Brad Korman:

So we're focused on those great neighborhoods, those great markets, those great locations, making your apartment really special, the amenities great, and then bringing it to life by taking care of people, by saying, "You're not a second class citizen just because you don't own your place. You can live here and it's not just as good. It's actually better. Your lifestyle is better."

Lea Anne Welsh:

We are giving people choices on how to live better, is what our motto is. So Korman Communities, fifth generation real estate company, multifamily real estate operators always had the hospitality component leaked through

Matt Slepin:

Hi, this is Matt Slepin and welcome to Leading Voices in Real Estate. Today's episode, recorded live at a Korman AVE property in King of Prussia, Pennsylvania on April 3 is with Brad Korman and Lea Anne Welsh from Korman Communities. It was great to be back home in Philly. This was a fascinating conversation and, as will be obvious on the show, the moment I walked into the room, Brad, Lea Anne, and I just went right into it. Thank God I was able to get the microphones and recorder started because we were already halfway into the conversation when I got to hit the go button.

So many threads in the conversation, from the meaning and tradition of a now fifth generation real estate company to the differential between a hospitality infused apartment operating model as compared to a current trend of self-guided tours and service lite properties, to optionality around lease terms and furnished apartments. It is great fun of having the energy of two guests talking together about the business. Both in my day to day work at ZRG and then on the podcast, we get to contrast different parts of the real estate business and what are often wildly different approaches to the business, approaching customers on how to make money.

This discussion doubles down on the value of a differentiated approach and business platform, which I'm pretty sure will contrast deeply with the next episode, a conversation with Ben Miller from Fundrise. Stay tuned. This is definitely one to share, which is easy to do through your podcast app or through the ZRG website. I hope that you'll share this and the Leading Voices series with your friends and colleagues in the business. A ton of references to past guests come up in this conversation, including references to our two conversations with leaders at Airbnb, both Chip Conley and Jesse Stein, our conversation from the beginning of Leading Voices with Toby Bozzuto and also a conversation with the founders of now defunct Lyric, Joe Framin and Andrew Kitchell. Check out and share the archives.

If you have comments on the show or you want to connect on how ZRG can help your organization with its human capital needs, please contact me at mslepin@zrgpartners.com. I hope that you enjoy this conversation with Brad and Lea Anne from Korman Communities as much as I did.

Lea Anne Welsh:

We pioneered the hospitality component in the multi-family industry. We've been doing this '70s, '80s, '90s when that was not as commonplace. More people are trying to do it. I think it's really important from a furnished perspective. We have won the wholeness of the operation. There are synergies between the apartment resident and the apartment and the people who are choosing to live in a furnished apartment because they want flexibility, because of their life situation, because of their professional situation. So I think that's a big piece, the fact that there's a wholeness to what we do.

Brad Korman:

They're the same person. They're not a business traveler who just happens to be stuck here for a couple of days with Mrs. Jones and Mrs. Smith who have been here for 15 and 20 years. That was the part that never really worked for either Airbnb or Lyric, people where all of a sudden, there's some apartment where, my son and his fraternity buddies are coming for the weekend and Mrs. Smith has been here for 20 years, they didn't bargain for that.

So that whole thing where, all right, why is there a lockbox on that door now? That's very different than what we do. Because our residents, even furnished are here for over seven months, it's the same person. Some of our properties, 25% of our unfurnished residents started as furnished. So SAP brings someone over and they say, "We're going to put you at Ab for the first three months, then you're on your own." One morning, they're downstairs having coffee, talking. Emily walks over, "How's everything going? How's the project going?" They say, "Well, it's going great, but I have to find a new apartment." She's like, "Well, you know, unit 402 is just like yours, just came available, no furniture. It's half the rent and you can move in there as soon as you're," it's like, "Wow. I can stay here. I still get coffee in the morning."

It's funny. How the program started, and I can talk about this. My father, when he first started furnished properties, this furnished program, he said, "We should do something special for them. We should put out donuts and orange juice for the furnished guests." We were doing 10% of the property. So we would put out this great thing and what he realized, the unintended consequence was, 100% of the people would walk by and say, "Ooh," and we have to tell 90% of the people, "No, no, no. That's not for you."

Matt Slepin:

Oh, wow.

Brad Korman:

Because it was just for the furnished guests. Then he realized, instead of doing the nice thing for 10%, I'm doing a bad thing to 90%. So why don't I buy a couple more donuts and a little more orange juice and give it to everybody.

So to Lea Anne's point, this whole hospitality concept, it's one property. It's not somebody master leasing a bunch of apartments and saying, "I'm doing something different over here." Bill's apartments operate this way and my company, we're the wholeness of the property. So when we do something nice, that nicety is for everybody.

Lea Anne Welsh:

I think that's a big piece of what makes us unique, for us to talk about that. There's the wholeness and the sense of community that we drive.

Matt Slepin:

It's interesting. We're going to get into this because I'm taping right now. We've now started the podcast conversation, so we're in on the things you just said. Also, in the apartment business and by my background, I'm an apartment guy, so I love this business and all of its nooks and crannies and different ways of doing it. But the Holy Grail for the apartment business has been to figure out hospitality and inject hospitality at the same time that the apartment business today is injecting efficiency and everything online and you don't need humans. That's a contradiction, but you can accomplish both.

Brad Korman:

Well, it costs more. It costs more and you have to get paid for it. But we think that's the element that's been missing for so many other apartment properties. You had that one level of, even if the new properties are being built and we have great amenities and they do all these nice things and nice finishes, and you get marble, and you get a back splash and you get stainless. But the service and how you were treated was still at one level. We're doing all the niceties and going to the next level and it might not be for everybody. What we do might not be for everybody.

Matt Slepin:

Of course.

Brad Korman:

You think about when Starbucks came to the world, they didn't say, "We make a better cup of coffee that you should pay $4 for when you can get coffee down the street for 75 cents." They weren't selling a better cup of coffee. They were saying, "You deserve to treat yourself today." Walt Disney doesn't say, "We have the fastest roller coasters and we have the shortest lines." No. They say, "Your family's important. Make them feel important." So what we're selling is something different.

Matt Slepin:

Hey. I think the Starbucks thing is not just, it's multiple things, but one of them is real estate because one of it is a sense of place. They created the third place. That was the breakthrough in my mind, not better coffee. Better coffee, cool, but the third place is huge, huge. Changed our lives.

Brad Korman:

So we're focused on those great neighborhoods, those great markets, those great locations, making your apartment really special, the amenities great, and then bringing it to life by taking care of people, by saying, "You're not a second class citizen just because you don't own your place. You can live here and it's not just as good. It's actually better. Your lifestyle is better."

Lea Anne Welsh:

We are giving people choices on how to live better, is what our motto is. So Korman Communities, fifth generation real estate company, multifamily real estate operators always had the hospitality component leaked through a generation ago, before it was commonplace. There are two words that we live by. It's live better. Every single person on our team, every single person that is part of our organization, their mission every single day is to allow, empower, and create the environments where our residents can live better, whether you're here for a few months or whether this is your home for a few years. That's our mission every day.

Matt Slepin:

K, let me ask a different question about live better, and then we're going to actually start the podcast. But live better, how much of that is to your colleagues and how much of that is to your residents?

Camden would say that the answer is, we treat our associates, they're our first order of business. The second order of business, residents. Any comments to that?

Lea Anne Welsh:

They're actually on point with that. You have to make sure that you have an engaged team because it starts with people. The Korman family, Korman Communities AVE, AKA we're about people. People first. We have beautiful communities, beautiful assets. We operate them to the highest degree that, at the end of the day, without bringing them to life, they are just the community down the street. So our team means the most. Our recruiting, our onboarding, our retention, the growth plans on how we can grow our team members and let them achieve their goals from a professional perspective. We care about what matters to them from a charitable perspective. So making sure we have an engaged team, number one. Because then you can activate, elevate the resident experience. So that comes back to living better.

Brad Korman:

It does and it has to do with our team members. It has to do with our family. It has to do with our partners, our lenders. People matter to us. So we don't look at any aspect of our business as a commodity. None of it is something that's institutionalized where it's just on pieces of paper and it's just dollars and cents. How people feel matters to us and it translates to better business. We've seen it over and over again.

Lea Anne Welsh:

It's not just our team members and our residents. It's the general community, as well. We used to always talk about, the mailman's coming in. The mailman still comes in, but it's the Amazon driver, the UPS and FedEx driver. It's cold out. We'd like a cup of coffee. We want everyone to be talking about how great AVE is. You need to go there. They were so great. When I moved from Dallas, I stayed at an AVE community. They were amazing while I found my home. Then they're going to tell people and tell people.

So that referral system is key to driving our business forward, but it comes back to in your heart. We want to hire and retain and grow the best people who want to do well, who want to do well by others. That's a big piece of our business.

