EPISODE 516

[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 Jimmy Murray. Thanks for being on the show, Jimmy.

[0:00:33.0] JM: Appreciate you having me on. Really excited to be here and really excited to connect your listeners as well.

[0:00:37.7] WS: Yeah, I'm excited to have you on. I know you were just mentioning we were both in Denver at a large conference just a couple of weeks ago and unfortunately, we didn't get to meet but anyway, it's a pleasure to have you on the show.

But a little about Jimmy, he' s cofounder of Lyon Property Management in Warrick, Rhode Island. Lyon Property Management is a full-service real estate management company founded in 2015.

Jimmy, give the listeners and myself a little more about your background in real estate and what your focus is right now and let's jump in to each of your super power, that the listers and I can benefit from?

[0:01:09.0] JM: Absolutely. My super power's got to be asset management. We can talk a little bit about or go on details on how to find the right property manager, right? Investors should be focused on finding the next deal and less about worrying about the assets that they have.

It's more to create that goal of becoming a passive investor. How I got started in real estate. I came out of college, I was always interested in real estate, I ended up landing a job at a large investment firm and I took the Charted Financial Analyst exam. I wrote off six months of my life and I scored in the top 10% of the failures.

I had a hard decision to make of do I take $5,000 and reinvest in the study programs and applying for the test and that whole route again? Or, do I take that $5,000 and invest in multi-family real estate.

Based on being on the show, I think everybody kind of has that idea of where I ended up so I went on the hunt, my first purchase which kind of be the real estate bug was a four-family Most listeners probably call it a fourplex. In our local area, we call it a four-family. A little bit off a difference there in terms of semantics. I bought that first fourplex and I was really hooked.

I bought four units for 140,000 and six months after acquisition, I was able to get the rent roll up to $3,500 a month. It was cash flowing really well and I was hooked. Transitioned into the wholesaling, didn't really make enough money to quit my corporate job.

Flipped a couple of houses, still not making the money to quit my corporate job. And then I caught up the review and I walked back to my cubicle after that bad review and text my now partner to launch a property management company. The rest from there is really history, we are now up to 600 doors, we were up a little bit higher but we honestly released some bad clients. We could talk a little bit about our *Pumpkin Plan* mentality. It's a book that I read.

Our focus lately has been flipping owner occupied multifamilies and that's the niche that we found in our local market in this late stage of the real estate cycle.

[0:03:09.7] WS: Wow. Okay, you took that 5,000 – it's interesting you say you were in the top 5% of the failures.

[0:03:16.3] JM: Yeah. When they get that letter of like, "Hey, listen, you didn't pass but you scored in the top 5% of the failures. Here it is," it's kind of like sticking it into your eye a little bit.

Maybe they meant for it to service motivation which in a sense, it did, I just took it a different route.

[0:03:31.7] WS: You took that 5,000 a totally different direction and invested in multi-family real estate and then you were hooked and now look at you?

[0:03:38.9] JM: Absolutely. Absolutely.

[0:03:41.3] WS: I want to get into the asset management and finding that property management company and really hone in on that. But you mentioned *The Pumpkin Plan* mentality. Why I wanted to bring that up is because our last guest which if the listeners were – just listened to yesterday's show. That guest brought that book up.

I don't know that I've ever heard of that book before but it was just brought up by the last guest, so interesting. I'd love to know, what that book taught you or why that was so influential and let's dive in to asset management.

[0:04:13.8] JM: Two stories. The first, I sat down with my former accountant and he's only former because his older and I'm worried that he was going to retire. But he was also very expensive and I wasn't finding the value.

He imparted this wisdom on me and he said, "As you build your business, on at least an annual basis, you need to rank your clients A, B, C, and D. Put each client into a bucket. He said the D clients, you fire immediately. The C clients, you sit down with them and you coach them on how to become a B client. B's and A's, you keep. If a C client after you have that conversation within three months, they don't – That C client doesn't become a B client, they're now a D, fire them immediately."

So, that helps you stay focused on working with the right folks and then I came across *The Pumpkin Plan*. The pumpkin plan discusses how the farmers who grow those thousand-pound pumpkins that you see at the county fairs, they don't have a whole pumpkin patch of those, they have one.

They originally plant that seed to maybe a pumpkins grow but whichever one grows most quickly, they cut off the other ones so they focus on that one pumpkin. and I think that's really important in real estate. When you find your niche of where you can generate that passive income you're looking for where you can generate the income that you're looking for, stay focused there.

Too many people start to focus on the number of different avenues and they have kind of like a 40 pumpkin and 20 pumpkin. But they never have that really large one of something that they're really good at and I think that's important to stay focused.

