

EPISODE 506

[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 Rich Trepanier. Thanks for being on the show, Rich.

[0:00:32.7] RT: Thanks for having me Whitney. I really appreciate it.

[0:00:34.5] WS: Yeah, you're a perfect guest and I'm looking forward to this conversation. And a little about Rich. He's the founder of Gage Multifamily Services based in Austin Texas. With over 30 years of multifamily, renovation experience, they have successfully sold and produced over 2,000 multifamily renovation projects throughout the US.

Rich, thank you again for your time. Give the listeners a little more about who you are and let's dive in to this, you know, this topic of renovation.

[0:00:59.8] RT: yeah, absolutely. You kind of summarized it pretty good there. My brother and I, Gage Multifamily Services, based in Austin Texas. We have offices in Austin and San Antonio. The name says it all, we focus just on multifamily renovation, 100%. Been doing it for about 15 years now and seven years as Gage Multifamily Services, where we decided to start our own business.

We only do value-add, we don't do new construction so a lot of your listeners should get a lot of value out of this topic today.

[0:01:27.9] WS: Okay, first, why only value add?

[0:01:31.2] RT: Yeah, you know, my brother and I, we've – before we got to Austin Texas, we lived in St. Louis for a little bit and we did a lot of house renovation but also dabbled in investments of two's and four families in St. Louis. Got a lot out of that experience.

We grew up with some construction experience and jumped in, did a lot of work ourselves. We saw a lot of value, owning those twos and fours, we got to really see the appreciation from some of the residents that moved into those units after we were done. A lot of historic renovation of historic homes in St. Louis.

And unfortunately, when 2008, 2009 came, we had to hurry up and get some jobs so we saw the downgrade in the single-family home but we saw the strength of the multifamily home and shortly thereafter, I moved to Texas and as you know, multifamily is a large strength in Texas as well.

[0:02:18.4] WS: Wow, you've seen that multifamily was so much stronger or that business model. I guess we could say?

[0:02:23.5] RT: Yeah. It worked out really well.

[0:02:25.6] WS: Could you just elaborate or you know, in short, what value-add is and we use that term all the time. I think most listeners have a good handle. However, it's used by so many people, I just love to hear your definition.

[0:02:38.4] RT: Absolutely. We're in a perfect area between Austin and San Antonio where you see a lot of different multifamilies transact between owners and sellers. And traditionally, as many of your listeners know, when an acquisition occurs, those new groups of investors want to provide value. They want to add to the community. They want to do upgrades. They're adding value, either through interior renovations, curb appeal, exterior renovations, let's just call an

exterior paint and carpentry, some landscaping. We do an awful lot of leasing office renovation, clubhouse renovation, fitness renovation.

And so, adding value to the residence so they can A, increase rents but also provide a home to the residents.

[0:03:22.0] WS: You know, there's so many pitfalls when trying to do value-add multifamily, right? I thought, you know, with your level of experience, I'd love for you to highlight some of those and let's dig in a little bit.

[0:03:32.2] RT: Yeah, we often deal with investors, you know? Our goal as a business is to get to the decision makers who are acquiring these communities and get to them early enough where we can help them plan their CapEx budgeting.

Some of the pitfalls that we see is as often times, one of my big things that I am always cringe a little bit is if you hear people budget their CapEx by doors and I'm a big proponent on those interior renovations, doing it based on square footage and the reason is very simple: You have \$5,000 a door. That number works really well for a one bedroom, one bath, 700 square foot unit but that doesn't translate very well to a three-bedroom, two bath, 1,200 square foot unit.

And if you have \$5,000, it just doesn't go very well, \$5,000 might get you flooring and paint but it won't get you that granite countertops, those new fixtures, those new faucets. What I like to do and I meet with our investors that we work with, I like to tell them, "To let's look at it from a square footage standpoint that your money can go the furthest and that you can accomplish your business plan which is, "Let's renovate 72 units. Let's renovate 150 units. We're taking it throughout the entire business plan."

Another one I see quite a bit of is this no one provides contingency against that \$5,000 per door budget. Add a little bit of contingency on there. A little bit of whoops factor, a little bit of you know, something will happen.