Matt Slepin:

Right. So that's a good segue. Interesting even, again, before I introduce you, one of the things that we said before we started this conversation was that I have a belief in real estate. I should change the name of the podcast from Leading Voices in Real Estate to Leading Voices in Real Estate Business Platforms because I love the business actually more than the buildings. In real estate, we spend most of our time talking about buildings. This podcast talks a lot about the companies that have those buildings, but what we really talk about is how those companies operate, what makes them special. That's what we're going to get to today.

So I'm going to change our subject. I'm going to introduce both of you. Actually, let me have each of you introduce yourselves briefly. Then we're going to start by telling a little bit of history about this family and its business in real estate. Then we're going to come back and talk about the business that you have here and why we're here in your property today.

Brad Korman:

Great. Well, thank you, Matt. Welcome to King of Prussia AVE, King of Prussia. We're thrilled to have you here. I'm Brad Korman. I'm co-CEO of Korman Communities. We are a 110 year old, five generation company real estate company focused on different forms of housing and making people feel at home. We operate two platforms. We'll be talking about our AVE apartment platform today. We also operate a hospitality platform called AKA. Together, through both platforms, right now, 40 properties nationwide, about 1,050 team members throughout the country, total market cap somewhere around $4,500,000,000 to $5,000,000,000 and we feel as though we are onto something that's been very special. Not just because, to your point, of the real estate, but because of the people and the platform and the leaders like Lea Anne Welsh, who really make this happen.

Matt Slepin:

Cool. The 40 properties and 1,000 people and $4,500,000,000 to $5,000,000,000, that's between the two companies?

Brad Korman:

Combined. Yes, it is.

Matt Slepin:

Okay, cool. Lea Anne.

Lea Anne Welsh:

Hi. I'm Lea Anne Welsh. I have been with Korman Communities for 33 years and I've pretty much held every role throughout the operation over the 33 years. I am chief operating officer of Korman Communities and president of the AVE brand. What that enables me to do is truly work with our teams and our leadership and our transaction team on growing the brand because nothing stays the same. Over the course of the last three decades, how we have evolved, how the world has evolved, how we put AVE on the table for people to choose us to be able to live.

Matt Slepin:

Okay. Well, let's talk about that during the conversation. Where I want to start, though, I want to talk about your business. One comment about your business before you tell your story is, my story very briefly because I grew up six miles from here. Wynnewoood, Pennsylvania, so a couple few miles. I used to come to King of Prussia because it has a mall. In my background, my family did not do real estate, but I heard the word real estate. It was not meaningful to me, but one of the ways I heard it was through people who were leaders in the Jewish community in Philadelphia. My mom used to talk about this stuff incessantly, so it was in the back of my mind. One of those was the Korman family. So Brad, talk about how you're at 5G right now in this, talk a little bit about founding, and the pathway that got to this place.

Brad Korman:

Yeah. It's a wonderful tradition. I'm very proud of it. I'm very proud of our family and how we've been able to stay together and do well and do good within our community and in the business. So it's been a great journey. My great-grandfather, Hyman Korman, came over in 1904 from what's now Belarus, part of Russia, and came over. He had been in the home building business, working with his uncles. Came over here. The job he got was sweeping floors in a dress factory. He worked his way up from sweeping floors to making patterns to managing the factory. When his fiance came over, my great-grandmother, a year or two later, they lived out in Northeast Philadelphia, bought a farm, and over time, started developing the farm and building homes there. My great-grandmother actually rented out rooms in their farmhouse, so we actually credit her for starting the entire furnished apartment business back in the day.

Matt Slepin:

If we go back, Hyman and Yetta.

Brad Korman:

Yes, Hyman and Yetta.

Matt Slepin:

I just love the picture of the names. There's some romance to this. Hyman had come from a family that did some real estate back in Russia.

Brad Korman:

They did, with the railroads. Yes, they would build housing and then move the log cabins further down the tracks as the railroads were getting built.

Matt Slepin:

Right. But he started his career when he got here at the bottom.

Brad Korman:

At the bottom.

Matt Slepin:

But then you said they bought a farm in Northeast Philly.

Brad Korman:

Hamilton Farm, yes.

Matt Slepin:

I used to drive a Jack and Jill truck in the greater northeast.

Brad Korman:

Good for you.

Matt Slepin:

It's an ice cream truck for people who don't know.

But did they have any wealth that they were able to bring over that allowed them to buy the farm, or was this bootstrapping to have a farm?

Brad Korman:

It was bootstrapping and they were putting it together as they went. I know, years later, my great-grandfather had three children, two of whom, my grandfather, Sam, and his brother, Max, went into the business with him as the second generation. They would work the farm and construction during the day and then they would go to school at night at Drexel University; one architecture, one engineering.

Matt Slepin:

Wow.

Brad Korman:

And they put themselves through. Then they started developing this home building company that went from hundreds of homes to thousands of homes. I remember my grandfather telling me at one point, they were building 2,000 homes a year and their profit margin was $200. He said, "You never mess with the margin," so that's what they made. They built between 30,000 and 40,000 homes over the next 40 years. So through the Depression, coming out of it-

Matt Slepin:

All in Philly. This is very local.

Brad Korman:

In Philadelphia, Bucks County, Montgomery County, South Jersey, all in the Mid-Atlantic area. They did it by doing things that today, we think are commonplace, but they were vertically integrated before that was a term. They had lumber yards that my father actually ran when he came out of school. They had brick plants. They had the manufacturing. They then were building PUDs, planned unit developments, before that was a term. They would build 5,000 homes, 1,000 apartments and neighborhood shopping center, sell the homes, keep the apartments, keep the shopping center and go forward.

So, through the '30s, '40s, and '50s, they built 30,000 to 40,000 homes. They built about 12,000 apartments, sold the homes. When my father and his cousins came into the business, they were in that home building business into the '60s and '70s, but were doing apartments as well.

Matt Slepin:

And the home building at that point in time, there were not luxury homes. There were no Toll Brothers building at the high end, so this is worker housing.

Brad Korman:

This was workforce housing, but my grandfather's best friend was Altal, Bruce and Bob's father. So they were building homes. The Levitts were building Levittown and other homes. You had a lot of these builders in the area who were building, and they would share resources and materials. They were all friends. They all went out socially, played golf together. They were part of the same community that was developing the Mid-Atlantic and Northeast area.

The difference was, for my father, he came into this business and he saw that if you did a great project, a great housing project and you sold it, you could sell it once and it was gone forever. What he liked about apartments was that you build an apartment property and if you took care of it and treated people well, you could continue to make money from that for a long time. So that's what was really interesting to him.

Matt Slepin:

And actually, not flipping apartments allows generational wealth to accumulate in a very tax efficient way to say the least.

Brad Korman:

It does. You see that with New York families. You see it with a lot of families. For us, when Larry and I came in years later, that was one of the challenges is, how do you grow in a market where there aren't a lot of transactions. But what was interesting to my father was, what started as one of our first apartment properties that was a high rise didn't really work so well and that's where he started the furnished apartment program.

Matt Slepin:

That's Steve.

Brad Korman:

That was Steve.

Matt Slepin:

And that building is the one right on the Circle in Philly. I've stayed there as a hotel a couple of times.

Brad Korman:

Right. So it was built as the Plaza Apartments in 1966, right across from the cathedral, St. Peter's and Paul, on the Ben Franklin Parkway. Which in Philadelphia is our [inaudible 00:19:49] that links the art museum to city hall. He built this great building. It's architecturally beautiful.

Matt Slepin:

Circular building.

Brad Korman:

Circular building, which, with black and white marble, beautiful. The issue was, when you have a circular building, it means every floor is round and every unit, apartment is pie shaped, pizza pie. So people would walk in and say, "Hmm, the wall's here. If I put my bed here, how do I see this over here," and it didn't really work. So my father went to a local designer, Bennet Weinstock, and said, "Do me a favor. Furnish every apartment on this floor, not as a sample, but with real furniture so people could see how they would live."

So he furnished every unit and people would come in and they would say, "Okay, this is great." Then one day, someone came in and said, "This is great. I would like the apartment with the furniture." The leasing agent said, "No, it's an apartment. You don't get the furniture." My father said, "No, no, no. You can have it with the furniture. Here's the price," and they leased the entire floor.

Matt Slepin:

Then that person didn't lease the whole floor.

Brad Korman:

That person leased an apartment and the property leased the entire floor. So my father said, "Let's furnish another floor."

Matt Slepin:

What year is this?

Brad Korman:

This is 1966.

Matt Slepin:

Okay. Keep going.

