caused students to return to their family homes. Collections initially dropped in April to below 85%, a clear marker that in the immediate month following COVID, college landlords suffered substantially. However, collections rose to 92% by the beginning of June. This indicates that about 7% of students who believed in April and May that they would not need to pay rent while they were not occupying their college housing changed their minds and realized it would be necessary to eventually pay their bills. The data also shows that despite the Pew Research Center report that 52% of college-age adults were living with their parents in summer 2020, over 70% of those enrolled in college chose to continue occupying their college housing. Therefore, college students were more likely to want to stay in their college environment or at least occupy their college housing on a part-time basis than other similar-aged adults during the same period.



	Apr-20	May-20	Jun-20	Q2 Average
Collections relative to GPR	84.9%	85.5%	92.0%	87.5%
Physical Occupancy	70.5%	71.2%	0.0%	70.9%
Pre-leasing	60.7%	66.5%	75.1%	67.4%

Figure 6 – Student Housing Collections, Physical Occupancy and Pre-leasing Survey Data, Q2 2020 (Berkadia)

When looking at the student housing industry versus other sub-industries of real estate (see Figure 6 and 7), it is clear that economic occupancy, or collections, is typically much higher in student housing than in other markets. A comparison of Q2 data from the National Association of Realtors (Statista), student housing suffered as much as office real estate did, far more than multifamily though still less than retail, in the initial month of COVID (see Figure 7). However, the rebound for student housing was certainly much quicker than that of office or retail, jumping back up to the average economic collection of the average for Q2 of multifamily at 92% (see Figure 6). This data tells us that student

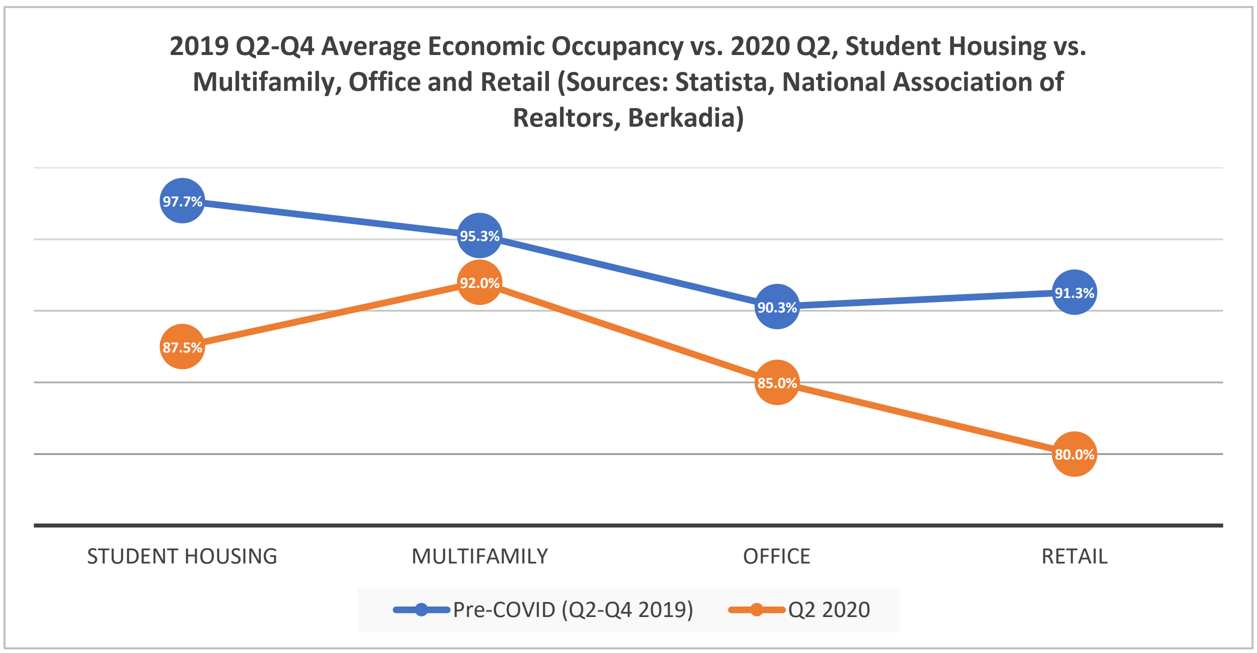


Figure 7 - Market Comparisons, Occupancy % During Q2 2020 (Berkadia, Statista, National Association of Realtors)

housing was unique in the COVID-19 pandemic experience amongst real estate industries; it suffered greatly initially but rebounded quickly.