On my own business, the construction side on Gage Multifamily Services, we always add in between three to 5% contingency on our bid to our customers and that helps us kind of alleviate any issues that we might see that we might not see during the budgeting process.

And the other important one for everyone for everyone to remember, another really good pitfall is who manages the renovation process –The renovation project? Is it going to be your asset manager, is it going to be the person with your boots on your ground and the city that you're not located in? Is it going to be your property manager? Property managers traditionally charge in between five and 7% roughly to manage your renovation project from start to finish and that five to 7% is calculated based on the gross expenses for the renovation project.

[0:05:42.4] WS: Wow, some great topics there or at least pitfalls. You know, it's interesting talking about budgeting or CapEx by door is the way I see it all the time as well.

[0:05:51.9] RT: Yeah.

[0:05:52.4] WS: You know, it's interesting how you say, we should break that down by square footage. And could you just give us a couple of tips in breaking that down like that or maybe how you go through that process?

[0:06:00.7] RT: Sure. For instance, you know, a lot of times, we see CapEx, interior renovation budget, everyone wants to replace the flooring so a good rule of thumb for me when we budget for flooring is usually \$2 per square foot to take up and put down brand new flooring.

We often see on a C level renovation project, we also see resurfacing countertops and kitchens and baths. A good dollar value there is \$150 to resurface your kitchen countertops. And then usually, between 50 and \$60 for your vanity countertops as well. We usually, a good budget value for interior paint for square footage is right around the dollar traditionally is where we usually place per square footage for the unit space.

We can go even further, we can talk about light fixtures and plumbing fixtures, it just depends on what class level the renovation project is and then how far you want to go. I usually – for the first time investors who usually contact me. I usually tell them, lipstick on a pig, interior renovation for

apartment community, usually runs about \$5.50 per square foot and that would traditionally get you a new flooring, interior paint, resurfacing countertops. Maybe a fixture or two but it's really what it describes. Lipstick on a pig.

You're getting in there. You're renovating a unit quickly and trying to get residents back into the unit very fast.

[0:07:18.4] WS: That's a great rule of thumb there. I guess just when we're analyzing deals to understand –

[0:07:21.8] RT: You know, usually we see anywhere between 5.50 a square foot on a renovation and then goes anywhere, you can find them as high as \$20 is worth of renovation as well.

[0:07:32.5] WS: Okay, you know, you talked about the contingencies and people not having any kind of buffer.

[0:07:38.0] RT: Yeah, exactly what it is.

[0:07:39.2] WS: It just seems to make sense, right? I mean, we have an emergency fund, all those things, you know, that reserve account for just in case something happens that's unexpected, why wouldn't we do that when we're looking at our renovation budget. So, let's elaborate a little bit on that and you know, said you all will add like three to 5%, is there a different amount that you encourage investors to have?

[0:07:59.7] RT: You know, it just depends on the level of renovation. Three to 5% is usually a good contingency plan. Like I said, the bio said we've done over 2,000 value-add projects over the seven years that we've been in business. That number has worked very well with us, that's what we advise our investors to do as well. What's important is if you don't have that contingency plan, it's going to affect your overall business plan. When you're underwriting these multifamily deals, you underwrite for the full 120 units on property. You don't say, "Well, I'm going to underwrite for 75 of these." You underwrite for the full 120.

But when issues occur, what usually happens is you start pulling away from the business plans, you might – let's just say, you might not renovate the remaining one bedroom units on property because you have to put more money in those two bedroom, two bath units because they're getting their most upside on the renovation.

Contingency just helps alleviate that stress. Again, if a water heater, if your boiler goes out, if you got a number of HVAC units that need to be replaced, that contingency helps with that.

[0:09:03.3] WS: Nice. What are some of the top successful investors you see doing as far as who is managing this renovation process that you're talking about, who do they have managing?

[0:09:09.9] RT: Well, usually they work with their property managers. Usually there's a director of construction, historically involved with a fee management company. Often times, you also see asset managers. If and of course, I'm a general contractor but if you have a good relationship with a general contractor, and a good asset manager on your team, they can work directly together. That might be a way where you can effectively remove that construction management fee out of the picture and save that additional funding.

Myself are most successful projects are with the investor themselves. Somebody that can pick up the phone, I can pick up the phone and have a very candid conversation, a very positive or a very difficult conversation. There isn't multiple level managers that you get while you need to work with like on most fee management approaches.