Brad Korman:

So they furnished another floor. Someone came in, "I like it with the furniture." Great. But the person said, "But I only need it for six months." The leasing agent said, "No, it's an apartment. You must take it for a year." My father said, "No, no, no. You can take it for less than a year. Here's the price." It hit him that there was a place for people who needed to be somewhere for a day or two called a hotel, a year or two called an apartment, but nothing in between.

At this point, we had 24 properties within the region. This happened over several years. We were building properties. We had a lot of apartment properties and he said, "Let's put five or 10 furnished apartments in every property to see what happens." Some locations, Northeast Philly, five, 10 apartments was fine. But some locations in Montgomery County or Bucks County, those five or 10 went quickly and he said, "Let's do another five or 10. Let's do another 10 or 20," and he made a deal with the furniture rental company and figured out how to make the economics work. Then all of a sudden, this was a business model.

Matt Slepin:

So this is through the mid-60s into the '70s.

Brad Korman:

Yes.

Matt Slepin:

So it's the same time, I know this from Howard Ruby did this in Oakwood.

Brad Korman:

Yup.

Matt Slepin:

What's the difference? Were they competitors? They must have known each other. Were you comparing notes? How did that business evolve, both for you and the percentage of your apartment revenue, or your apartment focus was that versus general apartments?

Brad Korman:

Because, at this point, we were the largest apartment operator in the Philadelphia and Mid-Atlantic region. We had 10,000 apartments, 24 properties. We had critical mass here. We really didn't compete with anyone from the outside. Outsiders didn't really come into Philadelphia that much. It wasn't considered an institutional investment town. So we didn't really have a lot of impact with Oakwood in the beginning. The Oakwood model was different from ours in that they weren't necessarily an owner/operator of every property they managed. They could go into someone else's property, take two units, four units, and furnish them and do their thing.

Matt Slepin:

Bringing that concept to a different owner to say, 10%, 20%, 5%, a good way to even out the ups and downs.

Brad Korman:

Well, for the owners, they weren't really paying the owners anything premium except their market rate and they were keeping all that, so it was different.

Matt Slepin:

Lea Anne?

Lea Anne Welsh:

What Brad talked about with Steven, the innovation. Even back in the late '60s, it has been a theme of our company and how we are where we are today, that innovation, creativity, solving a problem. We're a solutions oriented company, so the fact that a very special building was built and Steven furnished more apartments and then people wanted to take it, the answer's yes. Let's figure this out. That really, I think, is one of the key themes as to why we're a thriving, fifth generation real estate company that is leading the way in how people want to live.

Matt Slepin:

Got it. And Steven's the third generation, so we're going to get to the fourth generation and how that transition-

Brad Korman:

So, Steven's third generation and he's terrific, still active today, and he goes to properties and he loves to walk vacant units, and see what's going on, and meet the team, and have sales meetings. He'll call Lea Anne and I afterwords and say, "Our team was at Bluebells, great. Our team, King of Prussia, the best." He's energized and he has that frame of reference and that upbeat personality, which is just infectious. He really was the innovator of, "We're not selling a product. We're solving your problem."

So you can come in, where everyone else is selling 12 months, no furniture. Tell us what you need and let us try to figure it out. We can price in what that cost might be. So that's been an important part of what we do.

Matt Slepin:

We also need this in the office business. It's interesting, which is even harder because you want a 10 year lease.

Brad Korman:

Yeah.

Matt Slepin:

But now, you have, we work to give optionality in that business.

Brad Korman:

Well, that disrupted and I think a lot of office owners said, "Wait a minute. We're hearing what our customers want. There isn't just one size fits all. Let's figure out how to do that."

Lea Anne Welsh:

There's something that we just talked about, the fact of the Oakwood model, of going and renting a few apartments at an apartment community and furnishing it. Our furnished apartments are part of the wholeness of the community. That's a big piece of it, too.

Matt Slepin:

The wholeness of the community within the building?

Lea Anne Welsh:

The wholeness of the community, the fact that we do have furnished apartments. You can stay for a few months. You can stay longer. Our average length of stay across our furnished program is six to seven months because, again, we're promising that flexibility. There's uncertain situations, whether it's a life change as to why you need a flexible stay, furnished apartment. Or a business need that you're coming in town. You might be relocating permanently. You might be on a long term assignment. You might just be a super commuter and coming back week after week and want a sense of home, a sense of community versus checking in and out of a hotel.

So we cast such a wide net that, at the end of the day, our communities, whether you're here in a flexible stay, furnished apartment, or you're moving your furniture in and your belongings and staying, signing a year commitment and then staying. Our retention is above the best in the country because we create that stickiness with our residents and that sense of pride as to where they live, and that they're part of something special. They're part of a community.

Matt Slepin:

So let's continue into how the fourth generation got into this, what the transition was. You became two companies. You had a legacy portfolio that maybe you don't have anymore, but maybe you do. So talk about that transition.

Brad Korman:

It was interesting. Larry and I came into the company, my brother, Larry, in the mid '80s, so almost 40 years ago. I have another brother, Mark, who came in a little after that. When we came in, there were 14 family members in the business. You had 42 family members and trusts who were ownership in that legacy portfolio. As we were looking to grow, my father loved being based in Philadelphia and loved growing out the Philadelphia market. He found value in critical mass, which we had. He also loved being home for dinner every night, as he would tell you. So that was important to him. That was important to us, so it was wonderful.

As we looked to grow, Larry and I, we were looking outside the market. So two things were happening. One, we wanted to grow our portfolio outside the market. At the same time, we did make that decision that it made sense as a family to sell down the legacy portfolio so that those who wanted to monetize their position could, and those who were just looking to do different things had the ability, the flexibility to do so.

So at the same time, we put on a 10 year track to sell those 10,000 units, which we did. At the same time, we wanted to grow our platform. We were curious. Would our concept of luxury apartments, high touch service with the furnished component, would it resonate other places? So we went to the Raleigh-Durham market because we were familiar there. We went to Atlanta. We went to Northern Virginia. We went to White Plains. The answer was yes, it resonated. So we looked to grow and that was something that was important for us.

Matt Slepin:

Yeah. Let's go back to what you talked about, because I'm curious about how family businesses work.

Brad Korman:

Yes.

Matt Slepin:

Every family business, many family businesses, when they have a transitional generation, have both the issue of leadership and the issue of how to make the wealth work in the way for the family. So what worked for you, going from 42 different owners, was to have that all become monetized so then you could focus the ownership and leadership, I think this is what happens, with you and your brother, which clarifies things.

Brad Korman:

It does because you want to make sure that everyone, no one should be forced to invest in new deals. But also, those people shouldn't be able to prevent those who want to grow from growing, as well. We had some of that. Being able to take it, for the legacy portfolio, if I wanted to refinance a property, I would put a document together 30 years ago that was three inches thick, before DocuSign existed. I would have to send this around to California, and Toronto, and New York, and Florida and get everyone to sign off. It was very cumbersome and it was a lot.

So we made the decision that we wanted to grow, but we wanted to do it in a way that was a little more nimble, and other family members agreed. So selling down that portfolio made sense for everyone else. Those who wanted to keep going in real estate, they could do something else. We decided for us, that made sense. And how to grow, you're exactly right about leadership. Because when we came into the business 40 years ago, my father, my grandfather, my uncles, they all led. The idea of a non-family member making critical decisions, leading, making financial decisions in a family business, you just didn't see it.

You didn't see it, not only not in our company, but other family businesses, that's not how things went, which is why a lot of these family businesses don't get past two or three generations. So for Larry and I, the challenge and the opportunity was, if we were going to grow, how do we bring in the best of the best from the industry? Either recruit them new or develop them from within, but how do we empower them? How do we make them have that voice where, if they're as qualified and as able as Lea Anne, they can really be leaders and find ownership in this platform. That was a challenge.

Matt Slepin:

I'm going to turn this to Lea Anne in a second, but one more question. I think about families, after that you do the divestiture or the simplification of this, is there still a family governance or family office or annual reunions. Because different families deal with this different ways.

Brad Korman:

Our extended family all is in the area. They're some of my best friends. I grew up with them. We went to school together. We lived nearby, still have that friendship, still have that family. There was a family office. There was a company that consolidated a lot of this and we kept that in place for 15 or 20 years, just to work through all the details. So our family, I'm really proud of how close our family is. Those who stayed in real estate doing other things, those who aren't doing as much, we still stayed very close as a family because it was important to all of us and very important to me.

Matt Slepin:

Right. But there's not still a family enterprise that's a family office.

Brad Korman:

Not for everybody.

Matt Slepin:

Or charity or anything like that.

Brad Korman:

We had a family foundation, the Hyman Korman Family Foundation, which we're just winding that down now. Now each family has their own. As each family has grown separately, they have their own foundations and their own work. So we've done a lot of good as a family within the community that we're proud of and we still are very close personally.