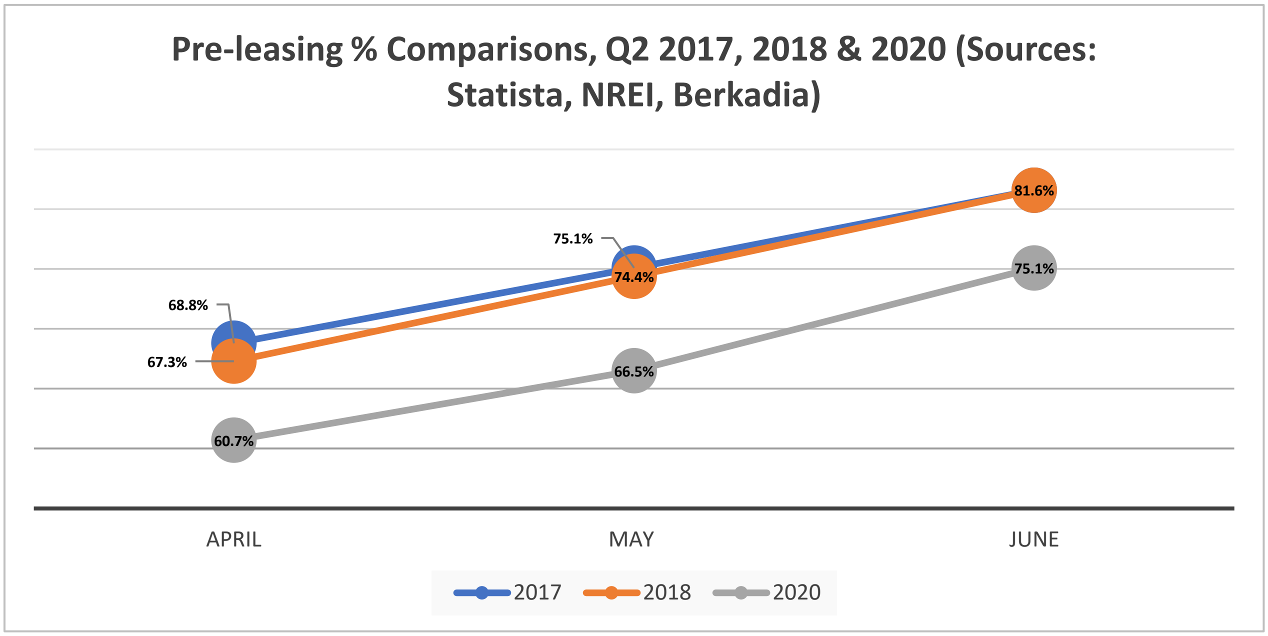


Figure 8 - Preleasing for Student Housing Q2 2020 (NREI, Statista, Berkadia)

Pre-leasing is critical for student housing in contrast with other types of real estate because once the school year starts, the wave of leasing is finished. National Real Estate Institute (Statista) found that in 2017 and 2018, the pre-leasing wave starts in October the year before the coming school year, then climaxes in August at an average of 94% pre-lease (see figure 8). A few stragglers bring the final occupancy average to 97.7%. During the months of Q2, 2020 lagged behind prior years in pre-leasing on average for the market by approximately 7%. This data shows that students were more cautious in signing up for the following school year, most likely due to delayed decisions on whether classes would be in-person or remote.

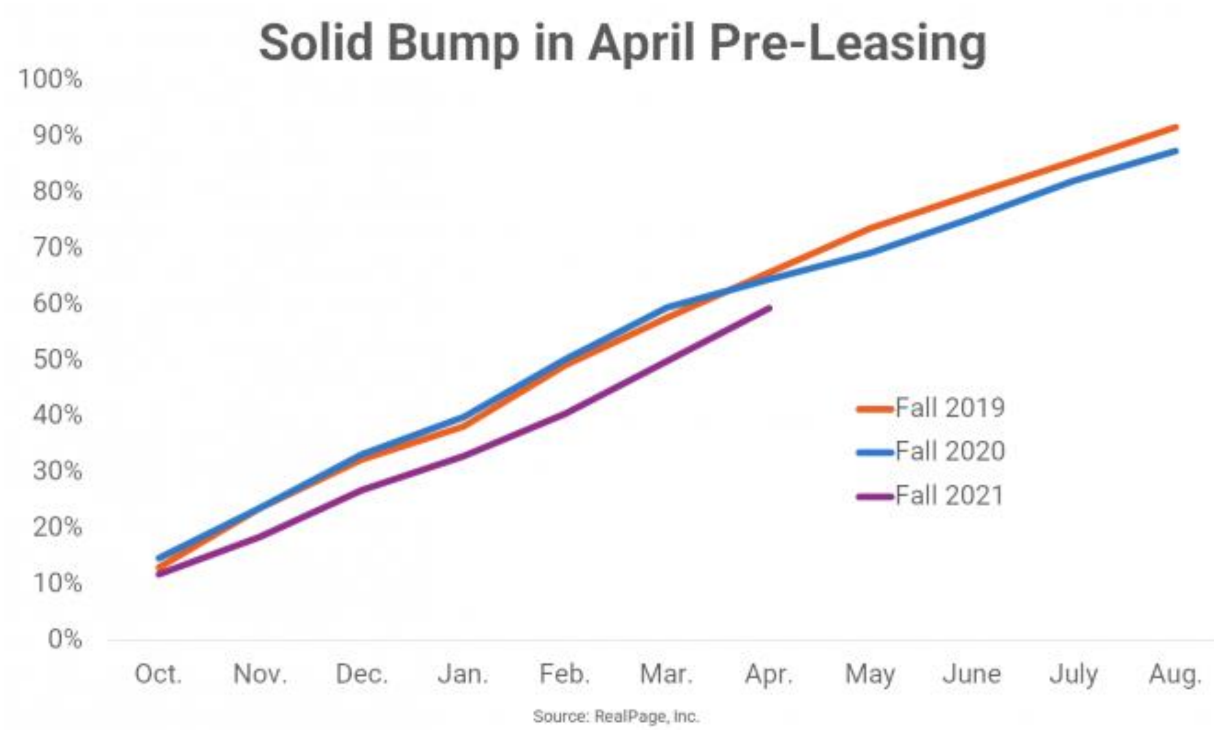


Figure 9 - Student Housing Preleasing 2019-2021 to date (Bunch)

As of May 2021, the data from RealPage (Bunch) clearly indicates that since the COVID-19 pandemic hit, there has been a significant gap in pre-leasing and most likely influenced by the shift to remote learning (see figure 9). The long-term effects of this shift remain to be seen.