Really work interview your property manager when it comes to time to talk about your value-add plan. Also talk to your general contractor. They might be a recommendation they might have, there might be an outside consulting firm that could use this well. Use your tools, use your team to come up with the best plan on the renovation.

[0:10:15.2] WS: What are some of the top trends you're seeing in the multifamily renovation space?

[0:10:19.2] RT: Yeah, we see a lot of energy efficiency going in to 2020. I've had a number of people reach out to me and talk to me about how can I save on water conservation. LED has been a big one over the last few years. Continues that trend. We have several favorite products that if your listeners want to reach out to me, I can provide them the information.

But you know, Nest thermostats are a very large one that we continue to see in the B to A renovation properties. In those C level communities, what we've been seeing a lot, there's not a lot of cabinet replacement going on in multifamily renovation. What we see is we see a lot of door replacements. We will remove existing doors, remove existing hardware, we'll paint the cabinets and boxes and then we put on a brand new shaper style door, paint that to match the cabinets and it really does spruce up the interior of that unit if you use that concept along with a nice quartz countertop that's always readily available, it can really spruce up the unit interiors.

[0:11:16.4] WS: If you see that to be very beneficial? I mean, the ones that are using like going the energy or efficient route, the LEDs, Nest thermostats?

[0:11:23.4] RT: Yeah, absolutely. Again, it depends on how much is in the budget, what they can accomplish but yes, absolutely. See that all over in Austin, San Antonio.

[0:11:31.6] WS: Are there other steps that we can take to avoid, say, hiring the wrong contractor?

[0:11:36.8] RT: Yeah, what we do on our side, like I said, like I said, we get involved very early. When you are putting together your CapEx budget, engage local contractors. One of the things I always recommend people when they go into a new market is reach out to your local apartment association.

Every local apartment association has a vendor membership portal that you can reach. You can identify those vendors, if they're flooring vendors, if they're landscape vendors, if they're general contractors, reach out to them. Put together a list of three to five, even while you're doing your due diligence and interview those contractors. Get some original budgets put in place. If you don't know your plan, it's not too early to put together some written down budgets, pencil out budgets fairly quickly.

Any general contractor who has played in this multifamily renovation space and has worked with interior renovations can walk an interior renovation and give you a good budget, a good plan within 24 to 48 hours, it's not that difficult. Interview those vendors that you potentially want to work with.

Some pitfalls that I would recommend would also be is review their estimates. Make sure they're very line item. Make sure they're detailed out. Make sure you know exactly what you're getting. When we go in to a – under contract with a customer, our scopes of work are always be detailed with descriptions and also quantities we put in place.

But also, those scopes of works are attached to the contracts so there's no secrets, there's no – are you doing this, or if you're not doing that, we get it, we understand it. And both sides are always on the same table. They should be able to figure this out fairly quickly with the contract in place.

The other thing is that we issue out weekly updates. We give every customer a who, what, where, when and why of the previous week. We identify what we completed the previous week and we also identify what is scheduled for the next, for the upcoming week.

So, the communication level with my company is very detailed. We reach out and we provide before Monday morning at 9 AM, you should receive a weekly update and that is not difficult for any general contractor in this place space to put together as well.

[0:13:38.4] WS: Nice. Like that communication, right? You know you mentioned, I know in the bio said throughout the US, are you all working throughout the US now or you're all focused in Texas?

[0:13:47.8] RT: Very lucky, our office is located on probably the busiest street in Texas I-35. We are located just outside of downtown Austin. We also have an office in San Antonio as well. So, between those two locations there's not much travelling that we need to do. We have completed projects as far as Los Angeles before and so last year we did an interior renovation project in Los Angeles. I have also done roof replacements in just outside of Minneapolis, Minnesota.

When you ask and this is just a recommendation but when you ask a general contractor to travel just make sure they have the ability to perform the work. When you ask a contractor to travel let's say from Texas to Minnesota there is also some additional costs associated with that general contractor to travel. Are they going to put full-time supervision in place? So, some additional questions to ask ourselves since we are located in a great value-add location up ourselves.

Traditionally, we will offer our services to help budget. We can offer ourselves some good construction management, project management play. We don't do many out of state projects currently because of the amount of projects that we can have here in Austin and San Antonio.

