

EPISODE 414

[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 Sam Hales. Thanks for being on the show Sam.

[0:00:32.8] SH: Whitney, thanks so much, thanks for having me on.

[0:00:34.7] WS: Pleasure to have you on Sam and I'm really looking forward to this conversation because just from reading through our bio, you've done a lot. You've created some processes and systems to accomplish this but even before the last couple of years of what you've done, Sam is dad to 10 children.

You better believe you've got some processes that –

[0:00:53.4] SH: We better. If we haven't figured out by now, we better start figuring out pretty soon. Yeah, for sure.

[0:00:59.4] WS: Wow, no doubt, you're good at processes and systems and he's been a real estate private equity fund manager since 2011 in single family homes, multifamily development, land development entitlement, office, industrial and even a boutique hotel. Started purchasing home parks in 2017 and this is his full time endeavor now. Listen to this, currently owns 18 communities with nine more under contract. That's in the last two years ain't that right, Sam?

[0:01:29.4] SH: That's right, yeah, that actually started kind of the end of 2017 so we're really kind of coming up on two full years of this.

[0:01:35.9] WS: I'm looking forward to hearing about that. Tell the listeners where you're located, anything else about your background we need to know and let's jump in to how you're doing this?

[0:01:44.0] SH: I'm sitting in my office Auburn, California which anybody knows Sacramento, and Lake Tahoe, Auburn's kind of right in between the two of those, kind of a nice growing bedroom community. My background is actually in technology. Before we become in a fund manager in 2011, I was in the tech space in Silicon Valley and engineering background and as we'll discuss, I'm coming from that angle and try to bring some of those experiences and some of that background into our business today.

[0:02:13.4] WS: Engineering background but why real estate. What pushed you into real estate?

[0:02:18.2] SH: Even when I was still an engineer, I just had this desire to do real estate. It started off with just the first single family home that my wife and I bought and moved into and within three years, we renovated and actually you know, pulled the carpets up and refinished the floors ourselves, kind of all that sort of stuff, it was like the night job, right? That worked out really well, selling that.

Just kind of got the bug I think from there and so started doing some single family home investment on the side and really wanted to kind of leverage that into a full time sort of endeavor, went to business school and one of my associates or classmates at business school, we got together and formed a fund, in fact, right after school, we kind of launched it.

[0:03:01.7] WS: You started this fund and that's what pushed you into I guess, really into real estate but now into the mobile home park side, you know, where you've really just ramped up this business, how did that start?

[0:03:11.9] SH: Single family investment is challenging, there's some groups that have done it at the very large scale, right? Like Blackstone. You talk about processes. I mean, they've really kind of fine-tuned the processes that they're using there. But for somebody that's doing a hundred or 200 homes, to develop all those processes for assets that are all over the place is really challenging.

Even as we were kind of wrapping up our single family fund and you know, starting to sell and that sort of thing. As I looked around at that I thought, you know, the yields have come down on single family, I'm looking for something that's going to be a little easier to manage and easier to actually put some processes in place for.

I had some experience on multifamily but of course, when I think multifamily, most people think multifamily, it's not mobile home parks, it's standing apartment buildings and that sort of thing. It was actually my banker, it's a bank called called Five Star bank, we've been with them for a few years and they said, "Hey Sam, we really like you but what we really love is we love mobile home parks, so if you start buying those, we'll do that with you." Funny enough, right? It was actually our bank that got us interested in the space.

[0:04:17.4] WS: That's interesting. I don't think I've heard that before. Bank comes to you and says, "We really like this asset class. If you're going to do that, we're going to partner with you." But also, it sounds like, you already had a really good relationship with them it seems like. They're probably not going to do that with just anybody.

[0:04:33.0] SH: That's true, we had a good relationship for a few years, mostly doing the single family investment. We've done one office building with them, so there was kind of that history and they like me well enough to say, "Hey, go buy these and we'll back stop you." It's been an awesome relationship.

