EPISODE 289

[INTRODUCTION]

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

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host, Whitney Sewell. Today, our guest is Jacob Garza. Thanks for being on the show, Jacob.

[0:00:32.3] JG: Whitney, thanks for having me this morning.

[0:00:34.2] WS: No, I'm honored to have you on the show. Jacob is a cofounder of REEP Equity. He focuses on developing and overseeing REEP's growth strategy and takes the hands on approach to manage the firm's capital expenditures and projects. His goal was to execute their value ad business plans and ultimately realize their investments to generate attractive risk adjusted returns for their investors.

He's an avid runner, downhill skier and open water diver. He's an instrument rated pilot and regularly flies his Seers SR22. Wow, lots of skills there, Jacob. Thanks for sharing that with us and give the listeners a little more about who you are, where you're located and let's get in to something that your company is specializing in that we all need to think about specializing and to know whether it's right for us or not, but tell us a little more about you.

[0:01:23.1] JG: Yes, Whitney. We're located in San Antonio, we are sponsors, we do this full time, we started out very small with 24 units and today we have almost 1,800 units, we have seven properties, we've gone full cycle on four of them and it's a business my wife and I started

about five years ago and we're also passive investors, so we own properties passively in other markets, approximately six passive investments. That's what we do.

[0:01:55.1] WS: Nice. Your company, obviously you have grown a lot in five years, you're doing really well but one thing you and I discussed is that you all self-manage each of those properties, is that correct? You know, I've heard different takes on why we would self-manage, why we should not. Some people say, you know, I'm going to hire that out to a professional team that does this all the time and then other people say no, I can do this better myself. I can manage it better, I can oversee it better. I can adjust the expenses or monitor the expenses and all those things.

I'd love to dive in to when you all started to do this and why.

[0:02:29.0] JG: Certainly. Let me first say that we have third party managed before and most of our passive investments that were in our third party and they're very successful. You could certainly do it both ways. I think what has driven us to self-manage our properties is we could control the expenses better.

I think the level of execution probably is a little bit better on delinquency, turnover rate, we can control the experience if you would on the properties a little tighter but there's a lot of companies out there that are doing that extremely well, but I think when it comes to it, we probably run it a little leaner, don't have a lot of executives and owners are management company.

We make most of our income just to be candid off of the carried interest in there and we also invest our personal money and all of our deals. I think that's probably the advantage that we're able to get and return our investors were able to fare a little bit better. That's kind of the advantages that we've had with third party.

[0:03:29.3] WS: You know, five years ago you know, you all started buying multifamily or investing. When in that time did you all say okay, you know, we're going to – we need to start bringing this in house or building that team out. You know, it wasn't from the beginning.

[0:03:41.9] JG: We start out with a 24-unit property and I was able fortunately to sell a business that I had in 2007. In 2012, we moved from Dallas to San Antonio and we purchased 24 units, we were able to do this full time and from that purchase to fast forward six months, during that six months, we were able to join the apartment association and my wife and I were able to get our certified apartment manager certificates and the CAPS which is certified apartment portfolio supervisor designations.

From there I went on to get my CPL license and my type one HVAC. We were actually managing as employees this little bit of 24 units. That did a couple of things, it affirmed that we really wanted to stay in this business because we actually liked it. We liked the business. Second thing it affirmed that what we really needed to do in order to have a proper management business.

We bought a 28 unit and 143 unit. That time, Whitney, that was about 300 units, I think we bought another one so we really weren't large enough to bring on and commit to a management company. So we went third party for about 300 units to about a thousand units and again, that worked well for us but at the thousand-unit mark, that's when we decided we had enough, we could bring on a regional manager, opened up an office, hire some accounting people, get some computers in, start managing at a thousand-unit level and that's what we've been doing since then.

[0:05:08.7] WS: Nice, okay, you know, did you have the same management company or third party are managing all thousand units at that time?

[0:05:16.9] JG: We went through two. We had a firm outside and then we've got somebody at the local.

[0:05:23.3] WS: Okay, what was it at that time though? I know at a thousand you said okay, now, we could afford to do this, we have enough units and you know, we could start bringing this in house. I guess you've probably heard this argument as well, you know, well I can focus more time on finding the deal or investor communications, all those things as opposed to all the time it's going to take me to build this team to manage, to self-manage and I've heard both sides of

the coin of course but I just love – you know, just how you argue against that and how this worked for you all.

[0:05:52.0] JG: Well, I'll use the word discipline. We treat our property management company like a third party, as much as we can, it's tempting to go downstairs where they are on the first floor and we're on the fourth floor. We'll walk on property with them and give some directive to the managers and we just don't do that.