[0:14:52.3] WS: What are some ways you've seen people increase their property value without breaking the bank?

[0:14:57.0] RT: Well you know kind of the things that we talked about, right? So, some of the big hitters, it is very similar to what you hear about in new home, where do you put your money, right? You put them in your kitchens and bath. So those are some really quick hits that I mentioned previously. Flooring is another good one. We do a lot of exterior paint here in Austin and San Antonio as well.

So, another good recommendation is just maybe not a full exterior paint you can accomplish a lot with a partial interior paint – exterior paint I should say. So, you know you might want to do some accent colors on the exterior if the paint is in reasonable shape that's one good way to limit.

One of the big things in Texas is carpentry replacement. We see a lot of what we call pick and pluck. So, versus replacing a lot of carpentry, you just go pick and pluck the worst to accomplish what your goal is, put a new coat of paint on it and it works out fairly well.

[0:15:47.9] WS: Okay. So, let's say we just bought a property. Help us to get started in that renovation process?

[0:15:55.3] RT: Yeah, absolutely. So, it's not unreasonable to buy a property and start interior renovations immediately. If you have your plan put in place, you have your general contractor selected before closing on the property and effectively sign a contract at the same day that you are closing on a property. Identify materials that are readily available local. Where there is a number of sources, I am sure in every multifamily area where there is a big heavily concentrated multifamily area.

Start off really quick. Identify those units that need to be renovated, get into those units, renovate into those units per the plan, per the business plan. Some of the most important things is to put the brand on the community first. So, while you are doing several interior renovations you might want to consider signage replacement, update that signage outside the community as well as on the buildings.

Also, you know, if you got an exterior paint planned that is a good way place to start immediately as well. Get those buildings that are close to the street, upgrade that curb appeal. Start at the part of the property and then start working your way back. So exterior paint can take anywhere from three to four months let's say.

But getting those first few buildings done early is a good way to upgrade, show the local community that you are investing in a property. Show new residents or potential residents that are coming to tour the community, show them that you are investing in the community, show them what are the interior finishes are planning to be as well so.

[0:17:21.4] WS: When should we plan to rebrand a property? It's not cheap, when should we say, "Okay it's a must that we rebrand?" I know if you have bad reviews and things like that maybe but you know as far as what you see, when should we say, "Okay, we definitely need to do it here."

[0:17:35.4] RT: You know it is funny you mentioned that because I recently had a conversation about that with an investor, a local investor where we did interior and exterior renovation with them. They started full interiors first six months of the renovation project was full interiors and then we got to the exterior renovation where we did the pick and pluck carpentry and then the

exterior paint, upgraded the exterior of the leasing office and then we went with the interior of the leasing office.

A few weeks ago, I had a conversation with him said they would have done the exact opposite. They would have gone with exterior of the community, first change that curb appeal at the front, started working on the exterior paint. The things where my recommendation is where the potential residents, what they see first is where you want to concentrate on, right? So you want to invest on that entry way that curb appeal that walk up to the leasing office where they are going to come in and talk to the leasing agents, look at the floor plans and then go look at the layouts or look at the model layouts.

Whatever that first pathway for that potential resident, that is where I would recommend renovating first. Once you do the curb appeal, you talk about the exterior paint a little bit but you are also renovating the model units, right? What are the finish is planning to look like? Do you have a board on your leasing office that shows what is coming for the community?

And when they go to that model unit, can they see what is coming physically? Those cabinets, those new cabinet doors, the new flooring, the new paint scheme, those upgraded fixtures, right? You want to accomplish that fairly early.

[0:19:03.1] WS: And the rebranding. Do you suggest rebranding every time you take over a property?

[0:19:08.8] RT: Yeah and so same thing that customer rebranded into the community, in Austin. It was called [inaudible 0:19:13]. They rebranded at the end into known as The Ivy, right? And so, their name, their English themed putting the change out into the community following that exterior renovation. We can see probably many investors do it early on, which is probably what I recommend is that new signage up. Let the community know that you are investing in the community. A new name, a new brand, new effort.

[0:19:37.2] WS: So, Rich unfortunately we are about out of time but just a few more questions. What's the hardest part of that renovation process you see for most investors or for yourself?