[0:04:50.1] WS: Now though, to get to 18 communities and nine under contract, I can't even imagine that, having nine under contract at the same time, different communities. Tell me about these systems though and these processes that – some that you had to develop to be able to scale that fast?

[0:05:06.1] SH: Well, yeah, it's certainly been an iterative process so first of all, mobile home park investment, unlike maybe standard multifamily, there is less sophistication in the space, so when you look for tools, you know, even this boutique hotel that we did, I like using high top of the market tools that people spend a lot of money and expertise developing and then you pay your subscription service every month and you get really high quality solutions. There aren't very many of those in the mobile home park space, we've had to actually develop some on our own.

You know, we use anything from kind of standard type rules that are available generally and we customize them for mobile home park space. For project management, we use Asana, it's a great project management tool. Basically, each mobile home park becomes their own project in our system and then the task that we're doing and who is assigned and when it's due and what's dependent on what.

We do a lot of project management; we're buying mobile home parks that need a lot of fix up. It's anything like that where it's a standard off the shelf that we customize it a little bit to, we've developed our own web crawler that goes out and looks for mobile home parks that are located in opportunity zones. Who know, it's a very custom solution obviously very niche-y too our needs but kind of the software development side, we have some of that expertise now and so we're able to kind of develop some of those tools that really make things so much more efficient than hiring more people that can even struggle with those processes.

It's very repeatable, we're always looking for a way to kind of automate those processes.

[0:06:44.0] WS: Why not, right? Why not automate it? I mean, we also use Asana and I feel like I barely skimmed the surface of that software and what it could do for us. Even that's like, you know, when I take the time to really keep educating myself and getting in a better habit of using that thing, you know? It's good. A few things that we use it for, I mean, it's good. Any system like that, it doesn't work unless you use it, right?

[0:07:07.0] SH: That's true, yeah.

[0:07:09.0] WS: It's interesting though, you all had a skill where you can obviously build software and you can do these things and you used to – talked about building a web crawler, it kind of makes me itch a little bit thinking about that but you know, you all are able to build something like that to help your real estate business and not everybody has that skill, and so it kind of gives you a leg up on finding deals. I'd love to hear how you're finding properties and is it something like that or maybe some systems that you've developed to be able to find this many this fast?

[0:07:37.9] SH: I tell people, that's the biggest challenge for our business. It probably is for almost anybody in the real estate space generally at this point is like you know, where do you find a deal that pencils, that makes sense, right? There's obviously a lot of capital chasing, not enough deals. We've done a combination where we've certainly purchased I'd say about half of our deals from brokers and then the others have been the collection of – kind off outreach that we've made or one of my favorites is the following we've got. So to be a broker but a local broker versus a broker with a national presence.

I'll give you an example. We're in a market in North Carolina. We found a park there that was kind of available online like you could find it a couple of places but wasn't really well advertised and when I called the broker, he was really excited because he'd had a private equity group that had been buying in the region for a while and they had just told a few weeks before, "Hey, we're kind of done buying and we're just going to operate for a while."

So this guy, he's sitting there in his local market thinking, "Man, I got these deals and I don't have any buyers." Again, he didn't have a national presence. If he did, he would have known, "Hey, tell you what, there's tons of buyers out there, you just need to know how to reach them."

From that broker, we've closed one deal, we have two more in Escrow and he just found us a third one, so it's created the symbiotic relationship where he doesn't otherwise have buyers, it's a good market and we're excited about kind of exploring that as much as we can and trying to generate as many deals as we can or something like that.

We've seen that a number of times where the hard part where you're just doing the direct outreach is you don't really know if you got a seller or not. I mean, everybody will sell at a

certain price, right? But you have to sift through a lot of people to get somebody that's actually really interested in selling. So if I know they're a seller but they don't have the kind of reach to find the market so to speak, those are my favorite kind.

Because we know, at that point, we can do a deal here. We just put one in the contract Friday and it's in this market that I'm telling you about, 270 spaces in our purchase prices is going to be 3.3 million. It's a fantastic location and it's got nice streets, everything's public utilities. It's going to be a very nice park for us.