[0:05:44.5] WS: I love that. I appreciate you elaborating on that. The last guest kind of had that same story and saw that it's great for the listeners and I to hear that again and how that's helped you. But I'd love to dive on in to just the asset management piece and just your expertise there and help the listers and I become better at understanding asset management but also, in a way that we know our management companies are prepared to provide the best asset management that we can find.

[0:06:12.4] JM: Absolutely. A lot of investors, when they reach out and I received that initial phone call. When they're looking for property management in our local area, the first question is price. "What is your price?" Personally, maybe I'm a little jaded view because I am a property manager, I don't think that the conversation should start with price. Candidly, our prices are listed on our website. Most property managers have their prices listed on their website. But that shouldn't be your defining factor and how you choose a property manager.

I think it's really important to get on the phone with your property manager or perspective property manager and have a conversation about their investment philosophy.

Ask them about their screening criteria of how they find tenants. Ask them about or bring your current rent roll and say, "Hey, this is where our rent roll is at, where do you think you can take it and how are you going to achieve that?" You want to ask those open-ended questions to really dive deep into their mind, to make sure that they're going to deliver on the returns that your investors are looking for if you're diving into that hundred plus unit syndication.

Another question that I think is a really valuable one, when you get in touch with that property manager, talk to them about what a standard turnover looks like. I know when I'm talking with folks, I tell them that the first turnover, it was always, should always be the most expensive one. On a couple of different levels.

One, if you have a tenant who doesn't really take care of it, that could lead to it. But then the first one, you want to bring it up to your standard. Particularly if you're buying something with below market rents, I'm the big value play guy. You want to get it up to your standard the first time. Typically, when you go through them and we paint the entire unit to get it up to that standard, so then, the next time through, we're probably washing walls because we use a high-end commercial grade paint. Or we're just touching up a couple of different areas because we placed that good tenant, we went through that thorough screening process.

I think that these type of philosophy questions are going to align you with the right property manager and then if you find two or three good ones that you think align with your interest, then have the conversation about price.

[0:08:10.8] WS: What should we be looking for when we ask them about their investment philosophy?

[0:08:18.0] JM: Yeah, I think you need to find a manager with a mindset of if you're buying a value play, find that person with that value play mindset. Ask them if they have other properties that they've accomplished that on? I don't think if I was purchasing a building in the hundred plus unit range, I would go with someone who hasn't managed one of them before.

Now, if you get a really good deal on your management fees, and someone has that good mindset that you think that you can relate to and you think that you can have a good working relationship, take the risk. But you want to bet on someone who has done it before. If you are buying Class-A assets and that Class-A tenant base is going to be in some circumstances a lot needier than some other tenants with really kind of minor things. Make sure you have a property manager that knows how to provide that concierge-level service.

There's a difference in a property manager that is used to managing class C assets to bring them to a B and then that property manager that is used to managing class A assets and I think that's a really different dichotomy that investors should pay attention to.

[0:09:23.0] WS: Okay, I wanted to go back to the standard turnover. Any red flags through that process will be like, "Wait a minute. You know, this is not the management company for me."?

[0:09:33.0] JM: Yeah, I think it's all about documentation and it's also about transparency. One of the biggest things for us is, when that tenant leaves, we're in that unit within 40 hours, producing a move out condition save in.

For an investor, you can be anywhere in the world and you get this really clean PDF that goes all the way down to the kitchen faucet and us turning on the hot and cold water and you can see pictures of both. It's incredibly detail-oriented.

The next level of transparency is the return of the quote. We're going to bring it down based on item, right? It's not like, we go into a property and say," Hey, this is a $5,000 turnover. Send us a $5,000 check." It's like, "Nope. Here's the painting." We have a form of how we get to the painting, it's based on price per square foot so whether we're painting walls only, walls and ceilings, or walls, ceilings and trim, you can have those three different price points. And then we're going to break it down based on work task.

Then that investor has that added level of transparency so they can have that higher level of confidence in our turnover. I think that that's another key component of finding a great property manager. Finding that property manager that will provide the level of transparency that you're interested in.

[0:10:38.7] WS: Transparency is so important in every aspect of this business. But tell me though about your – the communication you know, between – I know you talked about the transparency, you talked about that PDF and those things but like through the life of the deal not just during a turnover. What is that communication look like and what should we expect as the owner, you know, with the property management company?

[0:11:00.9] JM: Absolutely. For larger assets, particularly something that may not be stabilized, you want to get on the phone with your property manager once a week and I would suggest keeping a running agenda.

On that running agenda, it holds everybody accountable, but also it shows your property manager what your highest priority items are. If you have a list of problem tenants, stack rank your problem tenants and send your property manager out to work through either removing those problem tenants or correcting their actions.