[0:19:45.6] RT: You know for investors it's going through the process I would say. I would be lying to tell you that a CapEx interior-exterior renovation for investors is an easy process, right? There are pitfalls. There are ups and downs. There are things that even a general contractor can't see, stay with it, stay the course, communicate with your contractors. Make sure that you are aware weekly of what is going on in the community. Plan accordingly. Make sure that you are working together as a team. I think the most important thing.

We often time have a hiccup, everybody, every general contractor has a hiccup. It's how you work to resolve the issue together as a team that's the important.

[0:20:22.4] WS: You said often times there is a hiccup and I wonder the ones that are successful most of the time through those hiccups, what helped them to be successful?

[0:20:29.8] RT: Communication. It's always going to be communication, right? It is always going to be planning accordingly, right? If for instance your budget isn't going as far as you want it to go, reach out to the general contractor. We can pivot, we can move fairly quickly. We can provide cost savings opportunities if you expect out a more expensive flooring, we can make a recommendation on something that can make your dollars go further is a good attribute, a good recommendation.

[0:20:54.2] WS: So, it goes back to communication and planning, right?

[0:20:56.6] RT: Absolutely. Always.

[0:20:58.1] WS: Yeah, so how do you prepare for this potential downturn that everyone is talking about?

[0:21:02.7] RT: Well hopefully, I am in a good stabilized market and so here in Austin and San Antonio. So, we have been through it previously where you see other renovation projects that the level of renovations go down on the general contractor side. The interior renovations might be we talked about square foot size. It might not be \$10 a square foot. It might push back down to 5.50 a square foot and so it is planning accordingly on the general contractor side.

It is right sizing my team, my organization to ensure that we have the ability and are very nimble to act when the market does if those turned down and when it will turn down and so for investors, underwrite conservatively, right? Make sure that your renovation plans fit the market, fit the market plan. Look back upon what occurred to that market in 2008, 2009, 2010. That should help and assist you and see what will happen in that market when there is a downturn.

Make sure that you are when I said underwriting conservatively, make sure your expenses are right where they are year to year and make sure that your income increase is conservatively underwritten as well.

[0:22:04.4] WS: What is a way you have recently improved your business that we could apply to ours?

[0:22:07.6] RT: You know I think like you talked about it, I often read a lot of business books and so one of the ones and a number of them I mentioned this as well is putting the right people on the right bus, it is hiring the leadership in your team that can help you make decisions, right? I am not the smartest person within my organization. I am just the main leader within the organization. Who do I put around me to assist us? Who do we put in those positions that are going to help run the renovation projects most effectively? That's what's most important and that's a recommendation for every organization across the country.

[0:22:39.3] WS: What's the number one thing that's contributed to your success?

[0:22:41.5] RT: Teamwork, relying on people that I can work with. My brother is part owner of the business as well so we are 50-50. We are also twins. We rely heavily on each other. We also rely heavily on our team as well.

[0:22:54.9] WS: And Rich, how do you like to give back?

[0:22:56.6] RT: So, my wife and I are very active in a local association. You know the association here in Austin is called Austin Smiles. My wife is a practicing surgeon in town and she makes multiple trips a year to Guatemala or El Salvador where she provides cleft pallet

surgery to needy families. And so, we are very active with that organization and it is an organization that we support year in and year out and give time and money to.

[0:23:21.9] WS: Rich, thank you very much for sharing that and how you and your wife give back it's incredible. And then also just your time giving back today to listeners and myself just walking us through some of these the renovation project and the pitfalls that a lot of people have and how others have been successful through the process as well but tell the listeners how they can get in touch with you and learn more about you?

[0:23:41.8] RT: Yeah, absolutely. If you want to reach out to me you can reach out to me via email at rich@gagemultifamily.com. I'm also pretty active on social media. You can reach out, instant message me if you like and I am more than happy to discuss pitfalls, budgeting. Any way that we can help somebody get a jump start on their CapEx, their value-add project. I am more than happy to touch base with folks.

[0:24:07.6] WS: Awesome Rich, that's a wrap. Thank you very much.

[0:24:09.7] RT: Thank you.

[END OF INTERVIEW]

[0:24:10.5] 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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[OUTRO]

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