C. PEST Analysis (Market Overview)

Figure 10 - PEST Analysis (Keyser)

To create a strategy to navigate the pandemic, each collegiate real estate firm should analyze their current position in their market using a well-established framework. Francis Aguilar, a former professor of business strategy at Harvard Business School, wrote a book titled “Scanning the Business Environment” which delineates the “PEST” (Political, Economic, Social, Technological) approach (Aguilar). The PEST analysis describes four tectonic plates upon which a business must analyze the likelihood and effect of an “earthquake” or unexpected event. Firms in the market should ask themselves several questions based on each category.

Political: How has the pandemic created local, state, and federal legislation on evictions, government aid, work-from-home policies, and other tenant rights? For example, California is currently the most aggressive state for tenant rights and anti-eviction policies in the United States, especially during COVID. Firms will have a greater degree of legal obligations to fulfill in California than Utah, or other conservative states. Many stimulus aid programs were passed at the state and federal level to assist firms experiencing lost rental payments. Each business owner should ask, how can these programs apply to my firm? What force majeure clauses exist in the contracts with my tenants and how will local judges interpret said clauses in small claims court? Judicial interpretation can vary by political bias on a state-by-state basis.

Another legislative piece that is majorly impacting where investors want to acquire student housing properties is the Tax Cuts and Jobs Act, which through 2022 allows for reduction, deferral, or no capital gains tax in “opportunity zones” (OZ) to stimulate economic development in low-income areas (Berkadia). Nearly half of these OZ’s are in 5 states, Texas, Florida, Ilinois, Georgia, and North Carolina. This legislation, which took effect during the COVID-19 pandemic and runs through 2022, will create greater demand for student housing in these areas, as it is estimated that it will deploy $6 trillion in unrealized capital gains. An effective SRM plan should identify opportunities like the Tax Cuts and Jobs Act to find ways to make a profit even during downtime for the market. Inability to identify these federal and state legislative changes would be a missed opportunity for firms in the student housing market.

Economic: How have stock market crashes or rising unemployment affected the firm and the customers? In a down economy, can unemployed customers be expected to pay their rent on time? Further, are investors and lenders willing to assist firms? Many banks are willing to provide forbearance, not forgiveness, on mortgage payments until the economy stabilizes. Additionally, firms should consider fluctuations in demand, which may shift along with increased remote learning, although the data is yet to be seen. More students living at home may create an oversupply of housing in the market, which may lower rental prices and thus capitalization rates, which determine property prices.

Social: Who are the customers relying on to pay their school rent? If parents are the financial source for most students, how can businesses improve relations with the customer family unit? How have universities' decisions to send students home affected college social environments? What impact do University policies have for firms in each local market? If a university requests that students go back to their home residences, what responsibility does the firm hold to those customers? How will college athletics, fraternities/sororities, clubs, and other social activities be affected during and post-COVID? For most students, the college experience and social factors outweigh the detractors of remote learning, and almost certainly will bring students back in Fall 2021 in full force once the majority of the population is vaccinated. Many power conference schools are already announcing full-capacity football games and no mask requirements for fully vaccinated students on campus for Fall 2021 (Redden). This means a renewal of college social life for the first time in a year and a half for most students. From personal experience in speaking with many fellow students, it is fair to assume most students are tired of "zoom university" and are looking forward to returning to in-person classes.

Technological: Though most are hoping that the vaccine rollout will save the industry, the major technological question for the college housing market is whether or not remote learning will become more common in the future following the pandemic. If so, this technological revolution in higher learning may cause further disturbances to the college housing market in terms of occupancy, prices, etc. The questions college housing players might ask include: How likely are students to want to live in a college environment? As great as the breakthroughs are in technology regarding remote learning, or “zoom university” as students colloquially put it, does it outweigh the factors of college social life?

The questions listed above are examples for managers and owners to ask themselves regarding the pandemic. Each of the four PEST tectonic plates of the college housing market has undergone major earthquakes in the past year. All firms in college real estate must gather strategic information through PEST analysis to establish the uncertainties in managing future risk.

D. The Four Pillars of Strategic Risk Management

Once the necessary strategic information is gathered regarding each property through PEST analysis, the next step is to manage strategic risk. Dr. Godfrey in his book writes about four pillars for SRM:

1. *Focus on the unknowns.*
2. *Clarify risk as well as appetite.*
3. *Embed SRM with other risk management tools.*
4. *Integrate SRM into strategic decision-making processes.*

Using the Four Pillars framework, college housing providers can implement SRM to survive the uncertain times of the pandemic. A strategic risk management team should frame issues of importance in each of these steps for 12-40 quarters in the future (4-10 years).

i. Focus on the Unknowns.

In searching out uncertainties in the future market landscape, firms can differentiate between the known and unknown. For example, many colleges have decided to return to in-person classes for the 2020-2021 school year. For properties in markets surrounding these universities, the continuity of in-person classes is known. Other universities have delayed returning to in-person classes due to the increased spikes of COVID-19 pandemic cases. The date upon which students return to in-person classes for these universities may be unknown, but businesses can assume that eventually, students will return because of their past behavior. College students enjoy attending school in person to enable a thriving social life with being close to friends, making new acquaintances, and attending social events. Almost all universities use college parties as a marketing ploy to attract new prospective students and future customers for the housing properties surrounding campus. Inevitably over time, college students at all universities can be expected to be back on campus because of their known behavior to socialize.

