EPISODE 338

[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]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Nichole Stohler. Thanks for being on the show, Nichole.

[00:00:32] NS: I am so excited to be here. Thanks, Whitney.

[00:00:34] WS: We're honored to have you on. I'm really looking forward to this topic today. I was just telling Nichole, we haven't talked about this subject no more than once or twice, since we've started the podcast. So this is going to be really good, and I'm going to wait to tell the listeners what it is.

Nichole is the founder and host of The Richer Geek Podcast. She helps IT and other high-income professionals find creative ways to build wealth and financial freedom. While working full-time in technology, Nichole and her husband have built a real estate investment firm with an impressive portfolio that has included hotel, multifamily, and single-family residential properties. Nichole believes that it is not only possible but essential that others in high-income roles find ways to make their money work for them, and she's here to share some of her proven techniques for doing just that.

Nichole, thank you so much for your time today and being on the show. I am really looking forward to getting into this today. But tell the listeners a little about who you are, where you're located, and let's jump in.

[00:01:31] NS: I am in Scottsdale, Arizona, and I love being in this particular area of the country. It's interesting, because when we talk about real estate investing, we always invest locally in our market where we have a pretty good handle on what is going on. I also work full-time in IT, in tech, and my heart is with people who work in tech.

I absolutely understand the jobs are very demanding. Things go wrong on weekends, evenings. So these are intense types of jobs, and I get that. When I talk about finding ways to make your money work for you, I understand that it's hard when you're working full time, and there are some strategies you can employ around those.

[00:02:18] WS: Nice. So we had talked about it a little, but you're working full-time while also managing this business and performing very well, doing numerous things, numerous types of asset classes. Can you elaborate on how you started the syndication business, how you got this rolling and how you've managed all this time? I mean, personally, I've done the same thing, and I know a lot of people listening are trying to get there, and they're trying to manage their time. How have you done that while working full-time?

[00:02:41] NS: It's a great question. I would note that we're in our first syndication right now, and that's after many years of investing completely with our own capital growing, seeing the successes there. So we have a background, a lot of experience. My husband's been in property management. So having that foundation to then take the next level and then become a syndicator. The way that we balance it, my husband and our team – when I say team, we're talking about our attorneys, our CPAs. We have consultants who help us have kind of 20 years hotel operations experience. So that particular team of people are working on this more in the full-time capacity.

My role is marketing. I also really enjoy the opportunities that you have to leverage marketing as it relates to the hotel. How you can increase sales and increase income. So I have a big part in that, but I'm not really the day-to-day operations. I'm not on the calls with the attorneys, those types of things. So that's how I balance it.

[00:03:45] WS: So it sounds like, first, you've educated yourself one way or another. You've educated yourself, you invested passively, and you've learned all these things. Then also, you built the team. I mean, you built the team. Obviously, your husband plays a big role there too. So your education and you built a great team. But then what I would love to dive into is this is hotel business and how that works.

So I know nothing about the hotel business, but I know numerous people who have invested passively in hotels and different things. But I'd love for you to just elaborate on why you all have selected hotels as the asset class for you as opposed to strictly saying multifamily or single family even?

[00:04:23] NS: It's a great question, because we did get our start really in multifamily. My husband was managing large 300, 600-unit apartment complexes, and that is really the place that we come from that we understand very well. The way that we got into the hotel industry was kind of two-fold.

I talked about the fact that we keep everything local to Phoenix. For us, our network of people are here. The referrals that we have for the best attorneys, CPAs, folks that know different niche areas within industry are all within the Phoenix metro area. We were actually introduced to someone who's been in hotels for 20 years by one of our brokers about two years prior to buying our first hotel.

We were starting to explore that as an alternative niche already. Then about two years later, we received an unsolicited offer for one of our apartment complexes, which we finally ended up taking. Then we were under 1031 Exchange, and we could not find multifamily that met our criteria, that provided the returns that we expect, the CAP rates, etc. Not in the Phoenix Metro area. That is when we pivoted into hotels.

I think part of the reason that we have the confidence to do that is we did have basically a hotel mentor. Someone that was able to find off-market property. Someone who's able to say, "Hey, here's the value," and really teach my husband as we went along and then bring the resources and recommendations again in market for us to be confident and successful with that hotel.

[00:06:01] WS: I think you really hit the nail and head there, but you had a mentor. You had somebody that had been there, done that, gave you confidence. Gave you the confidence to understand this type of asset class for business and going into that. So what are some things we should be thinking about as opposed to – most of us are probably thinking multifamily — I know a lot of listeners are in retail and mobile home parks as well.