Matt Slepin:

Okay, thank you. Back to the business. So Lea Anne, you're the example of a long term non family member in an executive role. Talk about being part of a family business, what that means, and then we'll come to the business itself.

Lea Anne Welsh:

It's really interesting because, along the way from 1992, what Brad and Larry and Steven always did were inclusive. So being part of conversations to help you grow and to really be able to have skin in the game, to know intimately what our goals are. I think that's the one thing that the Korman family has always done, been very clear in articulating the vision, the vision of who we are. What is the DNA of our company? And then, how do we take that into every decision and knowing what our goals are. We want to be the best in the industry. We want to be unique, and empowering us to make those decisions.

It's been an amazing journey. I talk to people and I tell people, "I've been with my company 30 plus years." They're like, "Aren't you bored?" I'm like, "That is quite the opposite," because of the innovation, because of the fact then when I started, when the majority of our leadership team started, that we were a Philadelphia, mid-Atlantic regional based company with aspirations to basically take Korman Communities, the commitment to excellence, and the AVE brand on the road.

So it's really about the empowerment and the ability to have honest conversations. The environment that has been set up by the Korman family continues today. That's our responsibility as leaders, to make sure that we are following our brand image, following the system setup, and then empowering the team members and the new leaders that we are bringing on and that they are bringing on. That's one of the biggest keys in a growing company. You've got a group of founders, you've got a group of people who have blood, sweat, and tears into an organization, and you're successful. You have to hire more people who hire more people. How do you make sure the culture, understanding the mission, understanding the values translates.

That's where we're at right now. We now operate in seven states. We have states eight and nine that we have development deals in the pipeline. That is one of our biggest opportunities. The fact that Brad and Larry and Steven are visible and we're all visible. Executive leadership is visible to our team members and to our residents. That's one of the things that makes such a difference in what we do and how we are able to operate in Phoenix with over 1,000 new apartments that we've just added to the portfolio, and actually show the market that we are different.

Matt Slepin:

Yeah. I'm going to pick at a couple of things you just said, and thinking of Tom Bozzuto. I'm thinking of your dad and I'm thinking of Tom Bozzuto, who goes around the properties and the values that, that company has and that he keeps in. There's tradition and values and it's articulated. He wrote a book and it's all meaningful.

Brad Korman:

Toby and Tom were our contractor at this property we're sitting at right now.

Matt Slepin:

Of course.

Brad Korman:

And they did a great job and we think very highly of them.

Matt Slepin:

But I'm going to ask you a growth question because you have to have alignment, as well. One of the hard things with a family business is to have alignment, particularly financially. But aligning in terms of the value creation's a really important thing in the real estate business and harder to do in a family business.

Lea Anne Welsh:

It absolutely is. Our leadership team, the Kormans have been very strategic in making sure that we are rewarded when we do well. When we create the value, we do share in the value. So we've been very, very lucky.

Brad Korman:

And there's certain people like Lea Anne who are partners. She's a partner in the deal. She's that integral to our company that she's a partner.

Lea Anne Welsh:

That's the environment that the Korman family has always fostered, that this is our business, too. We are one. I actually say that I feel that I am part of the Korman family and even our leaders, our SVPs and our VP level feel that sense, that tie, that emotional connection to our company because of how we operate.

Brad Korman:

My son, Sam, he had just started working with us a couple of years ago. He was on a trip to Tampa. He was in his apartment. It was 6:30 in the morning and he was getting dressed. He looked out the window and he saw Roger, who works with us and has been with us for-

Lea Anne Welsh:

It's one of our senior VPs on our asset team.

Brad Korman:

It was 6:30 in the morning and Roger was walking across the quad. He saw him stop, walk in the bushes, start picking up trash with a coffee in one hand and walk back. Sam says to me, he's like, "Dad, no one was watching him. He didn't think anyone was around. He just did it like he cares so much." It is that mindset and it's amazing. I've seen it with my kids, notice the people around our company who have seen them grow up in some ways, say they care so much. That's the impression that's really special.

Lea Anne Welsh:

That goes into investing in people. That goes into explaining the why. So Roger, who started out as a maintenance manager at one of our communities in New Jersey, we were able to explain and live it with him and explain why presentation is important, why the sense of arrival is important. That when someone new is walking in and making the decision are they going to make this their home or not, or that someone is having friends, or a colleague, or family members come. They want to have pride in their community.

So instilling that and explaining it. Then also, too, we're walking. We're doing it with him. It's that leading by example is something that, from Steven Korman, to Brad and Larry, to what we do. Then that breeds leadership. You can be a leader at any level in the company.

Matt Slepin:

Yeah. 20,000 feet up reminded me of something. I say this on about every third podcast. Two of the worst words in the English language are negative words in our press is landlord and developer and I'm sitting in front of two landlords and developers. That's what we do for a living. If America understood that landlords walk around and someone who works for the landlord sees a napkin in a bush, cares about it, they would understand our business in a different way. It really, this is our job. Not just you, everybody.

Lea Anne Welsh:

You just said something really important, landlord. Words matter. We have our communications. We don't have tenants. We have residents. We have people that choose to live with us. We don't have units. We have homes. We have flexible stay. We have furnished apartments. We have apartments. We have homes. We don't have units. Those words mean so much and that's part of the training and the ongoing dialog.

Matt Slepin:

Our industry needs to work on this, not just your company.

Brad Korman:

Well, that's the thing.

Matt Slepin:

It really is a deal for us.

Brad Korman:

We don't say employees. We say team members because these really are the people who make it work and they're all part of the team. We're all part of that team.

Lea Anne Welsh:

When you talk about negative words, when someone says, "No problem." You're implying that it was a problem, what you asked for. With pleasure, we can absolutely handle that, we can absolutely make that happen for you. But the term, "no problem," it's nails on a chalkboard.

Matt Slepin:

Fair deal. So before we talk about what this kind of housing and your business model is, your brother does something different. So let's start with him and then the interaction between the two businesses, because then we're going to dive into your business.

Brad Korman:

Right. I wanted to make one other point. As our family was growing, as we were, Larry and I and then Mark decided, "We want to grow outside this region," we realized some of the properties that we loved and some locations we loved were more expensive than the pricing we were seeing here. So we made that decision to now partner with institutions. That was a change for us because you went from all family capital to now institutional partners and that mindset is different.

As a family, you look at investing $1 and you want to turn it into $2. Well, sometimes that could take a year. Sometimes it could take three years or five years. Things happen. When you're dealing with an institution who has a three to five year investment window and they're focused on IRR, not just absolute dollars, that was a different mindset for us, as well.

So it took us a little time. We're much better at that now than we were 25 years ago when we made that switch. We've been fortunate to have great, great institutional partners because that was the key, finding the right partners who were aligned in how you did things, how you went about it, what those investments look like. So that was the next big change for us and that allowed us to grow nationally.

Matt Slepin:

Let me ask a question about that because having a three to five year investment horizon doesn't fit with anything we're talking about, how you operate these properties.

Brad Korman:

No. For a family business, your mindset was, you build something. You hold it forever. So now all of a sudden it's like, all right, we have to develop something or buy something. We have to create value. We have to realize that value at some point in time for our partners and for ourselves, and then figure out how to go forward. A lot of that figuring out going forward was us either buying back the real estate or recapitalizing or doing something else. There are some properties that we thought, "This is going to be a great market for us." And in five years, it wasn't the right market for us, so selling was fine, also.

So a lot of it came from the confidence of, we had just sold 10,000 legacy units. So now we saw, all right, selling isn't the end of the world. You can buy something, build something, create value and then realize that and then redeploy those dollars. We did that also. So over the last 30 years, we've bought, sold about 75, 76 properties, total market cap of about $11,000,000,000. So trading real estate has been something that was unheard of when you're just a family business to something that's part of the business now and that's okay.

Matt Slepin:

And is it as easy to trade when you're building more specialized properties. Which, we're about to talk about what the secret sauce of the properties are, but they're not maybe as liquid. Or maybe they're more liquid because of the value create.

Brad Korman:

What we're building still are the best multifamily properties in a neighborhood. The fact that we put furniture in some of the apartments-

Matt Slepin:

That's programming not relevant to that what the common areas are?

Brad Korman:

We have much more common area. We have much more amenity spaces which, all of a sudden COVID hits and people are like, "Oh, my God. You guys designed this perfectly for COVID." No, we designed this, this way and it just happens to work really well for people who are home and around and here. So the fact that we were building a lot of amenity spaces before it was fashionable means our older properties are still relevant and valuable than some other ones who just built-

Matt Slepin:

Garden apartments.

Lea Anne Welsh:

Because we always believed that we wanted to give our residents choices. They have their home. They have their apartment, but we wanted to give them amenity space. We wanted to give them thoughtful space that they can work, entertain, and be part of a community. So that's something before the war of the amenity space war, the war for the greatest amenities. We were doing that because we thought it made good business sense, because we wanted to be able to give somebody more than just their four walls in their apartment.