Dr. Godfrey and his coauthors acknowledge the passage of time is an essential part of this stage of the framework; they write, “time lags are inherent to strategic risks, whether positive or negative. Early seeds slowly bloom and mature into full-blown exposures, impacted by the process of path dependence.” All industry experts interviewed for this thesis expressed confidence that the market will return to normal in Fall 2021 and beyond.

Considering that firms should be looking ahead 4-10 years in the future when implementing SRM, college housing faces three daunting unknowns. The first was already mentioned: how will remote learning impact college attendance? Next, how will

Tier 2 and Tier 3 school closures impact college attendance? Lastly, how will lowering birth rates in the United States impact college attendance starting in 2026?

Remote learning presents a major threat to college housing if students decide to learn from home – the 7% drop in pre-leasing for the 2020-2021 schoolyear illustrates this point. A 2021 report from Educationdata.org found that the online learning industry is projected to surpass $370 billion by 2026 (Distance Learning Statistics [2021]: Online education trends.). They also found that a third of postsecondary schools plan to continue to offer remote and hybrid coursework after the COVID-19 pandemic is over. Twenty percent of students indicated they have had major challenges with remote learning during the pandemic. The question that follows is: will the majority of students return to in-person learning permanently? The data from pre-leasing indicates that the majority of students still prefer to learn in person. This is also supported by the college environment, such as college athletic events, socializing, and the general college atmosphere. Nonetheless, risk managers need to carefully watch postsecondary education market trends regarding online learning to forecast what percentage of college students will be learning remotely in the future.

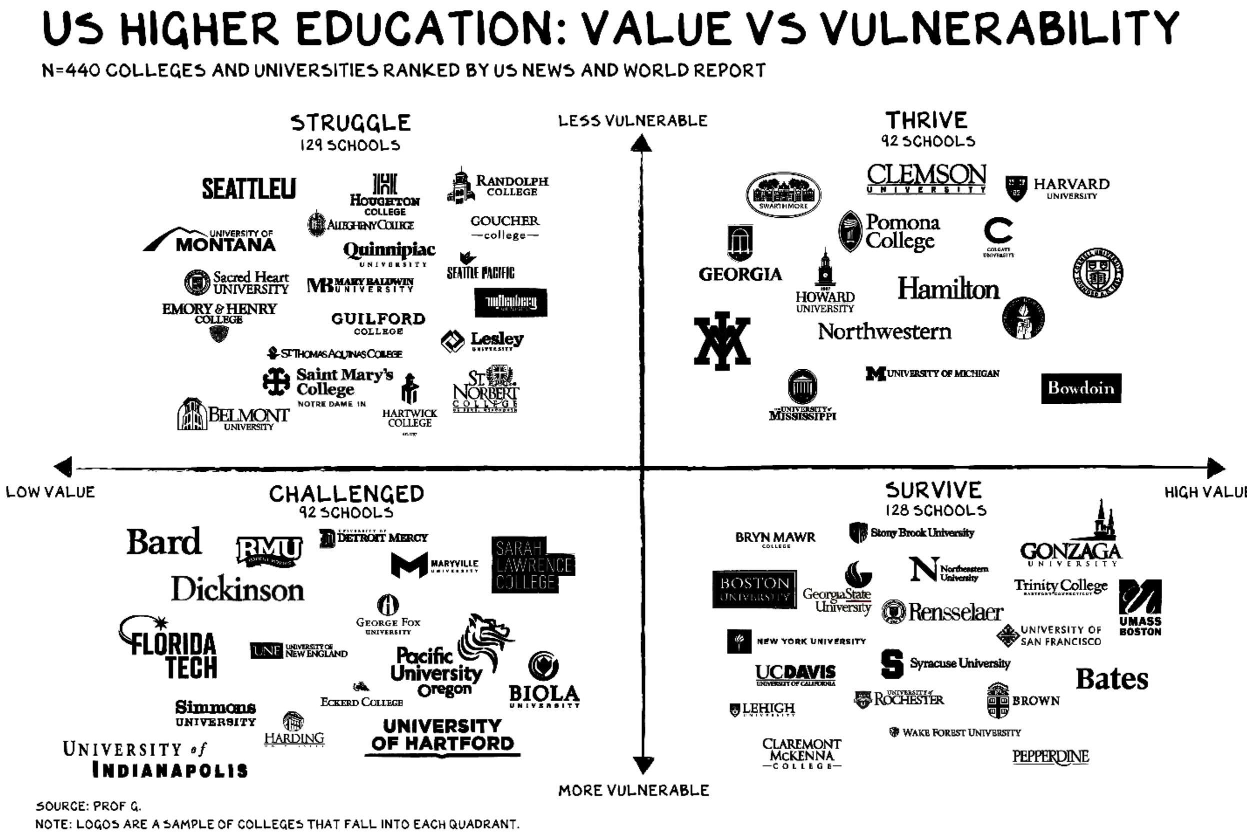


Figure 11 - College Value / Vulnerability Matrix (Galloway)