But as far as going from multifamily to hotels, what are some of the things we should be thinking about? Even when underwriting or just the different asset class. Hotel is not my specialty at all, so could you elaborate on that?

[00:06:34] NS: Yes. To start with, the same thing that holds true in any real estate niche location becomes still your number one priority. It's interesting, because when you're buying a hotel, and I'm talking about hotels that are what's called a flag hotel, franchised hotels, limited service, catering to business travelers. That's really the space that we're in. You are 100% looking first for location. Then you will observe the flag itself, the brand. But we are not buying because it's a specific brand. We're buying because there's economic centers. There's development going in. There's a lot of reasons to be in that particular space.

That is really the same as multifamily, where you're looking at location first. Some of the things that are different is that hotels, depending on your market, have seasonality. So you do not have a consistent steady occupancy rate that you would see, for example, in multifamily once you've been able to get the property to the level that you expected.

So you will definitely see seasonality in Arizona. Our off-season is during the summer. So those are challenging months. It's similar to — if you were to talk to someone who owns long-term rentals versus someone who owns short-term rentals. They have seasonality as well, but the profitability can be much higher on the short-term rentals and similar to hotels.

The profitability on a per unit, and I'm going to say that in hotel industry, it's called key. So a room, how many keys do you have versus units or different rooms itself. You actually use keys. So on the per key basis, the profitability is higher than apartment complexes, but you do have variables that you wouldn't see necessarily in the multifamily space. You also have more levers in a hotel. So it is more of a business than it is real estate, but you do buy for real estate first.

Then you're looking at the business components. Some other things are similar. You may have property management for your multifamily. In our case, we have a general manager, and there's levels of companies that will provide operations management, accounting, those kinds of things specific to the hotel industry.

You would also have – maybe you are buying some supplies in your multifamily like cleaning for your pool and those types of things. We have the same thing. Only our supplies are on a much higher basis. The cleaning is happening every single day. The pool needs – that's happening all of the time. So those pieces are different. There is generally a free breakfast. So there's all these incremental business component pieces that you can start to take a look at to say, "Okay, can I negotiate better contracts? Can I leverage volume discounts?" So you can start to look at that, because you're part of a franchise or you have other hotels.

The other piece that you can do is just monetizing the hotel itself. What can you do, for example, with the spaces? Like our breakfast area is only used for breakfast, and then it sits there the rest of the day. So that could be used as a conference space for small groups. How can you be adding snacks and mini-bars and things to – there's a lot of different ways to monetize the hotel, negotiating corporate contracts, selling digital space on your Wi-Fi splash page. So what I love is that there are so many of these, and it's almost like the sky is the limit in the things that you can do within that specific hotel space.

[00:10:20] WS: Wow. It's neat though. You're thinking more business-wise. I mean, real state is still a business, but it's – I don't know. That just seems very different, but you have so many other levers there, like you talked about that I haven't thought of before. Just like that space. You see everybody having breakfast there in the morning. But then the rest of the day, it's just empty.

[00:10:36] NS: Exactly.

[00:10:38] WS: What else could you use that for? And just all these little things, even selling the digital space. You talked about that. It's very interesting and all these different things. So you're getting very creative. I mean, you are exhausting all these avenues to increase the income and obviously the value. So as far as this seasonality and it's something I really – I mean, you think about it, but think about how much it affects that asset class.

Location is going to affect the seasonality as well, depending on where at in the country and hot, cold, all those things. You said in the summer times, your slow season, where a lot of times if you were in Florida, that's probably the busy time. Or no, that maybe the opposite as well. Or let's say up north in colder climate, the summer is probably going to be a busier time.

Depending on what their attractions are, but what are some other things that we should be thinking about if I'm looking at moving into the hotel space? How am I going to find that hotel? How are you all finding hotels that you're looking at acquiring, and what does that process look like?

[00:11:34] NS: We're finding hotels because of our network of people and being local to the Phoenix area, and I emphasize that a lot. My husband and I are active in rotary. I'm regularly reading the Phoenix Business Journal. Keeping an eye on what's happening in our market is how we're able to determine not only just, "Okay, we're looking at a property but what do we see that's up-and-coming and what are we aware of that may be the current owner isn't paying attention to?"

So I will tell you this this hotel that we're currently under contract. The owner is kind of a mom-and-pop, had a smaller rural property sold at 1031 into this particular property, which is now in Metro Phoenix. The approach that the current owner is taking, they're not understanding a lot of things. For example, they let their corporate contracts expire and didn't really see the need to that. I see that they don't respond to reviews online. When you think about a hotel industry, it's very much of a relationship business. Those corporate contracts are going to be key. Your relationship with your guest, there's a customer support aspect of it, a customer engagement.