[0:09:53.9] WS: Wow, I won't ask you what that broker's name is.

[0:09:59.4] SH: Give me twelve months. Once we bought all the deals there I'm happy to share.

[0:10:03.7] WS: I mean, finding deals is very difficult right now, so it's awesome to know that you're able to find this local broker and I'm glad you brought up that difference there. Seeking out this local broker as supposed to someone who has a national presence. I think a lot of times, it's a different mentality almost, you know, if this brokerage only services this local community, you know and that's it. As supposed to our broker who, you know he goes to conferences and knows other brokers from all over the country.

[0:10:30.1] SH: Right, he knows lots of buyers. I'll give you one other example Whitney, we went into Escrow on a property in Columbus Georgia and I flew out there from the due diligence trip. As I'm driving to the property I see a sign about a half mile before the property I was headed to and it said, "Mobile home park for sale." I'm thinking, is that the one I'm about to, you know. I go down, I do my visit and I'm like, "Hey, do you guys know about the one down the street and everybody's like, "No, we don't even – we've never heard of it, we're not sure what you're talking about."

I drove back there and it was an old faded sign, really, at that point, didn't know, is this thing actually for sale and I called the broker and again, it was a local guy, first time ever selling a mobile home park and was he happy to talk to me? That's probably been our best deal. We purchased that one 113 spaces – we were \$8,000 a space, which is – just to the develop a space is \$20,000 in most markets. You're getting way under replacement value. It was actually a

full park. It was being mismanaged and sellers that were out of state and just wanted to be done. Anyway, yeah, we love those local brokers for sure.

[0:11:31.6] WS: You ended up getting both of those?

[0:11:33.0] SH: We bough both of those, yeah, right down the street from one another.

[0:11:36.0] WS: What are some other, maybe another system that's crucial that you have in place to be able to manage this many opportunities this fast?

[0:11:42.6] SH: Yeah, I should kind of give the caveat that we certainly aren't perfect and there's things that we're working on all the time to kind of improve and that sort of thing. This has been an awesome tool for us so we're using a property management system, it's called Rent Manager.

We've got – that's just kind of managing, "Hey, here's all your parts and here's each site and here's what everybody owes and here's your delinquency reports." It's great because you can run all these great reports from it but I wanted a tool where I could oversee and get a feel for how are we doing with marketing the new homes that we're buying in all these different markets? I mean, we're in nine different states and a lot of different places.

How do we kind of automate some of that and so we found this tool, it's called Show Mojo and it links directly into Rent Manager and then it syndicates out any listings that you have to the web, you know? It goes out to Zillow, it goes out to Trulia and there's other services like this. One of the things it does is it goes out to Facebook Marketplace which we found for us, it's probably 90% of our market. That's where we find most of our buyers and what's nice is, I get a report every day or I can log on any time I want and see exactly, "Hey, this listing here had 12 showings in the last 24 hours. Here's your conversion rate," and it kind of does these heat maps showing how everybody's doing, it's been awesome.

Then, for our regional managers, it's easy for them to kind of follow up and say, "Look, we got a problem here in Tallahassee Florida, what's going on, why are we not moving this inventory, why

are we not getting the show ins and that sort of thing. That's been another really awesome tool for us.

[0:13:20.1] WS: That is very awesome. I hope the listeners heard that, you said Show Mojo?

[0:13:24.6] SH: Show Mojo, that's right. Mojo.

[0:13:28.5] WS: That will blast out pretty much your – all those places including Facebook Marketplace.

[0:13:34.7] SH: You can have a feature, we haven't started using this yet but you get like a virtual lock box. It's actually a virtual lock, so you replace the regular door handle and lock that's on the home with their virtual one and then they can set it up so they screen the applicant and so the applicant passes the screening, they get a code that's good for the half hour where they're going to go see the home. They get all of their background information.