Next, landlords of universities at T2/T3 schools (non-Power 5 conference schools, D2 and D3 schools, etc.) need to be aware of the financial situation of donations and funding to the schools whose students they serve. The American Council on Education reported to congress that the COVID-19 pandemic has cost universities over $120 billion (Kaiser Health News). The University of California (UC) system, which had some more aggressive policies regarding remote-only learning, lost over $2.2 billion from the COVID-19 pandemic. But the UC system also has $15 billion in endowments to cover their losses. Boston education company Edmit found that a third of private 4-year colleges may need to merge or close over the next few years (Thys), and NYU Professor Scott Galloway (Galloway) has identified over 90 colleges which he labeled as “low value, more vulnerable” (see figure 11). Schools that are underfunded and have been hit hard by the COVID-19 pandemic may struggle to survive the next few years, losing business for the surrounding college housing properties. Risk managers need to identify through SRM where on this chart their school currently resides to determine long-term business sustainability.

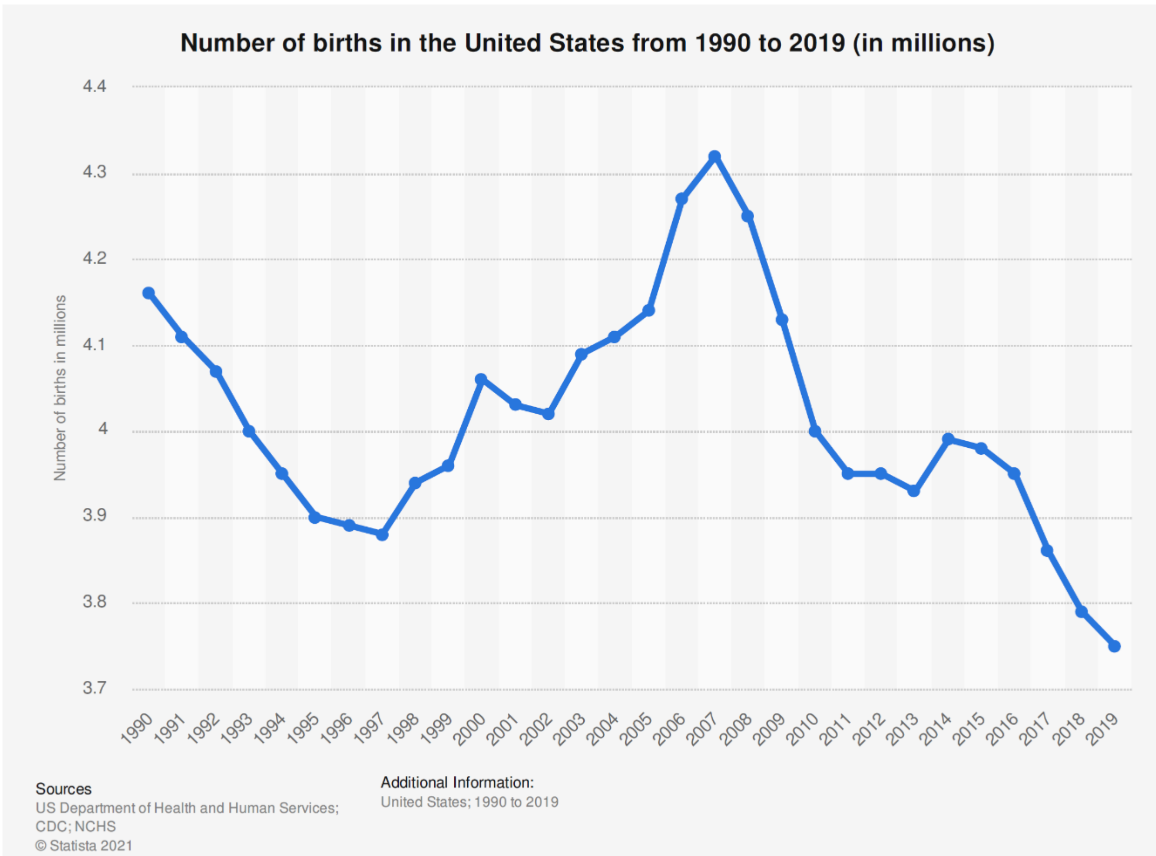


Figure 12 - # of Births in the U.S. 1990-2019 (U.S. Department of Health and Human Services, Statista)

A third major unknown is the downward sloping birth rate and resulting potential lower number of future customers in the market. According to the U.S. Department of Health and Human Services, the graduating high school class of 2026 will be the first of a continuing downward trend of total births in the U.S. (Statista). Over the next four years, colleges may see an upward spike in demand for college housing because of increasing

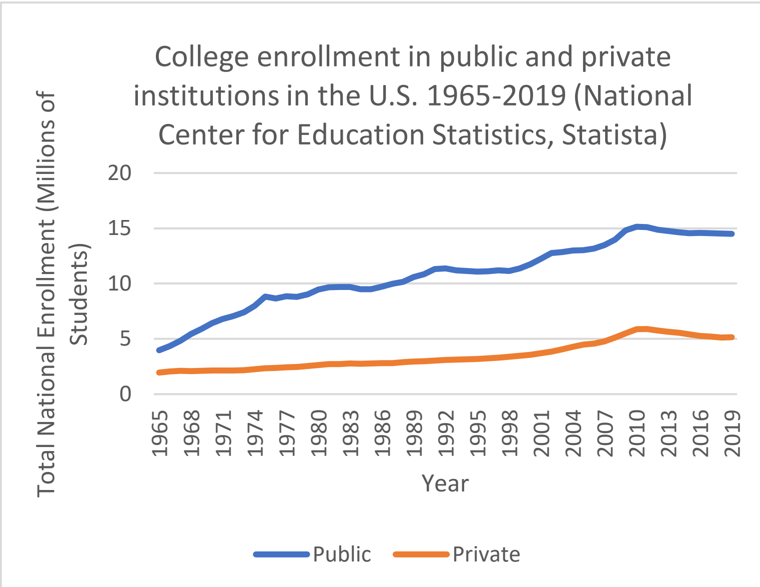


Figure 13 - College Enrollment in the U.S., 1965-2019 (National Center for Education Statistics, Statista)