It's the few things like that that we look for. So we saw this hotel opportunity, and we said it is undervalued because of a number of factors. Not to get too deep into the weeds, but one of the things also is that you may be under a particular flag when you first buy a property. Then as that contract comes up, you may decide to switch brands. This owner decided to switch brands and did that in the middle of the busy season in Arizona. So if you think about it, construction in the lobby, remodeling going on in a hotel, it's not very conducive for people coming to visit. So it starts to hurt revenue. There's a time to do that and time not to do that.

So he did it during the wrong time, which is the busy season, and that impacted his revenues. So then we were able to look at that and say, "Okay. Obviously, that's not going to be happening again. We see revenue growth. We understand what the base is here. These corporate contracts have gone away. We see that there is not a customer engagement." Those are all things that we looked and said, "Okay, we can improve upon that. These are some very basic things that we can do, not even out there, crazy. Just having business fundamentals and understanding the market."

[00:14:00] WS: So you're in-depth in this market. You're in the club, and I don't know. As you said, you all are buying locally. Do you all plan to buy outside of your market as well or do you plan to just stay focused right there?

[00:14:10] NS: Right now, we plan to stay focused here. Part of it is we just have such a great network of people, so we get leads about potential off-market hotels, and it's easier to leverage. For example, general manager, can cover two hotels. So you start to get those economies of scale if you stay within market.

[00:14:32] WS: What are some flags that when we're looking at hotels that are going to show that there's a value there to be had? I know we've covered some of them, but anything else when you're looking at lots of opportunities. What are some things that you go, "Wait a minute." This one you notice that he rebranded during the busy season, but what are some other things that you're looking through all these opportunities to pick one out. That says, "Wait a minute. We should look further into this hotel opportunity, because it looks like there could be some more value there?"

[00:14:55] NS: We always look at expenses, and we know about where they should be. This is actually one thing too that's very interesting. There's a ton of data. As a franchise owner, there's a ton of data that you receive that benchmarks your hotel against other hotels, and you can take action on those KPIs and really make an impact as a result. So one of the things that we already had that experience, we know what things look like, so we're able to look at, "Okay. In our due diligence, what do those expenses look like and how can we decrease those?" Then, of course, all the marketing pieces we're looking for that aren't happening that we know we could go after.

The other thing that's interesting about this particular hotel that's under contract is I don't think the current owner really is aware of kind of what's happening in the Phoenix Metro area. This hotel is going to be right at a drop-off point where another highway is in construction right now and going to hit right in that intersection area of already another major highway and it loops around the Phoenix Metro area.

There's a ton of commercial development that's then taking a place along that line and developers buying up the land. So if you look at that, you say the land alone is going to be highly valuable without even just thinking about the hotel itself. It's just back to kind of the number one thing, which is location and what's happening in market.

[00:16:24] WS: So when should we think about having to rebrand the property? I know you mentioned this other seller that you know of that completed that process at the wrong time, but when do you think about having to rebrand?

[00:16:35] NS: One reason may be that the brand itself decides that they have a new standard and your hotel doesn't meet that standard. So let's give an example. One of our hotels had been rebranded about two years before we bought it, and the reason was it had exterior rooms. So it's multi-story, but the rooms are not enclosed hallways. The brand at that time, which I think was a Best Western said, "We don't want any other hotels that have exterior rooms, at least, not within this class of hotel." Actually, let me just take a moment to explain that there are, just like in multifamily A, B, C class, D class properties, similar thing in hotels. Only they would be more like extended-stay budget hotels, limited service hotels, upper limited service, getting into your high end, of course your boutique.

So there are a ton of different classes, and a major brand of hotel like a Best Western or a Marriott has hotels in all of those different classes. Then they may change how they want to position the class in the market. For example, I know that La Quinta is doing quite a bit to raise the level of service and quality of their hotel, which in the past maybe that wasn't the case. So Best Western, at this point, said, "Hey, we don't want to have those exterior hallways anymore, so we're not going to continue with your contract. At that point in time, as an owner, you would be seeking out what would be alternative options.”

That can happen on the hotel brand side. Then as an owner too, when your contract comes up, you can make that decision. But everything is a cost analysis. If you're switching brands, you may have certain requirements that you have to meet, and your hotel may not have those already. So there's some investment there. Kind of a trade-off either way.

[00:18:42] WS: I guess thinking through having our own brand, as opposed to branding under another large brand, is that a possibility or something you think through?