Matt Slepin:

Fair deal. So question I asked was, you have two sides to the business. Your brother and you split up who would focus on which side. Talk about the partnership you have and the relationship between the two businesses, and a little bit about his, because we're going to dive into yours.

Brad Korman:

So we operate the businesses together and we're partners in all of our business and all of our real estate. I do focus, with Lea Anne, on the AVE apartment portfolio. Lea Anne handles all the day to day operations, all the business that we have at the properties. I have a great transactions team. We focus on the acquisitions, dispositions, financing, refinancing, fundraising, all those things and we're fully integrated within our company. We have in house legal and design and architecture and asset and HR and IT and all those great things.

Matt Slepin:

Those things you share with your brother's company or do you have separate-

Brad Korman:

So they're not separate companies. Larry and I and my brother, Mark, were all partners in all of these ventures. Where Lea Anne really focuses and runs the day to day of AVE, Larry really runs the AKA platform. So the AKA platform is our hospitality brand. It's really the first, and probably the only, luxury long stay brand in the country. We operate 16 hotels and hotel residences from coast to coast and in London. I work on the financial and transactional side of that with Larry, as well.

So we oversee all of that. As a company, where we find efficiencies is that we really came from a residential background. The home building went to apartments. Apartments went to corporate furnished apartments, evolved into AVE. AVE then, when we had these urban high rises that felt like they should be mostly furnished and not a mix evolved into AKA, first in Philadelphia in Rittenhouse Square. Then in New York, and then Washington and White Plains, and now Beverly Hills and West Hollywood and Miami and West Palm.

So it evolved, but even then, even today, our residential hotels in Central Park, AKA Central Park, right across from the Plaza, 134 residences. If that was a pure hotel, it would have 150 team members. We have 35. So it's long length of stay, but luxury that no one else is really doing right now.

Matt Slepin:

And lets distinguish that space between your space here because it's furnished and it's long term. What's different from that in the apartment?

Brad Korman:

So the difference is, we're primarily suburban in the AVE, although we have an urban presence. But we're really, seven months is our average length of stay, versus 19 days, which would be the AKA model. So it's really a different feel.

Matt Slepin:

And for both of your businesses, and I keep saying this, and then we're going to talk about your business. But for both of these businesses, I'm assuming that Airbnb as a concept, not Airbnb itself, opened up the world to how we get to think about these things equally on the AKA and the AVE side.

Brad Korman:

Absolutely. Larry, early on, was friends with Brian and Chip Conley and understanding what they were doing. All of a sudden, the idea of living like a local, having a home, not just a room. All of a sudden, it was a phenomenon that resonated with people. Now, I joke that my sons, they'd stay anywhere for $99 a day. There's zero chance my wife is going to stay in Jimmy's second bedroom. She has no interest in that. She wants professional management. She wants to know there's a front desk. I don't want to be worried about a nest camera hidden or when the sheets were changed.

So she wants professional management, but all those people who never stayed with us because they thought, the relocation director said, "I have to put them in a Marriott or a Hilton or a Hyatt now all of a sudden said, "No, no, no. I can put them in furnished apartments," and the fact that we're professional managed, not just a host, it did. It opened up a world for us.

Lea Anne Welsh:

And what Airbnb has done is five, six, eight years ago, people were not booking a longer stay online. It was too risky of a commitment because it was longer term versus a night or two in a hotel. So what Airbnb and VBRO did, it opened up people's mind that there is an option. We're spending a lot of time on our website.

We believe in relationships. We have a business development team that's out there calling on companies and continuing to evolve our relationships. Because business is still a reason why people choose a flexible stay furnished apartment. They want a more home-like experience. So Airbnb gave people the confidence to be able to go online and book something long term. We have listings on Airbnb. Airbnb's a partner, but then also, too, someone who has used Airbnb, but might want to go direct to the provider. So it's opened up a whole, people have a mindset now where they can go rent a furnished apartment online, where before, they didn't have that comfort level.

Matt Slepin:

Right, because we're trained to be able to do that. I live my life both for my job and my podcast and my family. But the podcast, Chip Conley was on the show a long time ago. One of the things we talked about, I'm thinking. I'm just trying to remember what the subject was. But I think part of the subject was, "How do you have certainty of execution?"

Brad Korman:

We had talked about them about, "How do you have that lux version of that experience and what does that look like?" So the fact that Airbnb has been so successful is a great thing for us because now it's, "All right, we can live in this neighborhood. We can be somewhere. We can have a kitchen. We can have a dining room, a separate space, but we know there's professional management, as well." Both at AKA on a long stay urban, or AVE on months at a time. That's really nice.

Matt Slepin:

That's worth it. I did two Airbnbs in Philly that just, two horror stories. I'll tell you the story. One was downtown. I was here for ULI. It was four days, so I stayed at an Airbnb. What they didn't put in the ad or whatever it was, as you flip through the pictures, was if the person was going to have the closets full of their clothes and the drawers were all full and the medicine cabinet was all full. So I was borrowing little bits of space there.

Then the other one, I did this on the main line. Before my parents passed, I used to come a lot. I see this place on the mainline. What I didn't really realize, because I moved too quickly to have seen all the pictures is, I was staying in a bedroom in someone's house across the hall and I had to go through the hall to go to the bathroom in the middle of the night and she kept her door open.

Lea Anne Welsh:

Oh, my gosh.

Brad Korman:

No, that's the thing.

Matt Slepin:

Three nos.

Brad Korman:

You don't know what you're going to get. It doesn't mean it's bad. It's priced accordingly. We just do it at a very professional level.

Lea Anne Welsh:

But that's the key, to make sure that our listings show that it's branded, that there's credibility, that we have procedures so you know what you're getting.

Brad Korman:

Our resident isn't allowed to sublease theirs on Airbnb. We do it through our program.

Matt Slepin:

So you do have the ability to sublease, but you're managing it with Airbnb.

Brad Korman:

No, no, no, no. We lease from our furnished inventory. We'll lease through that program.

Lea Anne Welsh:

So we will put our furnished apartments, we'll have listings on Airbnb and we'll make sure it's branded so it says, "AVE King of Prussia, exclusive, fully furnished two bedroom exclusive apartment for your needs," to make sure that we are differentiating. Because there are people that will stay in that bedroom and have no issues with it, but there's a lot of people that want a private residence. So we make sure the listings clearly speak to the user so they know what they're getting.

Matt Slepin:

Right. Okay. Let's talk about this business. We're here in an AVE in King of Prussia.

Brad Korman:

Yes.

Matt Slepin:

So how many do you have? What's the average size? How's it different from an apartment building. You told me that we're surrounded by other apartment buildings. Lea Anne, dive into first the business and talk about each property and the business platform.

Lea Anne Welsh:

We are currently operating in seven states. We have approximately 6,000 apartments with 2,000 more in the pipeline. We've got 18 operating communities and three more communities that we are delivering between now and the end of the summer. So we're very excited about expanding the AVE portfolio.

Matt Slepin:

Let's stick with properties for a second. Delivering three. How is building this in today's market? Because multifamily is not building. Does yours pencil out?

Brad Korman:

They do. We're able to generate, and we've been able to build new. We've been able to convert my brother, Mark, who we haven't mentioned, runs our commercial and retail portfolio, those properties that are either retail within our existing apartment properties or stand alone. He also works on the entitlement process as well as conversions. We have a great development team Jeff Brown runs for AVE where we're able to build new. Most of the properties that we're delivering were pro-formed and started in '21, '22, before things got a little crazy. So we're finishing up construction right now. We just finished in Santa Clara, California, in Paradise Valley-

Lea Anne Welsh:

Arizona.

Brad Korman:

... outside Scottsdale and we're finishing up in White Plains, New York right now. We have two properties under construction in the Navy Yard in Philadelphia, the first residential units ever going to the Navy Yard, so that's 614 apartments over two properties. They'll be delivered in six months. So we're not starting anything new right now, but the stuff that we did start penciled out well. Our program allows us to add anywhere from 50 to 100 basis points on an unlevered basis to the bottom line.

Matt Slepin:

So in this economy where production builders are barely building, it does pencil for you to do this in today's economics?

Brad Korman:

We have four new sites that we were going to start last year that we put on hold. That was really because there was so much uncertainty between interest rates and construction costs. We're now getting, we thought we were getting some clarity on that. We'll see what the next couple of months bring as far as construction costs and interest rates, but they do pencil out. The reality is the uncertainty. Do you want them to? Because we're not huge risk-takers. We like certainty.

Matt Slepin:

And these are all with partners?

Brad Korman:

These are with partners. Well, most are with partners, yes. There's a couple that'll be just us.