births from the early 2000s and increased demand for post-secondary education in the job market, but this upward spike will be followed by a steep decline in births that will affect class sizes from 2026-2037 and perhaps beyond. One industry expert countered that the decrease in total births affecting incoming class sizes may be offset by the increasing percentage of college graduates in the U.S. (see Figure 14). As the job market continues to expect a post-secondary degree as essential for career growth, it may be that despite fewer potential college students being born, more high school graduates will decide to go to college, keeping the market size relatively stable when sizing the market for 2026 and beyond. This would be the hope for college real estate managers, despite a stagnation of overall enrollment in 4-year universities in the past few years (see Figure 13). Overall, SRM requires 4-10 years of future planning, therefore strategic planners should be aware of the population demographics and appetite for higher education that may affect future market size.

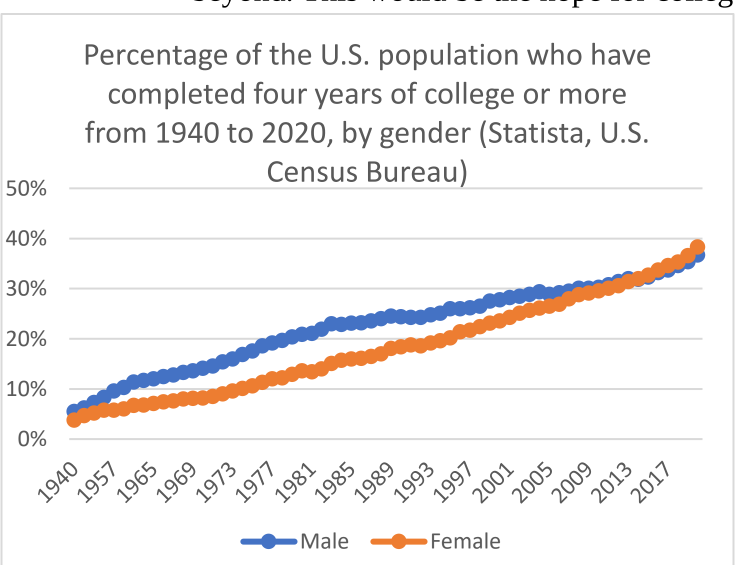


Figure 14 - % of U.S. College Graduates by Gender 1940-2020 (U.S. Census Bureau, Statista)

ii. Clarify Risk as well as Appetite.

Second, college housing firms must clarify risk capacity in relation to appetite. Students' appetite to live in university housing at BYU was negatively impacted by housing provider behavior. At BYU, almost all of the institutional housing providers made a collective decision not to allow **any** of their tenants to exit their leases due to the pandemic, regardless of extenuating circumstances. Firms must ask when considering brand image, "how do we win with customers?" Seventy percent of our BYU survey respondents agreed they would prefer not to live in university housing if they were not obligated by school rules to do so, mainly because of how firms acted regarding the pandemic. In the local market at BYU, firms damaged their brands for being unwilling to communicate or work with their customers to find mutually agreeable solutions.

As housing providers evaluate their risk in relation to appetite, it would have been worthwhile to consider how many students they could afford to allow out of their leases during the pandemic. Many high-risk students signed their leases for the 20-21 school year in the months prior to the pandemic. We had many of these students come to my volunteer team for informational assistance because they returned home due to health risks as the COVID-19 pandemic spread. Despite the relatively small proportion of this demographic with the overall student body, some businesses chose to obligate their high-risk tenants to stay in their contracts for a full year of rent for properties where they would most likely not reside for the majority of their contract rather than offer to give them away to other students. When asked whether this was appropriate, the majority of BYU respondents said high-risk students should have been allowed to be released from contracts that were signed pre-pandemic. Instead, as businesses chose not to accommodate these students, they risked damaging their reputation in the long run. If reputation is essential to the business' brand, landlords must find balance with their customers to ensure their continued positive reputation. SRM requires considering brand image in the business decision-making process when determining future growth.

iii. Embed SRM with Other Risk Management Tools.