[00:18:51] NS: Yes. You can take your hotel. It would be taking it independent. Or you could already have an independent hotel and then take it to a brand. So then the question becomes, “Okay, why would you be under a brand?” The biggest reason is really marketing and loyalty programs. If you look at your corporate traveler, they will tend to be loyal, because they will get points per stay. Then from there, they can maybe take a free weekend with their family. Loyalty is a huge driver for bookings in the hotel itself.

The other piece is standards. People know what they're going to get if they consider it’s a comfort, and they know what to expect from that particular hotel. A lot of times, they'll choose that versus an independent that you don’t have any idea what they're dealing with. I think the biggest thing is because we’re in limited service, we’re catering to business travelers. A lot of times, those are corporate contracts negotiated, it's rare that you would see an independent hotel on a corporate travel booking type of site.

[00:19:59] WS: Okay. So that’s some good stuff to think about, but what about returns for an investor? What types of returns you all normally see or how is that structured?

[00:20:07] NS: Okay. So we’re in our first syndication right now. I would say that when we switched from multifamily, we were seeing at that point in time in Phoenix CAP rates around 4% to 5%, and we moved into the hotel because we were seeing 10%. We still see that today in today’s market. I will say all assets are at a higher entry level than they used to be three years ago or even a year ago. But we’re still seeing the CAP rates that we expect even despite the fact that you’ve got the seasonality and the trending.

Again, I would equate it too for those just kind of thinking about a long-term rental versus an Airbnb. There's more work on an Airbnb or a short-term rental, obviously. You've got daily cleaning. You've got communication. You've got follow up with your guests, all of that. But there's more revenue. It's very similar to multifamily and hotels.

[00:21:06] WS: Okay. So what about a buying criteria, like when you go to look for a hotel, how do you judge occupancy and things like that in a hotel and how do you tell the broker, "These are the types of hotels that I'm looking for."

[00:21:19] NS: First of all we do try to stay in limited service. The reason is when you add food and beverage that's a chargeable item from the standpoint of a restaurant, not like a mini-bar or a little snack shop. But I'm talking about server restaurants, those types of things. That increases your expenses tremendously and it doesn't always give you the return. Now on the flip side, it can be a drawl to that hotel because it has a restaurant. But we just find limited service has less moving parts. So we prefer that model in itself.

In the hotel industry, people will talk about things like revenue per available room. It's called rev par. They'll also talk about the ADR, the average daily rate. Those are interesting metrics to benchmark against other hotels. But it really isn't a full picture. What you really want to see is the overall growth operating profit per room. In that case, now you're looking at those other add-on services that I've mentioned. Those revenue numbers will vary based on seasonality and where you are.

Really, we're looking for upside opportunity, a hotel that has again a good location that has a foundation we can build on, and those are the main things that we're looking for. I will say when we're underwriting and we're looking to actually determine if this is the right hotel to buy besides all those other factors, especially because we've been on a very long economic run. One of the things that we look at is, "Okay, if we were to go back to 2010," which was really one of the worst years in the hospitality industry for tourism and travel and even business travel, right?

All of that was really down. What was that revenue or that average booking and what was the consistent occupancy within the hotel during that timeframe, and can we still make money if we're at that again? So it's kind of like the same thing you would do if you're looking at multifamily and if suddenly rents decreased. What was the worst performing? Can you still make money on that property if you had such decreases?

[00:23:36] WS: Some great advice right there. I mean, thinking about if we experience another 2010 in the hospitality market, what's going to happen to this property? What's our income going to be? Are there some specific guidelines you would use there for percentages, or income, or occupancy, or things like that?

[00:23:52] NS: Yeah. So you would look at let's say it's a value upside opportunity and you're looking at the hotel. So just use the current numbers for the past three to five years and don't factor in any proformas. Don't put in what you think you can do. Just be realistic baseline numbers. Then you come up with what is the average daily rate on an annual basis and take the worst one whatever it is. If it's $50 a night, whatever it is. Take the worst one.

Then from there look at the worst occupancy, which I think in 2010 kind of on a country-wide average was about 54%. So if your occupancy is at 54%, can you still make money at that particular daily rate? That will give you a good solid foundation, because everything is upside from there. If you're good there, you can be confident moving forward.

[00:24:50] WS: Nice. I will turn here a few more questions before we run out of time, Nichole. But what's been the hardest part of the syndication journey for you so far?

[00:24:59] NS: How long everything takes. We didn't expect that. So as an example, first of all, just to get the hotel under contract with the LOI and our lawyers evaluating the LOI, that in itself was about one month. From that point, the PPM paperwork, especially because we were trying to decide 506B or 506C, and went with C. But that paperwork took some time.