You can have people going out, doing show in's. Nobody's even there necessarily to meet them. We're not sure how we feel about that so we haven't really – we'll probably going to start testing it pretty soon here and the cool thing is, once they buy it, then you give them a code which then works for the rest of their tenancy there or you know, if it's their home, you just give them the code and then so you never have to swap out the locks again, you don't have to chase down keys or keep tracking keys and that sort of thing.

[0:14:25.6] WS: That's part of Manager or Show Mojo?

[0:14:27.6] SH: That's part of Show Mojo.

[0:14:29.6] WS: Nice, okay. You know, you were talking too about, you're buying mobile home parks in opportunity zones. We've talked about opportunity zones a few times on the show, maybe you'd give us just like the one-minute version or what is an opportunity zone and then let's talk about like why you're doing that.

[0:14:44.4] SH: Awesome so Opportunity Zones, there's about 8,600 of them nationwide. It's a federal tax credit program, or federal tax program that's actually administered on the state level, so each of the governors then decided, "Hey, you know, here's the criteria," and they got to go out and designate where the opportunity zones are in their particular state. And there is all sorts of tax advantages. There is deferral and your gains after 10 years can be completely eliminated for whatever profits were made inside of the fund. It has to be some sort of opportunities zone fund that set up

But anyway, if you look around most of these opportunities zone funds are focused on ground up development. So if it is class A apartments or hotels, those the two main types that you are seeing. We are starting to see a little more creativity now. There is some live/work, work/live type of offerings as well and the reason that most people are focussed on the ground up developments is that there is a requirement that there has to be a 100% increase in the basis of what is called substantial improvement

And as we started learning about opportunities, as we realized you know what? This is perfect for what we are doing because the political intent is how do you help people that are less advantaged? It is like I tell people, "Every mobile home park should probably be an opportunity zone." I mean these are the people that we really are trying to help or politically that we are intended to help. It is not to build a really nice hotel in a bad area, right?

And then what we start figuring out, once we realized that, you know what? It's a substantial improvement. It's just whatever the improvements are in place that need to be doubled, not the land value, this is a great fit for mobile home communities because in terms of real estate, a mobile home community is less developed, right? I mean it is just roads, sewer lines, water lines, some lighting, maybe a sign. You know potentially a club house or something like that but a lot of times we don't even have those in these communities that we are buying and so the amount of investment that we need to make in order to double the basis is not that much and it is the sort of thing that we are already doing.

So it economically made a lot of sense and then the nice thing is from an investment perspective, there is less risk, right? Because you got an asset it is already generating cash flow and now you are just looking for ways to kind of improve that cash flow maybe bring the rents

up as we make them nicer community. Our average occupancy and our OZ fund is about 50% upon acquisition so there is tons of room to add the occupancy as we make these communities more desirable.

[0:17:11.2] WS: So is occupancy going to be the biggest factor in say doubling the developed value? I mean is that a factor or is it going to be more replacing the homes or how do you know you are going to be able to do that when you are going into an opportunity zone?

[0:17:25.5] SH: Yeah, what we do is every acquisition that we look at, we develop at least a rough budget for, "Hey, here, we gonna need to redo the roads. We are going to need to redo some of the water lines." Your question as far as increasing occupancy and how much does that add basis, that is quite a significant portion of it because a lot of times if there is vacant units, the reasons that those lots don't have homes on them is because there is maybe a really old electrical pedestal that needs to be updated. Maybe the water doesn't work on that one, maybe there is a drainage problem, all of this sort of stuff. So that is part of what we are going to do is fix all of that sort of stuff so we can actually bring a home in. Most of these situations we're very easily doubling or tripling our basis in the property.

[0:18:06.5] WS: What has been the hardest part of this journey for you, the syndication or just the mobile home park?

[0:18:11.7] SH: One of the things that I think was appealing to me about the mobile home community business is I started researching, it was, this could be easy, right? Because people own their own homes, you don't have to fix those, you make the community nice and then people will want to live there and whatever. It is definitely more challenging than probably if you just read or just listen. The experiences are definitely more challenging than that.