I think that that weekly phone call, it's going to help you achieve or return a lot faster in the sense of working towards those top priority items. If you have a smaller asset, maybe get on bi-weekly or monthly to make sure that you're still driving the project forward.

Honestly, a lot of property managers can get stuck in the day to day and they may not be able to bring themselves up the kind of that cruising altitude 35,000-foot kind of level, to make sure that they're still moving it forward. And those conversations are really level setting to make sure that your property manager is moving the right direction to get that asset generating that return you're looking for.

[0:12:01.6] WS: Can you lay out a few things in that agenda that we'd definitely need to talk about?

[0:12:06.2] JM: Yep, so in my agendas I always go through my last page is typically the most important. So, I go through current vacancies. And then I am going to talk about what stage of the vacancy are they at. Did that the tenant just move out? Do we need to return a security deposit? Did we submit a turnover quote that needs to be approved? The approved return over quote, is it ready for leasing? Is it currently listed? So those are the different stages and then we talk about upcoming turnovers as well.

The other ones I would talk about problem tenants and how we're going to address that and they know that the conversation of manning is really more related to that value-add. One of the other major components are any infrastructure items. So, it is not just internal to the units but the things that we can do outside of the units? I would say first and foremost to make sure that it is a safe comfortable place to live. So, are there railings falling off there could be insurance issues?

And then the second part of the external items would be related to CapEx projects that tenants may not – you may not see a direct return of investment but are there projects like adding a laundry room, adding some other type of amenity that can make your property more valuable than the property next door.

[0:13:18.3] WS: Yeah that is great stuff and you know I was thinking about those just the CapEx. And the budget and all of those things that we like to discuss during those calls and I even like our management company, they've been in this market since the early 90s, you know they're wired in and so we rely on them a lot just to their opinion about the market and about rents and all of those things even how much can we push the not just the rents but as far as the renovations and things like that.

And I just wanted your opinion about how much you expect an owner to rely on you for those items and just asking your opinion in some of those areas.

[0:13:57.4] JM: Absolutely. So, I think having the game plan upfront is extremely important to hold each other accountable. One of the biggest things when we take on multifamily buildings on our local market whether it is taking it on from a previous DIY landlord or from a property manager, I host what I call a 'safety inspection.' So that is my opportunity to be really nosy. It makes the tenant feel better.

So, we send out our communication saying, "Hey listen, since we took on the property we're going to come out." We need to gain access to every single unit to make sure that you guys have a safe and comfortable place to live" and so then I go out there and I ask if they have any current issues. They will think of some dirt on some of the other tenants but that will get me inside of every single unit. So, then I can develop a CapEx plan to say, "Hey listen, here is where the rent is. Here is where I think we can take it."

Here is the CapEx that we may experience if you have to turn this unit over and then that is really going to weigh out the game plan for us to set up success for that asset.

[0:14:49.9] WS: So, what about managing renovations throughout the life of the project or let's say it is a five-year hold or whatever it might be but how much do you all do of that as far as managing the actual renovation itself?

[0:15:04.2] JM: Yep, so we have owners that we trust that we allow to complete the turnovers or manage some of those larger CapEx items or I know that in your world that might be a little bit different of what the property manager could handle everything soup to nuts. We do have some owners that legitimately travel the world. We might talk to them once every couple of months and we would tackle those CapEx projects as they come along.

I think it is really important to sit down with your property manager and leverage their knowledge to develop a CapEx schedule and I think that this happens prior to purchase. I think that this should be included in your purchase plan as you are acquiring the asset. Any property manager is going to find it helpful to be included in that conversation upfront to set up success for the duration of that hold.

So, when I talk about a CapEx schedule think about things like the roof, heating systems, electrical systems, parking lots and develop that schedule and say, "Hey listen, we think that the heating system has another 10 years." We think it is going to be a $100,000 to replace it. Let us start budgeting from our monthly cash flow and pushing it over to a CapEx savings account. So, we have to replace that heating system more prepared and we are not pulling money out of our pockets or producing less of a return for our investors. We are taking it out of our reserves in order to make sure that we're in a good place.

[0:16:18.7] WS: So, all right Jimmy, well give us anything else I need to know about there that you'd like to elaborate on. I know there is tons of things that we can talk about but as far as being successful in our asset management before we dive into a few last questions?

[0:16:31.1] JM: Yeah, so I think you should consider your property manager your cash flow consultant, right? So, your property manager you should consider a partner. You should work arm and arm to make sure that you reach the deliverables that you have laid out. A lot of times, owners will come in and they have that head down mentality of the owner is a little bit higher than the property manager. I think that you really have to create that strategic partnership and have that mentality.

And that is where you are going to have a lot of success working with your property manager if you consider them a peer.