Third, housing providers can embed SRM with other risk management tools, such as Enterprise Risk Management (ERM). While SRM focuses on positioning the business to succeed, ERM focuses on avoiding future pitfalls and reducing losses in cataclysmic events. Warren Buffet summarized this tool when he said, "You make money on customers by having a helluva (sic) spreadsheet on assets and not doing anything really dumb." Doing something "really dumb" in this case would be refusing to communicate with customers who have disputes with management. However, at BYU, property management companies did just that. I worked with hundreds of students who attempted to dispute their rental contracts directly, but the property management companies refused to communicate with the tenants on this issue. As a result, the majority of these students no longer wish to reside with the management companies that have demonstrated poor customer relations. One local market expert I spoke with told me that one company that had poor customer relations during the pandemic had trouble preleasing for the 2020-2021 schoolyear in the Provo market. SRM supports healthy brand management, which was damaged by the short-sighted approach of these companies. Combining ERM with SRM would have clarified what defensive moves to avoid.

iv. Integrate SRM into the Strategic Decision-Making Process

Fourth, owners and executives of institutional housing providers must integrate SRM into the strategic decision-making process. At this final stage, college housing providers should ask, “how do we create and deliver unique value?” Landlords must determine how to maintain a competitive advantage for their firms. Joseph in Egypt stockpiled enough grain to survive seven years of famine, positioning Egypt for continued strength as a world superpower for the following half-millennium. Joseph understood integrating SRM into Egypt’s business. Many landlords may believe that it is too late to stockpile for the pandemic because it is already upon them. Such a belief is far from the truth; though it may be too late to save cash for the market downturn, landlords have an opportunity to create a competitive advantage for themselves during the pandemic by delivering a superior product. Reputation will always get back to the firm; landlords must create a strategy to sustain their brand in the long run. Customers will remember how they were treated by their landlords during this time. College housing strategies integrated with SRM can position businesses to be more competitive in the future because of the brand properties establish during the pandemic.

One example of a knowledgeable user of SRM who incorporated a unique value strategic proposition, with an understanding of the potential upsides of the industry disruptions from COVID-19, is American Campus Communities CEO Bill Bayless. Bayless spoke about his plan to focus on lower concentration living arrangements in a post-pandemic world (Bayless). On-campus communities generally require students to share bathrooms and dormitories, whereas off-campus communities can support bed-bath parity, the notion that more and more students prefer private bedrooms combined with a personal bathroom. Peter Benedetto, senior managing director of student housing at Berkadia said to me in regard to Bayless' remarks, "[lower concentration living arrangements] will be expensive and time-consuming to implement, which will favor off-campus, purpose-built housing." Bill Bayless understands the crucial importance of offering unique value in SRM, which to him means offering a private bedroom and bathroom. Though bed-bath parity is a major way firms can focus on current/future needs in the college housing market, it is not the only way to drive a unique value proposition. Bayless also acknowledged COVID as a "black-swan event," so his company made a pledge that "regardless of [student's] ability to pay [their] rent on a timely basis, every student will continue to have a home." Economic concern was secondary to putting students' mind at ease for ACC. The lesson from Bayless and ACC for other firms in the market is to identify the needs of consumers and challenges of the market, find solutions, and plan to implement them.

I had the privilege to interview Tim McGinity, a partner at Allen Matkins law firm in southern California (McGinity). Allen Matkins handles real estate litigation for several high-profile corporate clients. Tim said, **"I have encouraged both my landlord and tenant clients to speak face-to-face, zoom, or phone call at the very least in order to add a human connection to the conversation."** Tim told me a story about how one landlord with whom Tim worked went to visit with each tenant face to face when the COVID-19 pandemic hit. By adding this human component to a working relationship between landlord and tenant, the landlord was phenomenally successful in retaining all of his tenant customers, despite the pandemic.

Allen Matkins is not the only firm to experience success by working with tenants on an individualized basis. I interviewed employees at one institutional firm with $280 million in assets under management for various university housing complexes nationwide which was able to sell **95% pre-lease** for the 2020-21 schoolyear for 17 out of their 18 properties by working with tenants on an individual basis. This firm (name omitted for confidentiality to insider sources) pledged to comply with CDC guidelines not to evict student tenants, and never went after any students who could not pay their rent. In some circumstances, the firm would communicate directly with parents who could afford to pay and work from there.

In these two cases, the businesses established a strategy to maintain a human conversation with the customers. By doing so, fewer lawsuits were taken up, retention of customers has been significantly higher than competitors, and future pitfalls of bad business reputation have been avoided. In Tim's words, each business in the college housing industry should ask themselves, "How do you communicate and create a dialogue to find solutions?" The firms in the college housing market will improve their SRM by asking this question.

IV. Conclusion

Landlords, owners, managers, and other stakeholders in university housing need to have a plan for before, during and after a cataclysmic event for the industry like COVID. In April 2020, the industry was hit hard, which exposed pre-existing weaknesses for many firms in the market. Closures of financial distressed smaller colleges or other future seismic shocks in the market are likely to eliminate some players in the market.

Firms in this industry must analyze and forecast future pitfalls to avoid unstable ground.

What SRM can do to help:	Before	During	After
Situation	Recognizing the pandemic or other industry shocks before they happen:	During the pandemic/industry shocks, what can firms do?	Industry comes to a new normal, what are the outcomes?
Complications	Foreseeing the pandemic in the weeks and months before mid-March 2020. Foreseeing school expansions / closures, increasing or declining forecasted enrollment at partner universities. Foreseeing other PEST Analysis-related factors, market/demographic trends and general business strategy concerns that could impact the outcomes for the business.	Changes in consumers appetites cause a shifting business landscape for the firm. The firm must adapt to the new business landscape caused by the shock. Change can be expensive, difficult for the firm.	Firms that can adapt rise to the top, while others fall and go out of business. Improved reputation, brand image of the firms that implemented SRM.
Solutions	Create a risk officer role within the firm before an industry shock hits. Have risk and strategy officers work together to plan to insure for the risk of an industry or firm-specific event, to have positive outcomes from a potential market shift. War-gaming, scenario planning, etc.	Regardless of whether the shock was planned for or not, make a new plan to adapt to new customer needs. Identify through communication with customers their needs, find resources to help, and plan to survive.	The firm by implementing SRM can weather the storm and come out on top, while other firms struggle to stay in business in a new market landscape.