It is hard to fill a community. It takes a lot of capital to bring the homes in. It takes a lot of effort to change the perspective I'd say on a community. A lot of times, we actually rename our communities if they had a bad name because we want to create a fresh start as much as possible but all of those things take some time and so like anything it seems in life that is worthwhile, it takes consistent effort. Not to say the most challenging but that's been just another reminder of, "Hey, yeah this is something we're building."

We are not sellers. We like to go in and buy and we tell our investors there is a plan to recapitalize and give them their investment capital back. We want to keep them in. We don't plan to sell these communities. We want to build them, bill them and just hold onto them and it is just build this portfolio over time.

[0:19:25.0] WS: You know I was thinking about something we said a minute ago and it is about opportunity zones and about having to double the developed value. That just means not the land value but what is on their land, right? In mobile home parks and I am not – mobile home parks have not been my focus, that is why I am asking also but it is like, since you don't own the homes, does the home play any value in that?

[0:19:47.0] SH: That is a great question and the answer is it can. So a lot of the times in the communities that we are buying and investing in, there is going to be a significant portion of the people that would like to live in our community that cannot get standard financing. I want to say standard, there is financing available out there, we bring in a brand new home and there is lenders like 21st Mortgage and some of these other lenders that will go ahead and give a loan on a prospective resident of ours.

But there is a whole subset of people that are not going to qualify there but are still hardworking and have the income to afford living in our community. You know, mobile home parks are the largest non-subsidized affordable housing in the country. So these are people that are working, making a living for themselves and their families. So anyway, the point is if we give them a lease with an option to purchase or just a lease that extends at least the 10 years that is required for the opportunity zone investment, then that can also count towards the basis, doubling the basis for the investment.

[0:20:50.8] WS: So there is some details there you need to understand?

[0:20:52.7] SH: Yeah, for sure and it has taking up a lot of researching to kind of understand all of this stuff, yeah.

[0:20:57.0] WS: So how are you preparing for another potential downturn?

[0:21:00.7] SH: I think there is no doubt it is going to come, none of us knows for sure what it is going to look like exactly. That was another part of the mobile home park investment that was very interesting to me. I had heard this rumor there is two publicly traded mobile home park entities or [inaudable 0:21:17] Equity Lifestyle and then Sun Communities. They've both been on the public equity markets for about 20 years and I had heard that they have never reported, that every quarter they'd had same store inner line growth.

Meaning take out all of the acquisitions or adding lots or whatever but if you just look at the average lot across their portfolio, that every single quarter over 20 years, that lot had become more valuable because it generated more income, which when I thought about that that seems unbelievable, right? Because when you think about the great recession, you think about the dot com crash and then that you know, they were listed altering all of that. Like is that really true?

I have a brother in law that works on Wall Street. I was like, "Can you get this data for me? I'd love to look at it," and he sent me the excel data and looked at it and sure enough, every single quarter for those two [inaudable 0:22:08] that are focused on mobile home communities, they had seen growth even during some really tough economic times. So that doesn't tell the whole story because our portfolio doesn't just look like theirs. I think anecdotally what I have learned from other people is, if you have created a nice community, you've created a place where people want to live then yes, you are going to do fine during these downturns.

If you are slum lording it like honestly most of the sellers that we buy from, people, given a choice, you know, things get really tight, they are going to go somewhere else because this is not a place they want to live anyway. So that is kind of the message to us is, we like the space because it is affordable and in general, that seems to do very well during the downturn but it still gotta to be a nice place that is safe and clean for families.

[0:22:53.8] WS: Some good data to have or access to data that you have. So Sam, what is a way that you have recently improved your business that we could apply to ours?

[0:23:02.0] SH: I guess we talked about you know some of the efficiencies that we are creating. I love to learn from other people. I was meeting with another real estate or multi, in fact

specifically for mobile home park owner/syndicator and we were just swapping notes like, “Hey, what are you doing about this, what are you doing about this?” and he mentioned, “Hey, we are using this system for our accounts payable to kind of automates all of that.”