[0:17:04.7] WS: I like that. I like that thankfully you brought that up as well. They're such an important part of the team I mean just extremely important part of the team. So yeah, I like how you mention your arm and arm here because we are. I mean we're relying on you so much to manage the property the best that you possibly can and that we have done our due diligence to pick the best management team that we can. And so, tell me a way though that you've recently improved your business that we could apply to ours?

[0:17:31.5] JM: Yeah, so I am going to circle back to December of 2019. We released over a 100 plus units worth of owners just because they weren't a right fit. So, I think it is really important to pay attention to your brand.

So, when a tenant or a perspective tenant comes out and they look at a unit that is presented by Lyon Property Management, they have a certain expectation. So, if I am working with owners that don't allow us to produce that clean rent ready style unit that could be detrimental to my brand. So, we release those owners that we could really stay true to that value that we provide our local market.

[0:18:05.3] WS: It almost goes back to *The Pumpkin Plan* mentality, right?

[0:18:09.8] JM: That's it. That is exactly right.

[0:18:10.9] WS: Wow, great example. So, tell me the number one thing that's contributed to your success.

[0:18:15.6] JM: The number one thing is hard work. I will tell you that I am not the smartest guy in the room but I just wake up every –

[0:18:21.4] WS: But you are in the top 5%.

[0:18:23.1] JM: Yeah, the top 5% of the failures, right? I just wake up every day and get after it. I know I have recognize that I don't know everything but I consistently try and learn. So, I am an extremely avid reader. I try to read 20 pages of a book every single day and that's what helps me continue to build on the knowledge that I already have.

[0:18:41.1] WS: Love that, tell me how are you selecting the books that you are spending time on?

[0:18:47.1] JM: Yes, so when I sit down with folks and network one of the last questions before I leave that conversation every time is, "Can you recommend a book that you've read recently or read in your lifetime that you would recommend?" And then I'll go on Amazon and buy it immediately before I even get up and leave that meeting. So, I am looking to my left because I have a massive bookshelf, I call it my kill shelf. So, the top part all books that I've read and the bottom are books that I have upcoming.

[0:19:09.5] WS: Nice, give me a couple of top books you recommend then.

[0:19:12.7] JM: Yes, so my top book and this is like eye opening that more people don't know this is *The Wealthy Gardener.* So, are you familiar with it?

[0:19:22.4] WS: I'm not.

[0:19:23.4] JM: This is awesome. So, I feel like everyone I talk to is not familiar with this book. So, prior to that my number one book was *The Richest Man in Babylon*. It's very simple but that is the blueprint on how to become wealthy. *The Wealthy Gardener* takes, probably a reference is probably 20 different books that I had read that I thought were really important and it takes through kind of two stories of two younger guys and *The Wealthy Gardener* is the narrator and he mentors both of them.

And one has a lot of success and one doesn't and it is comparable. But I am always way more interested in books that tell stories. So that book is I think like 480 pages but there is a wealth of knowledge in there.

[0:20:04.7] WS: Jimmy, how do you like to give back?

[0:20:06.1] JM: Yeah, so my biggest thing is I've had a couple of opportunities to go back and speak in schools about financial literacy and I think that is really important not to get too political here but I think our education system seriously lacks coaching our younger generations on financial literacy. So that's been a really cool experience for me. It may sound like a boring topic to some but kids get really interested in it.

I know that I had the opportunity last year to speak to 200 6th graders and I thought that they would fall asleep half way through the presentation but they were dialed in. They were super interested and they were pretty well educated on the topic.

[0:20:41.5] WS: I try to teach my five and six-year-old, you know they don't know a lot about money yet but when I tell them I will make them pay the light bill their ears perk up, you know?

[0:20:50.4] JM: Yes, what do you mean we can't spend our money on toys?

[0:20:54.8] WS: No. Jimmy, thank you so much for your time. I love how you give back as well and just sharing your knowledge and with young people. But just helping us walk through picking a management company, some great questions to ask them and even just the format that weekly call is important. You know if you have never done that before, you don't know what to expect, you don't know what to expect out of the management company and I just appreciate you laying those things out.

And then also going through and tell us about the books, *The Wealthy Gardener* and *The Richest Man in Babylon* also right?

[0:21:24.4] JM: Yes. Absolutely.

[0:21:25.6] WS: Awesome but tell the listeners how they can get in touch with you?

[0:21:28.1] JM: So the best way is if you guys are interested in sending me an email, my email is jim@lyonpropertygroup.com. I also have a pretty good Instagram presence. So, if you guys want to give me a shout through DM on Instagram or give me a follow, the handle is @thenotoriouscfk for cash flow king.

[END OF INTERVIEW]

[0:21:50.0] 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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