It's a slippery slope and you can get cross-eyed if you would on both businesses but I think having that experience doing the asset management role for the third party. Really helped us understood that you can't just walk on property and just start stirring the pot. I mean, we're picking battle that's really insignificant or bust them up on a $70 charge on the GL.

Having that awareness and tell anybody out there to start your third party, if you can kind of draw those lines and stay in your lane. I think the third party is probably something that might work for you and that's how we do it.

[0:06:43.3] WS: It sounds like you spent a lot of time educating yourself about management before you took this on, correct? I mean, not everyone is in to the day to day operations as you know like the actual management team and to understand the things you just mentioned to that detail which like I said we should but not everybody is but it sounds like you received a lot of training before you took this on.

What kind of difference have you seen in your business from just being able to manage it better? What do those numbers look like or can you give us some examples of how this has improved your business since taking this on?

[0:07:15.5] JG: Sure, we probably run about 15% leaner expense per unit and it certainly has helped us but I think it's an overall strategy is the same in I think for the viewers out there, for your viewers. We're first and foremost an investment firm, right? That's what we do. We take people's money and put in our money and we make it grow and we're stewards of that. With that, I think comes the asset management role and if you can become a good asset manager and communicate your 10 KPIs and put the overall vision of the property and drive that through

the regional director and drive that through the employees on each property, you're going to do just fine.

I think you'll pay a little more for it maybe with a third party but again, those elements, all the syndicators who are out there will be just fine and do really well.

[0:08:07.2] WS: You mentioned the 10 KPIs, what is that?

[0:08:10.1] JG: Key performance indicators.

[0:08:11.1] WS: Key performance indicators. Awesome. Could you elaborate on a few of those that we need to know or we should be thinking about?

[0:08:18.2] JG: Sure, one of t hem is of course, these are reporting points or they're data and every syndicator has their set and it's more than just NOI, it's more than just total income, an I'll take for example, delinquency. My belief is there are some things that control delinquency well before the fifth or the 10th a month.

There are things that happen on the leasing end, on the property walk that help that delinquency number. Well we had a set of KPIs that make sure our properties are doing these things so on the fifth, you know, we're collected, on the tenths, we're collected. It is not, "Oh my gosh it is 28th of the month and you guys are 10% delinquency. It is the wrong time to look at that number. So we look at data points along the way just to make sure that come the tenth, we are in a really good shape and we are in the class worst housing and we may not get everything from the third or the second.

So we watch those very carefully and there are really no surprises when those dates come around and we find that we are at 95% productivity on these KPI's.

[0:09:21.6] WS: Do you see yourself having your own management team, the company for the foreseeable future for as long as you can see now?

[0:09:28.5] JG: Probably. I think the challenge for us also becomes when we start purchasing outside of San Antonio, it is not worth it for us to put a regional in an office or even just a regional that we had like we just bought a 200-unit apartment and we are looking in Houston and Orlando and Phoenix and some of the areas that are out there. So I think third party management is a very viable option for investors and that's why I do play both sides because I think they were viable and until we have on that on scale somewhere, for example like Houston, the third party is the way to go.

[0:09:58.1] WS: Nice, so that was going to be my next question as far as the locations of your assets. Are they all in one location, it sounds like they are.

[0:10:04.9] JG: Currently they are in San Antonio, yeah.

[0:10:06.9] WS: Okay and so how many employees do you have in that team to manage these units by 1800.

[0:10:13.1] JG: Sure, 60. There are about 60. Yeah we have five in our corporate office and five in our equity group.

[0:10:19.3] WS: Okay and then obviously, people on the ground that is going to be from – I mean people that are turning units, people that are managers, people that are cleaning units, I think all of those.

[0:10:28.3] JG: Yes, that's right. That is what makes up a 60 and then we have an HR, we have some accounting people, a corporate controller, the construction supervisor. So those tend to when you get that scale, used to tend on me to bring on those people for management companies. So that is what we have done.

[0:10:43.5] WS: Nice, so you know what has been the hardest part of you growing that as you are starting the management side of this business?

[0:10:51.0] JG: It would be your most valuable asset, obviously your employees, your hardest asset is your employees. So I think getting that culture that rhythm, we have been self-

managing now for I guess a little over two years. So just getting that just takes some time that is in any group but it has gone relatively good for us and that is always the hardest challenge is getting the right mindset, getting the right people on the bus so.

[0:11:16.6] WS: So what has been the investor's response overall to you all self-managing?