So that right now I approve all the invoices. I probably spend an hour a day like reaching out to the regional manager and the onsite managers and saying, “Hey, has this work been done? Is this verified? I mean are we ready to pay all of this stuff?” And anyway we are just getting rolling with the product called AvidXchange, which automates and you can set up – here is your approval process for these communities and there is a different approval process over here that people have to validate and maybe upload the photos to show the work has been done, just automating all of that. So that probably the latest thing and I just love different efficiencies like that that make it so much easier for everybody to kind of get their job done.

[0:24:05.5] WS: I like that AvidXchange to automate the invoicing process. What is your best advice for caring for investors?

[0:24:13.5] SH: I think what I have learned is to really overdo the communication and it is probably not even overdoing it but I try to send out at least once a month some sort of update. We will do our standard quarterly report and a lot of time it is maybe anecdotal like, “Hey, here I was and my travels and learn a few things and here is something interesting that I have learned,” or whatever, just to kind of keep ourselves as an investment vehicle top of mind.

We’re white labelling a solution from Crowd Street to communicate with our investors so they can log in, they can see their K1s, they can see what their distributions were and the timing and all of that sort of stuff and I think having that has been a huge plus. We’ve been on their platform for about three years and that’s been awesome.

[0:24:54.8] WS: What would you say is the number one thing that’s contributed to your success?

[0:24:58.3] SH: I would say that something that I found that I think really helped is being willing to do something that maybe nobody else is doing, at least not yet. I mean, in other words, seeing an opportunity and then despite the fact that it is like, “Well why aren’t others doing this,”

you know, being courageous enough to go ahead and do that. So opportunity zones and mobile home parks seem like a natural fit to me and as I started researching them like, “Why isn’t anybody doing this? This totally makes sense. Am I missing something?”

And you start asking yourself some of these questions, but anyway I went forward with that and as far as I know, I mean, at least we were kind of the first ones to start getting some press on it and that sort of thing. There is others doing it now but just being like I say courageous enough to find an interesting opportunity and going for it.

[0:25:47.5] WS: And Sam, how do you like to give back?

[0:25:49.7] SH: I am definitely very involved in my church but as we talked in the beginning, I am a family guy. When I think of these communities it almost gets emotional a little bit for me because I go there and I visit and I see the kids and sometimes feel like they don’t have the same opportunity to do the same chances that maybe your children or my children do. You know, what can we do for them? So we actually just partnered with a company called IXL.

Check this out, I know you got some young children so it is ixl.com and what this is, is they have great level skills if you’ve got a second grader, here is the 157 skills that they need to know to be really good in math in second grade and then they gamify and make it super fun for the kids to go through and learn all of this different stuff. So my children have done this and it has been a huge part of them doing really well in school. I contacted IXL, I’m like, “Look guys, I love this and you can use my family as a case study –

My kids all have done this and are doing this but I want to be able to offer this to our communities, into the families in our communities,” and IXL was very generous with us to put a program together. It doesn’t cost us a ton of money. We’re now rolling it out to our communities and it is just awesome to see because it is something that again, I mean you talk about efficient – we could spend about 30 minutes on this but – education and the democratization of what is going on there and the reach that it is happening there. IXL is a great example of that.

And it is just awesome that a kid that has the desire in it can now have all the tools to be doing just as well as the kid that's parents are paying \$35,000 a year for private school and that is exciting to me to be able to offer that.

[0:27:23.9] WS: That is exciting. Thanks for sharing that. I will definitely look that up. I hope the listeners will look that up as well and it is neat that you are able to see that need in your communities and then be able to create an avenue or win-win there for IXL, but then also, who knows how far the reach of that will have on those children and their children and so forth, yeah. But thank you Sam for sharing that. Tell the listeners how they can get in touch with you and learn more about you?

[0:27:49.2] SH: So our website is saratogagroup.net and my email is sam@saratogagroup.net.

[0:27:59.7] WS: Great show Sam, thank you very much.

[0:28:01.7] SH: Yeah, thanks so much. Thanks for having me on.

[OUTRO]

[0:28:04.2] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[END OF INTERVIEW]

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