Then the other thing I didn't even mention that's very unique to hotels is that of course you're looking at a commercial loan, but you can also potentially leverage small business loan. So if you're leveraging a small business loan, that has implications in how you structure your entities. Because, for example, my husband and I are personally guaranteeing the loan, so we're actually getting the small business loan. But then you have this entity that has other investors.

So just figuring that out took some time as well with our attorneys and our CPAs and the SBA guys. So I would say how long everything takes.

[00:26:03] WS: What's a way that you have recently improved your syndication business that we can imply to ours?

[00:26:09] NS: Wow! This is our first time. So let me think about that. What's a way?

[00:26:14] WS: Could be one key thing or maybe some kind of technology maybe that you all have implemented or it could be anyway that you all have like – you would say, "Okay. If you're in the syndication business, this is something you have to have."

[00:26:24] NS: Well, I think the piece that is pretty key is to be able to have, and this may be very basic, but to have a webinar and have a CRM system, where you know who's attending and you can follow up with them. Then they have an opportunity to listen to it as a follow up and a playback. I know that myself as a passive investor, I appreciate that. Because I want to go back and kind of digest the information and you can always make the call. But also you just may need some more time to think it through.

So I think that is probably a key technology component. Then the CRM is really critical, because just because someone attended and didn't invest at this point in time, they may in the future — and it would also be really helpful to understand what was it about this particular deal that was not interesting to you. You can find out a little bit about where they're coming from and what might be more interesting for the min the future.

[00:27:19] WS: What technology are you planning to use for your webinars and things like that?

[00:27:23] NS: We have already an email. We use ConvertKit. So we have an email provider solution. But we're also looking at some of the backend, like IMS and some of those types of things for managing the investors, ongoing communication and visibility into numbers.

[00:27:40] WS: What is your best advice or like one thing for caring for investors?

[00:27:44] NS: I think communication is key. Let the investor tell you, "Hey, you don't need to keep me updated." But I can't imagine anyone who doesn't want to be updated on what's going on. I think the other thing is we've had a lot of requests to go tour the hotel, right? Which is kind of cool. The challenges in just like in multifamily, when you're in the middle of buying, the employees don't know.

So we can't actually have anyone go tour the hotel yet. But we will be having a grand opening where our investors can come and can see and take a tour. But it's kind of sad that we can't do that, but unfortunately, not until the deal is closed.

[00:28:25] WS: What's the number one thing that's contributed to your success?

[00:28:28] NS: Hard work, I would say, and learning from mistakes. We've had our ups and down and there are things that we've learned. I'll give you one little tip. In the hotel industry, you need to be very cognizant of ADA rules, and we had an issue with one our hotels where someone sued us for like a very tiny, minor thing, and they call these drive-by suing type of things that people do where they pull up, they look at your pool and they say, "Oh! Do you have a lift that I can get up and down?" If you don't, then they want to sue you.

It's kind of a sue-happy type of thing, and it wasn't the pool, but it was another situation. We have a lawyer who comes out and he's an architect/lawyer. Looks at everything, provides us report and tells us what we need to make sure that we're ADA compliant. So here we are buying this hotel now. Obviously, you do your inspection and all of that. But we also paid $2,000 for this guy to come out and do the ADA inspection, so we know 100% of what we're looking at, and that's an example of just learning from a past experience.

[00:29:34] WS: Wow. So I didn't know that. That's great advice. It's a drive-by. That's a new one. I think that's one we obviously need to be aware of. What is ADA?

[00:29:42] NS: The Americans With Disability. So basically – yeah.

[00:29:43] WS: Association. Yeah. Okay. Okay. No, that's good to know. So, Nichole, you've been a great guest. This has been a great show. Like I said, I haven't had – I don't know, maybe one other guest talk about hotels, maybe. So I appreciate you sharing your expertise and how you all moved into single family, multifamily and now hotels, and while also you're working full time. You've given us lots of good content, and I know the listeners have learned a lot. But tell them how they can get in touch with you.

[00:30:08] NS: The best way is on my website, which is therichergeek.com.

[00:30:17] WS: Awesome! Thank you so much, Nichole.

[00:30:19] NS: Thank you.

[END OF INTERVIEW]

[00:30:21] WS: Don't go yet. Thank you for listening to the today's episode. I would love it if you would go to iTunes right now and leave a rating and a written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go the Real Estate Syndication show in Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too so you can get the latest episodes.

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[OUTRO]

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