Matt Slepin:

Okay. So Lea Anne, let's talk about an individual property like this one. What's the turnover? Is everything furnished? What percentage are longer term leases? What are short? And then how does it operate? How do you see the metrics as compared to your market here, which I know you're aware of?

Lea Anne Welsh:

Yeah. AVE King of Prussia, we have 270 total apartments; studio, one, and two bedrooms. About 90 of them are furnished apartments, so roughly 30% are furnished. Our average length of stay in the furnished program at AVE King of Prussia is about 6.4 months. What we see from a mix of users, we've got individuals, people who have separation, people who sold their homes and just aren't ready to buy.

Matt Slepin:

People have separation?

Lea Anne Welsh:

Yes. A divorce.

Brad Korman:

Going totally through a divorce or separation.

Matt Slepin:

Okay, divorce.

Lea Anne Welsh:

A divorce.

Matt Slepin:

And divorce was the driver of the old Oakwood. My sense was, just to go back to a picture in the '60s, I have this picture of divorced men sitting by the swimming pool with a gold chain.

Lea Anne Welsh:

It's a little bit different. It's evolved from that point.

Brad Korman:

But you still sometimes will have someone show up with a suitcase saying, "I need a place to stay tonight. I don't know how to do anything. I don't know how long I'm going to be here. I want to take it for a month to month." The fact that we can have a team sit there and say, "Listen, we got you covered."

Matt Slepin:

We got you.

Brad Korman:

We have your housing. Your cable's on. We can load your refrigerator. You have parking. You worry about your life. Don't worry about this. We have a team who's going to take great care of you.

Matt Slepin:

Okay. So let's stick with those 30% that are furnished and the average stay is 6.4 months.

Lea Anne Welsh:

Yes.

Matt Slepin:

Go to the other percentage. What's the average stay in the 70%?

Lea Anne Welsh:

Right now from an apartment perspective, from an annual retention perspective, we're about 68% here. So 68% of our apartment residents renew. That is because they enjoy the lifestyle and they don't have any compelling need to go buy a home or any desire. They're not moving out of the area and the people that do move out, it's not because they're going to look for another rental, another apartment. They're moving out because of a life change. They are moving out because job relocation, combining households and need something different or they are buying homes.

That's a big piece of the AVE brand, that we are creating that stickiness that people just want to stay and live. Again, we operate at wholeness. Our marketing team and our sales team are talking about the fact that we offer flexible stay. Do you need an apartment with furniture or without furniture? Do you need it for a few months or a few years? And then talking about the lifestyle that they will enjoy. We're in a very competitive environment here, almost in 2500, 3,000 apartments are in-

Matt Slepin:

All the same age essentially?

Lea Anne Welsh:

All within the same generation, absolutely. What's different is our level of service and the word of mouth that we have in this community. I keep going back to that because it is truly the differentiator. At the end of the day, this is an apartment community, the same way the seven others that are in here. But how do we activate it creates that value. So we're at anywhere from 20 cents to 30 cents more per square foot.

Brad Korman:

Matt, we talked about this earlier. My father was convinced when he started putting furniture in apartments 60 years ago. I remember 40 years ago when I started he said, "Everyone's going to be doing this soon because it makes too much sense." The reality is that our business doesn't have that, that it's special, or different, or unique, to us is mind boggling. It's interesting that there's so much optionality and flexibility in the world today, we can do anything we want. We can go get tickets to a game. We can rent a car. We can see my doctor with a rash, I can go on telehealth and do it.

Yet, if you want an apartment 12 months no furniture, no optionality, no flexibility, doesn't make sense to us. The industry, we think, is behind on that. You're seeing a little bit of it, but it's not commonplace.

Matt Slepin:

Right. So let's play with two different concepts. Let's play with Ikea for a moment. If I want to be in your 70% apartments and I'm going to just furnish it real quick with Ikea and I'm going to use a word not often used. I'm going to furnish it with Ikea shit. Then I have the choice to not furnish it with Ikea shit and have it with you. What's the payback, differential cost to get a furnished apartment with your furniture versus by going to Ikea and using it for one year and throwing it away? Is that the same math?

Brad Korman:

It's a different kind of person because-

Matt Slepin:

And they've got to be in your place.

Brad Korman:

Right. Because the person who has a short term need, and often they think their need is shorter than what the reality is. They might think, "I'm only here for three months," and then it extends and extends. The kitchen took longer to renovate. The divorce didn't go as quickly. My job took longer. So they're here longer. They're not saying, "I'm going to buy furniture for a year and throw it away." The reality is, our economics still, when we furnish an apartment, we're getting a premium that covers not only the utilities and the extra people we have, but there's a profit in there because there's a little-

Matt Slepin:

Has to be.

Brad Korman:

Right. That's part of the business. But if you compare that all in rate to the Hyatt you stayed at last night or somewhere else, it's still half the price and twice the size. So the economics are still very strong.

Lea Anne Welsh:

And you talked about that, that you stayed at the Hyatt. That's not the mindset that we have. We want people to come experience the AVE lifestyle, whether it's for a month, which typically turns longer. But we don't look at it that way, that you can go to Ikea and buy average furniture and then throw it away at the end. That's not how we look at it. We look at what does the resident, what's the prospect looking for.

We've got a lot of different ideal prospect buckets, which is how we look at marketing and creating more awareness with AVE.

Are you new to the area and you're going to rent an apartment? You might buy a home in a few years. That, right there, we're selling the value and the experience and the lifestyle. That's something very different and it's not tangible. You can't put your finger on that when you walk into our communities versus walking in and maybe not even having someone to show you around.

Brad Korman:

That optionality, that flexibility is of value to people.

Matt Slepin:

Right. I told you guys before, I was an industrious space in terms of shared office space half a dozen years ago and I loved it. We think differently about things now. It was all, optionality was half of what I wanted and the other half was socialization and I got both.

Brad Korman:

And we see it downstairs. We'll go downstairs to one of our rooms where there's a fireplace going or there's café or something else. You'll see people, like Starbucks we talked about, who are plugged in with their headphones, doing their work, but they wanted to get out of their apartment and they wanted to be around people. Maybe they're around people privately, but they want to be around people, that socialization aspect. So our residents come down. They can engage as much as they want or as little as they want in 12 different spaces.

Matt Slepin:

They're still feeling the energy of other humans.

Lea Anne Welsh:

That's a big piece of how we approach a blank canvas when we're designing a community. We want to make sure that our team is front and center. One of the themes that you will see throughout our AVE communities is that when you walk in, you're going to see a person. You're going to see a person that is there smiling, saying, "How can I help you? What do you need?"

Our on site leadership, our general managers, they are right there, as well. Most times, you can walk into an apartment community and the general manager, the property manager is behind two walls and not willing to come out and engage. We design these so our teams can be front and center and part of the amenity environment, part of the community because that means we can activate it.

Matt Slepin:

Let me ask some questions about this. First of all, you have 30% here in this building. Do you switch that percentage over time? Why isn't it 50? How does that work?

Brad Korman:

We absolutely meet the market sometimes and we've seen it over 60 years. One bedrooms are more popular than two bedrooms. Two bedrooms are more popular than ones. Sometimes there's units that, apartments that you start leasing unfurnished and the view isn't great or something's better than someone else. We can furnish or de-furnish something accordingly to meet the market.

Lea Anne Welsh:

Certain floor plans are more desirable.

Brad Korman:

We try to stay under 50% on a furnished basis because your financing is much more efficient. Agencies will finance you. And it's just less volatility.

Matt Slepin:

Do you own the furniture or do you rent the furniture yourselves?

Brad Korman:

We own the furniture. We've done it both ways. We've rented furniture. We buy a base amount of furniture. If we think we're going to get to 100 furnished apartments, we might buy 80 right away and see how that goes and then adjust from there. But if we need 20 more, if we have a group that comes in, there's a movie being filmed, something's happening. We can rent, within two days' notice, have 10, 20 more apartments fully furnished and then put the order in to buy more furniture.

Matt Slepin:

Go back to another subject. You've talked about the people. Sorry.

Lea Anne Welsh:

Yes, but basically, we're managing to the highest occupancy, which delivers the value and the cash flow. So at the end of the day, if we think that we can have 10 more furnished apartments occupied and keep them at a high occupancy, that helps the business. But at the end of the day, we're averaging to an occupancy number.

Matt Slepin:

One thing you've talked about, what is the premium if you compare yourselves and you think about a premium in terms of rent. If there is, and you're able to identify numbers, about what's the premium given the extra work that you put in?