Table 1 - Summary, what SRM can do to help

Higher education like many industries during the COVID-19 pandemic has been a mess. Every university differed in its decisions for the 2020-21 schoolyear for in-person versus remote classes. Now is the perfect opportunity for college housing businesses to create a strategy using the PEST analysis and Dr. Godfrey's four pillars framework to position themselves for long-term competitive advantage. Like Mike Tyson's advice goes, college housing providers underwent a tough punch to the mouth in April 2020 especially. Nonetheless, the industry has majorly rebounded. Bed-bath parity, personal communication between tenants and landlords and forecasting sustainability of partner colleges will be crucial components of SRM over the next 4-10 years in the student housing market. There are still rippling effects that are yet to be seen for the coming years – risk managers in the student housing industry have the option to adjust to a changing strategic landscape or to be left behind and struggle to survive because they did not plan or research future changes to the industry. Many property owners and managers may feel their firm cannot afford a team of risk managers to forecast trends in the market. Individuals in student housing like other industries have to go out on their own and become aware of future trends. By so doing, college housing managers will improve their brand, increase their likelihood of success, and mitigate future damages that would stem from lack of awareness of market trends.

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APPENDIX

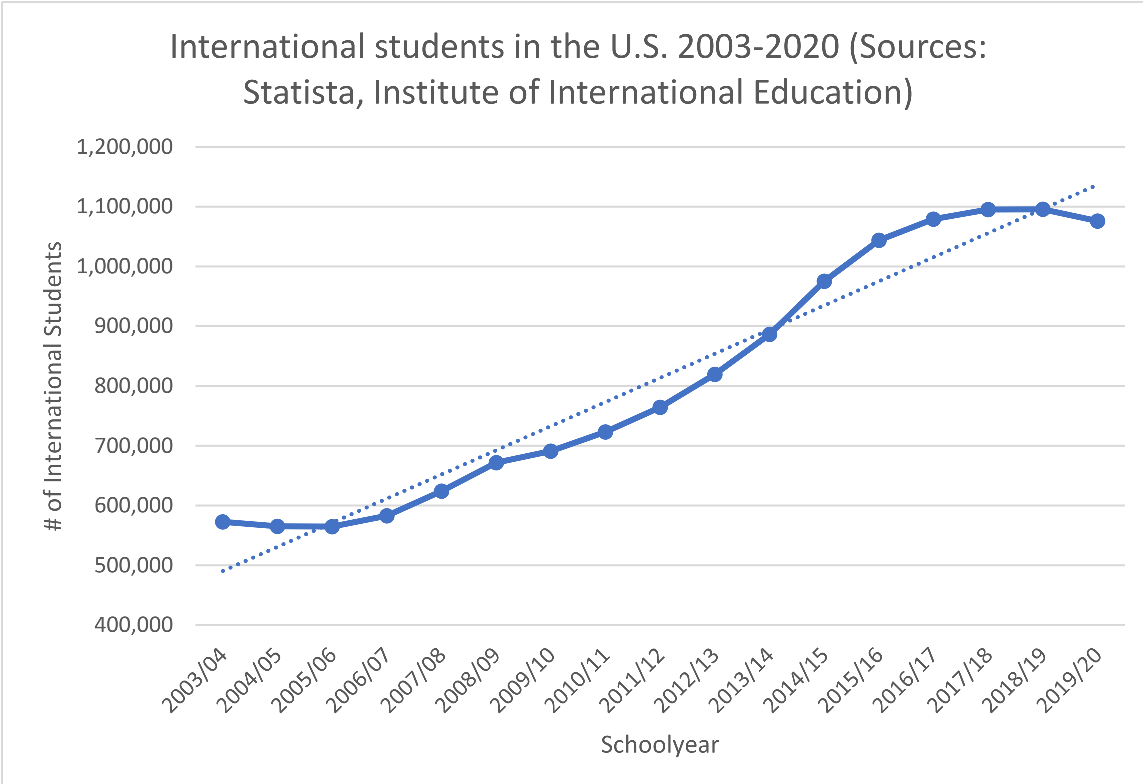

Figure 15 - International Students in the U.S. 2003-2020 (Institute of International Education, Statista)

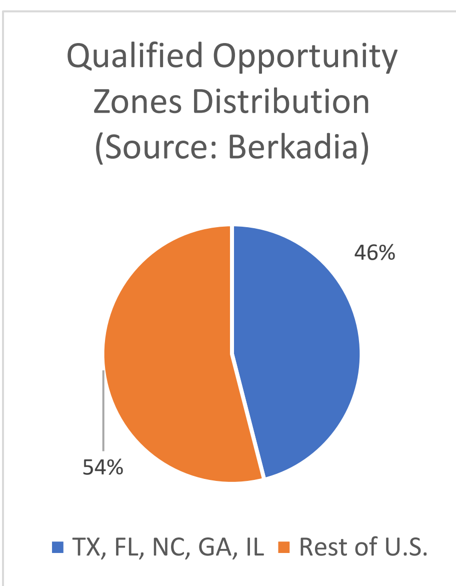

Figure 16 - Qualified Opportunity Zones Distribution (Berkadia)