[0:11:21.2] JG: Yes, they are very bullish about that. They really like the fact that we self-manage or they come in on a reporting. In fact, when we mentioned we were looking for a third party to go outside. They're like, "Wait a minute, why don't you have repo managed these properties and it just seems to work really well. So I think they do like it and I know out lenders like it. They seem to do well.

[0:11:45.8] WS: Wow, so you mentioned your lenders like it as well that is interesting. What about the first next loan and the lender you are talking to after you all started to self-manage? Were there any kind of issues or delays or wait a minute, you know you don't have enough experience in self-managing or we need to give this sometime or anything like that?

[0:12:02.5] JG: No, we didn't have any issues moving forward. Maybe that was because they were comfortable with my previous business background but they didn't have any issues with it. In fact, one of our loans that we did was a bridge loan and those loans were all about the sponsors. I mean there's a little more risk, shorter fuse, and when they travelled here when we met with our manager in their office, they met the teams and they really felt comfortable.

There was a firmly if you would vertically integrated company that handled everything from the due diligence that they want to take over to the construction end of it. So I think that is why they liked that.

[0:12:38.4] WS: How long did it take to get all the units under management? I mean I would imagine you didn't do all thousand units they won but what did that process look like?

[0:12:48.4] JG: I think it was a four-month process. We were so lucky, Whitney, because the management company used the same software that we did and they allowed us.

[0:12:57.5] WS: The third party that you are using.

[0:12:59.6] JG: Third party, yes and they allowed us to basically transfer all the data, wipe out all the financial data and just start with beginning balances and that was for us was like. There is not much data transfer. So I think that it was just a relationship we had with them and when we had them they were 11 housed units. Now I think they're 20 and I still recommend them today but that was a real sign of just transitions.

[0:13:23.2] WS: So you know I want to pivot here just a little bit before we ran out of time and before the show, we were talking about this previous deal and I don't know, maybe we could even have you back to talk about this deal a little more, but you had mentioned some impressive capital raise here and I just wanted you to elaborate a little bit and I wanted you to tell the listeners a little bit about this raise and how fast that happened and what you all raised and maybe tell us why you were that successful at this capital raise.

I know it seems like a very different topic from what we are talking about but I thought it was pretty important. It is pretty impressive.

[0:13:51.8] JG: Yeah, thank you. So our last property we purchased was a two-property portfolio and once you settle on the purchase price, we determined our equity raise, it was 11 million and the previous to that was what we raised was eight million. We were able to raise the 11 million dollars in two weeks and we knew it was going to be a heavy lift from the get go but we really didn't realize we're able to get the commitments and the money in probably three weeks, the money in four weeks total.

[0:14:19.8] WS: You know, obviously, we don't have time to dive in every detail and I'd love to, maybe on another show. But give us maybe one key thing that allowed you to be able to raise that kind of capital in two weeks?

[0:14:29.7] JG: Sure, absolutely. Number one, contact your investors often and be visible with them, get back with them when you're supposed to. When you go to these meetups, be as friendly as you can and talk to them and if you say you're going to get back to them, get back

with them. We've been doing this for three years now, even four years I guess. We've been at it for a long time.

We've always just been as open book as we can and completely accessible to all of our investors and I think that's helped a lot in us being able to come back to them and then raising additional more equity for people who just met us and have a relationship with.

[0:15:05.0] WS: What's the number one thing that you attribute to your success, Jacob?

[0:15:08.7] JG: Jeez. I think the man upstairs just puts people in our lives for reasons and they're good people and we're able to help them and just been able to come back to us and I think that's the real reason.

[0:15:20.2] WS: Wow, appreciate you sharing that and tell the listeners how you like to give back?

[0:15:24.0] JG: From an employee standpoint, we're very generous to our employees that come to work for us that are very hard workers, it's just hot here, it's not easy keeping the property, so that's one thing and then we're just have various donors, large and small to various organizations. Our kids were here in San Antonio in a private school and we help them out and then we just help various activities that are out there.

Our time is spent really with our family so we were not spending a lot of time but we do – we're able to write the checks and that's been very rewarding and gratifying for us because we see people out there doing really good things with that.

[0:15:57.2] WS: Awesome. Jake, you've been a great guest. I know all listeners, especially if they're experienced syndicators or debating about whether they should self-manage or not and know they've learned a lot from you and so have I. But tell them how they can get in touch with you and learn more about your business.

[0:16:11.5] JG: Sure. Phone number, if you like to call me, it's 214-850-6723 or you can email me at jacobgarza.com.

[END OF INTERVIEW]

[0:16:22.8] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Lifebridge Capital. Lifebridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Lifebridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success

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