Brad Korman:

The premium on the, we have a premium on the unfurnished and then we do a premium for our furnished. Unfurnished, we're probably 10% or 12% higher than comparable properties. Again, it happens for a couple of reasons, Matt. One, we're giving more service. We have people out front. They're making you feel special. But also, we've reduced the supply. So if we're building 250 apartments and the neighbor's 250 apartments and we're taking 80 of those and furnishing them, now we've reduced the supply. We only have 170 apartments. We can push the rent there. If our furnished occupancy is strong come renewal time on the unfurnished apartments, we can push those even higher because we're okay if we create some vacancy. So the economics work well there.

Matt Slepin:

And on the furnished apartments, what's the premium or profit margin? I don't know the right question.

Brad Korman:

We typically are two to two and a quarter times the unfurnished rent. If we're getting for an apartment $2,000 a month unfurnished, we're going to get $4,200 a month furnished. Of that $2200, about 45% will go to the bottom line.

Matt Slepin:

Okay. One of the things you're talking about is service. The service doesn't differ if I'm furnished or unfurnished, so the front desk is the front desk and all the amenities are the amenities.

Lea Anne Welsh:

We have one community and, no matter whether you're here for a year or a few years in an apartment, or you're here for a few months or longer in a furnished apartment, it is one operation. It is one team. We're doing a barbecue. We're doing a Final Four event for college basketball. It doesn't matter. Everyone is invited and everyone has the same level of service. Those programs, we've got programs to make sure that we're engaging with our residents, from just calling back to make sure a service request was taken care of, to personally calling and inviting someone to our next even, or talking about the fact that King of Prussia, the town center, is having an event this weekend for Children's Hospital.

We're engaging them. It doesn't matter whether you're here for a month, a few months, or longer. It doesn't matter whether you're living here with our furniture in our furnished apartment or it's your own home that you've created.

Brad Korman:

We have an unfair advantage over our competition, frankly. Because our revenues are much higher, we can spend more on the property. So a lot of times, they just can't afford to have a third person in the office or an extra maintenance person or porter or club manager or somebody doing things that we can afford to do because we make more on the top line and we can reinvest it back in the physical asset, but also on the program.

Matt Slepin:

Yeah. Let's dive into that. We may start to wrap up soon on this part of the subject. But the apartment industry is moving towards a place with less service overall. It's moving towards self-guided tours at properties, oftentimes having either no leasing agent or no person at the property, in part because they're also moving towards hub and spoke operations. So the maintenance guys are the hub and the property is the spoke.

So this business and the general apartment business has changed drastically. Maybe that change gives you the opening to do what you're doing at a premium. But some of these apartment properties are also very high end, as well, whatever their service model is. So talk about how that's evolved in the industry. Are you looking backwards or are you looking forwards here?

Brad Korman:

You know, it's funny. The world was designing micro apartments 10 years. You had to have micro apartments. People don't want space. You have to do it. San Francisco, New York, they worked. Everywhere else, we kept saying, "We don't think that's what our residents want, especially our empty nesters. They have a dining room table." They have these spaces.

So the world is running away from more people. Institutions can, they look at compensation as their second biggest line item after debt services and say, "We can cut that and we can go to key fobs and we can go to tote boxes." We don't believe in that. Honestly, we believe in great people. We think great people pay for themselves. We know they add better service and someone feels taken care of when there's people around who can solve their problems.

So you have to get paid for it, but we believe that market, when you try to cut everything and you go to just automation, we haven't found that. We've looked at it in different ways, but we haven't found that getting rid of great people really helps you.

Matt Slepin:

I'll push you on that because I think it's not for you. It may be for a lot of the stock out there and a lot of the owners out there who own properties.

Lea Anne Welsh:

So Matt, we just opened up a new community in Santa Clara, California, the Heart of the South Bay, Silicon Valley, a mile away from NVIDIA. I spent the day there on Tuesday with our team, walking our showables and touring the com set. We did a self-guided tour. The property was dark. There was no activation.

Brad Korman:

But the lights come as you walk down the hallway.

Lea Anne Welsh:

Yes. It was not activated. We're extremely busy there. We were in a great location, great team, and our marketing has really brought in a lot of qualified prospects. I walked in and I talked to about two or three different people that were coming to tour an apartment and they commented on the fact that we were there, that there was life in the lobby. They contrasted it to our com set. If you think about the South Bay, that's the tech center of the world.

Matt Slepin:

Right.

Lea Anne Welsh:

People who are working at these companies actually said to me on Tuesday, "I like this better than walking into an empty building feeling like, am I going the right way." So I think there's a place, if that is the institution, the management company, if that is what they feel is best, we disagree with that completely. There is value to people. There is value to that emotional connection and that experience and we do believe what Brad said, that we're getting paid.

Brad Korman:

That doesn't mean we don't believe in technology. We add technology to our properties. We are doing all the cool things that people want. We just think there's a value in having that human touch, as well.

Lea Anne Welsh:

Back to the technology, we give people choices. We have resident lifestyle apps where they can communicate with us. They can send us a text in real time that our team members can respond to. We've got notification systems where we're pushing out content and then people can respond. The reality is, most of our residents, the majority still want to come down and say hello or call us and talk to us.

So we give people choices. Sometimes you might want to put a quick request in because you don't have time. You don't have that moment. You're in the middle of business or you're about to get on a plane, so we give people the choices. We do believe, at the end of the day, that value of that personal connection is extremely complimentary to the fact that they can communicate.

Matt Slepin:

Brad, you used the word empty nesters. I'm curious about demographics and think about empty nesters as one of your customer base. What's that look like?

Brad Korman:

So for us, we were building a lot of these new properties in high growth markets. We thought, "All right, we're going to get a lot of young people coming there." What we found was that you had people with big homes who were saying, "I want to travel a little bit. I want to live differently. I don't need the space, but I don't want to be a second class citizen."

So much over our history of our world, renters were looked at as second class citizens. Oh, I'm so sorry. You can't own. You have to rent. We've never looked at it that way and we look at our customers, our residents as people who have lots of options. These are renters by choice and they're looking for a lifestyle. They're looking to live better. They're looking to live in a community that takes care of them.

So the empty nesters who, we were frankly shocked started coming to AVE so quickly, I have friends who sold their big houses. They're like, "I love it here. I literally lock the door. I can go travel. I can go to Florida for six months. I can do whatever I want to do. I don't worry about anything and I love it." They're spending more with us to live this way and loving it. Yet, because they get so much and there's always someone there to help them, they feel like it's a bargain.

Matt Slepin:

And when they're there, when they go away for a month, you'll sublease their apartment?

Brad Korman:

No.

Lea Anne Welsh:

No.

Matt Slepin:

Won't do that? That's not part of the deal.

Brad Korman:

No, this is their home. This is their home.

Matt Slepin:

No, not will you do it. Can they ask you to do it if they want it? You said no Airbnb. If they want to gain income from that, because that's one of the dynamics.

Lea Anne Welsh:

That's not our demographic. That's not what they're looking for. They're not looking to share their home with others. In addition to the empty nesters, you've got that next age bracket down, the people that are in their 40s and early 50s that are not empty nesters yet. They're just choosing this as a lifestyle because they want flexibility for the future. They are renting. It is an annual lease. They are extending, renewing for another year. It's just a lifestyle.

We actually have, I can think of a few residents right now that, they actually owned homes. They lived with us. They bought a home and after a year or two, they sold their home and they moved back here because they're like, "I don't want to deal with the landscaper. I don't need this big house. I was very, very happy in my spacious apartment with all the services and being part of a community." There's many residents that have done that, that are in that down from the empty nesters.

Matt Slepin:

Right. We did work a couple of years ago with a company called Central. And Central, part of their value proposition is, you have all the things you've described, but then if you want to go away for a week, we'll get you some income. Even if you don't need the income, I have this. I've lived in two different places. When I'm not in D.C. and I'm in California for four months, I think I want to rent some of my apartment.

Brad Korman:

No.

Matt Slepin:

I'd hate it to just sit there.

Brad Korman:

And we know the Central, we met with the group behind them six, seven years ago. They loved our concept and they were fascinated by how we did things. I think what they're bringing to the market is some of that flexibility and optionality we talk about. So our customer base doesn't want that yet. They don't want to. They want to know that when they lock their door, no one's going in there. They're leaving things out. It's nice. They're paying and that's their model.

Matt Slepin:

If I were to do it myself, being part of this demographic, I don't want to be surprised that someone came to my apartment. Now, if I was conscious about it and planned it, that wouldn't bother me. But I'd have to do stuff to work well for me and my lifestyle.

Brad Korman:

You see it in condos. You see it in timeshares. There's owners closets you can lock and you can do all of that. But I had the same experience you did at an Airbnb for my daughter's graduation at state college at Penn State. We rented a house because we couldn't get hotel room and you were living in someone's else, in their bed, their sheets, their towels, my kids in different rooms.

Matt Slepin:

And you don't know if they washed the sheets the day before.

Brad Korman:

You have no idea. No one slept great.

Matt Slepin:

Okay. Another quick rabbit hole on the concept of furnished apartments. I thought about this a lot over the years is, low income housing, which this is not. But one question is, you have low income housing or you have transitional housing for people who've been homeless. They don't have furniture. These should be furnished apartments in some way in that business. Again, that's not the business you do, but any comments about some of these amenities being available that way?

Brad Korman:

It's not what we do, but we spend time thinking about it and talking about how we could help our communities, and how we can do it. I think furniture in the apartments, built in furniture, things that will last, well made stuff, it's essential, Matt. The fact that it doesn't means that, can it really feel like home and can they make it work without fully furnishing it?

Lea Anne Welsh:

From a charitable perspective, furniture has a certain life cycle. So what we do is, we partner with Habitat for Humanity and other charities. So when our furniture is still in great condition, we're just replacing it because, again, we want to make sure that our furnished apartments are in perfect condition. We're donating. We're partnering with Habitat for Humanity. Their trucks are coming and we're moving the sofas, the coffee tables, and donating it so that we can help our communities. We believe greatly in that.

Matt Slepin:

I'm involved in the nonprofit that does what we call food recovery. Instead of throwing food out, going into the dump, we're able to get food into nonprofits, furniture the same way. And as individuals, when I have moved and I had furniture, you have to get rid of it and they won't come and get your furniture, but from you, they will.

Lea Anne Welsh:

Correct. So Matt, you talk about food insecurities. We believe wholeheartedly that we have a captive population here and that people genuinely want to do good. Sometimes they just don't know how. So we partnered, we were the first multifamily partner with a charity called Move for Hunger. They're based in New Jersey. Now they're nationwide. It was a moving company, fourth generation. His name's Adam. He felt like there was something, he saw people throwing food away when he was loading moving trucks in the summer. Their first multifamily partner.

So we incorporate our daily operations into how can we help people. So people are moving out. We give them bags to put your nonperishable items in so we can donate them to the local food pantries. We do resident events around, come and bring canned food, come and bring a box of macaroni and cheese or whatever, so we can each week, each month, we are part of our local communities and filling the shelves of the local food pantries.

Matt Slepin:

Thank you. So two more questions for the podcast. One, I'm in Philly, and I'm from Philly, and I love Philadelphia. How is the city doing, how is the real estate part of the city doing? Any comments on my hometown?

Brad Korman:

No, I appreciate it. It's my hometown, too. While we work nationally, our family and our company are based here. Philadelphia's doing great. We have great leadership. Mayor Parker's doing great. We have a great police commissioner. We have people who really want the jobs, are excited about the jobs and making a huge difference. Crime is down 30%, 40%. Activity is up. Real estate, if you drive through Center City, you'll be shocked with all the new construction you see. Our suburbs are one of the five best ranked multifamily suburbs in the country, based on occupancy and rent growth.

So the region is doing great. It still has a small town feel, even with all the activity that's going on. You can still come from great suburbs and be in Center City for dinner in half an hour. You can be to the Jersey shore in an hour. You can be in the Pocono Mountains in an hour and a half, New York in two hours, Washington in three hours. It's so centrally located, has so many great things going on, what we didn't have for a while was great leadership. We have that now and we have a community that continues to grow. Institutional capital is coming here. Jobs are coming here. We still would love to see more job growth in Center City, Philadelphia. The tax system is a little onerous for corporations.

But what we're building at the Philadelphia Navy Yard. Navy Yard from the 1850s, the first Navy where the Navy was started in our country is this island off of I95 in between the airport and the ballparks. There's 16,000 people who go to work there every day, including Urban Outfitters has their world headquarters there, 3,000 people. We're the first residential properties. There's 6.2 miles of waterfront property on this island that we're incorporating.

So there's a lot of great things happening in the city. I think it's doing really well. I think the suburbs are doing great. The whole region just feels good.

Matt Slepin:

And you didn't mention the Eagles.

Brad Korman:

The Eagles. Well, listen, we can talk about our Eagles for a long time. They had a great season. Our Phillies are coming to a great season and a lot of great sports. I will tell you, through the winter, we laughed, but everybody had a smile on their face. It really matters. When the Eagles make their run, it felt great to everybody. The community gets involved. You walk past people and some of us yell, "Go birds," and you'll get a, "Go birds," back. It's pretty nice. It was a great win for us. Now we're into baseball season and all is good.

Matt Slepin:

There we go again.

Brad Korman:

I think great leadership does great things. Kevin Bethel, our police commissioner, I'm involved with the Philadelphia police foundation supporting them. He's fantastic. He's making a difference. We're cleaning up neighborhoods that were tough. We're helping people who need help and we're providing resources to make things better.

So my middle son, who lives in Center City, on weekends, I go to see him and literally, young families pushing strollers, walking dogs, out and about shopping. Our restaurant scene is second to none. We have Ellen Yin who was James Beard winner in 2023. She operates a kitchen for us at 18th and Walnut. She operates High Street Philly at our Franklin property at 9th and Chestnut. She operates for us in D.C. as well. She's the best of the best. So you have the best restaurateurs, great food here, and just a great spirit.

Matt Slepin:

It's totally true. It's interesting in different cities, they have, San Francisco has become a little bit more business friendly through the new administration and the last administration and they're all democrats there, so it's all a matter of, but it was all progressive, totally progressive politics that became business unfriendly to an extent that really hurt the town.

Brad Korman:

Listen, we need jobs. Jobs lead to everything, all these good things. People have to feel safe. They have to feel valued.

Matt Slepin:

When safety becomes the subject, you're in trouble.

Brad Korman:

Safety's number one. I have friends who, for a while would say, "All right, I live in the suburbs. I'll go to the Jersey shore. I'll go to Florida, but I'm not sure how safe I'll be in Philadelphia." It was more perception than anything else. There was some reality, but much more perception. You have to change that narrative because there's so many great things going on. If people don't feel safe or they perceive that safety's an issue, then you're stuck.

Matt Slepin:

It's the basic part of the social contract. This is a "Hobsian" world. When it gets "Hobsian," you better do something about it, so it does work. So, last question on Leading Voices is advice for a young person entering the real estate business. Lea Anne, you get to start.

Lea Anne Welsh:

Absolutely. Be curious. Be curious and be involved. Put yourself out there. Ask questions and align yourself, find the most successful person that is part of your peer group and a level up and befriend them and ask for advice. But again, be curious. Always be asking questions and do more than what's expected. That, to me, when we find those new team members, we're going to invest in them and build them. But that's something special these days, to be honest with you.

Matt Slepin:

Be curious. Level up. Find mentors.

Lea Anne Welsh:

Correct. Be curious and ask questions.

Matt Slepin:

Thank you.

Brad Korman:

I will tell you, I agree with that. I've always said to my kids, "Be around smart people doing interesting things and I think you'll learn." When you're 20, don't worry about making money. There's a lot of ways to make money, but if that's your only focus, you're probably missing the boat. Be around smart people. Work hard. Our industry, it's easy. Everyone's an expert. If you've ever lived in an apartment, you know what you liked and what you didn't like. So don't settle for what's always been done. Don't settle for how things have been done. The world's changing. Embrace it. Think about how you can participate in that change and be a part of it.

I will say also, we've talked about our family business. I'd be remiss if I didn't talk about our fifth generation who's working with us now. We're very lucky. I have a niece and nephew working in our company now. Two of my three kids, Jackson and Sam, work in our business. They all came from other places, working elsewhere, and all had a lot of options. The fact that they chose to come and be a part of what we're doing is really special. I think what I love is, I love their perspective of how they see our company. When they spend time with Lea Anne or Paul DeFruscio or someone who's been with our company for a long time, they come back and they're like, "Dad, people just care so much. It's unbelievable." It's really their company. So that makes me feel proud. It makes my father, our family feel proud.

Matt Slepin:

And it's your family members saying that the non family members feel it's their company. I like that word.

Brad Korman:

It's the truth.

Matt Slepin:

That's the crux.

Lea Anne Welsh:

This is the greatest honor for our current leadership, to be able to be part of investing in the future. Because we've all worked so hard to get Korman Communities AVE and AKA where we are today, and the fact that the fifth generation are hands on, curious, and partnering with us to be able to learn, to be able to take the next steps for our company. It's the biggest honor to know that what we're doing has legs and is going to live on.

Brad Korman:

I give them credit. There's no entitlement. It is, come in and work hard and be part of the team and ask questions and be around and try to figure out where you add value. That's been exciting for you.

Matt Slepin:

Cool. Guys, thank you so much. This has been a blast.

Brad Korman:

Thank you, Matt. Thank you for coming out. It's great to spend time with you.

Lea Anne Welsh:

It's really nice to spend time with you today.

Matt Slepin:

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