

**EPISODE 525**

[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 Gary Lipsky. Thanks for being on the show again, Gary.

**[0:00:32.7] GL:** Thanks for having me, I listen to it all the time.

**[0:00:35.6] WS:** Thank you very much, Gary. I appreciate that and it was great to see you just a couple of weeks ago in Denver at a big conference there.

And a little about Gary, I would encourage you to back and listen to show number WS254, it came out July of the 2<sup>nd</sup> of last year and Gary talked about a lot about his background and his expertise and a couple of deals that we discussed. I think we'll briefly discussed those a little bit now and talk about what's happened since then and where Gary's at now. Just an incredible steps that he's taken.

But briefly, 17 million assets under management and over 1,500 units as a passive investor. Started investing in 2002 and runs four meetups. That's a full-time job right there, Gary. Has 30 years of operational experience, as a lifelong entrepreneur. Gary, thank you again for being on the show. Why don't you give the listeners and myself just a brief update about those deals that we discussed in the last show? And then let's jump right in to what happened with those deals and kind of you know, scaling and moving on from there.

**[0:01:34.6] GL:** Yeah, we bought a 42-unit in Tucson in May of 2019. We purchased that for 1.7 million and 39,000 a door. And at the time, you know, obviously was a really good deal, we should have bought a lot more at that price. I mean, we've just been hitting the business plan the whole way.

We have a great team in place which makes our lives easier and we just put out on the market a week ago for 72,000 a door. So, you know, huge opportunity for investors.

**[0:02:08.2] WS:** That's less than a year.

**[0:02:09.6] GL:** Less than a year, yeah. It wasn't in our business plan to sell it back that quickly but the market rents in Tucson are the top of the nation, you know? Over 80% and we had a really good business plan, we fixed the exteriors, the doors were sliding doors, we changed those. And really nice paint and we added a dog park area. You know, we did the best that we can, had a barbecue area and lots of people stayed quite honestly.

We increased rents almost 50% and they were staying because it was so under market. That really help boost our NOI. And it just makes sense, you know, based on velocity of money to look the exit this property and not re-finance, you know? We talked to our investors and we have been from completely on, meeting with our property manager and our broker and talking about where we are, what we need to do and just constantly checking in and implemented a really nice plan and that put us in position.

**[0:03:12.7] WS:** Did you all have to use the capital expenditures, everything you all had planned to spend for upgrades and things like that?

**[0:03:19.9] GL:** No, I think we had about 300,000 in CapEx and we spent about 180. You know, you build a lot of extra for the HVAC and not that, will break down over time. But yeah, if you haven't had to do as many renovations. So, that just goes right back to our investors too which is nice. You know, assuming we sell on everything. Otherwise it's contingency.

**[0:03:42.9] WS:** Tell me about making that decision. Was that like, “Okay, we made a specific return for investors,” or I mean, what was the tipping point for saying okay, we are going to pursue selling?

**[0:03:55.8] GL:** Well, you know, it starts with your NOI and looking at it on a month to month basis and we keep rising rents and like, “We’re really on track for like, this keeps going like year five.” So, you know, we called the broker and he had met us on the property with their property manager and kind of walk the units and talked about it, “Okay, if we stay on track, what do we need to do, what’s the best plan?”

So, what we did was we started implementing a premium level to show investors or future buyers that there’s some different levels that you can go to and this is the income that you can get too.

You know, we figured out what the return would be for the investors if we sold it at certain prices and you know, we built that an Excel spreadsheet and you know, we’re looking at you know, 60 to 70 plus return on this and we reached out to that and said, “Hey, obviously, we’re going to have a prepayment penalty abut is this something you’d be interested in and we can either 1031 into another deal if everything aligned right or take advantage of cost segregation of appreciation where it’s going to wipe out your tax liability anyway?”

I mean, 95% of the people I believe are like on board and said, “Hey, let’s do this.” We put together a plan, put it on the market and we’ve gotten some great feedback so far.

**[0:05:15.1] WS:** Nice, tell me about that process a little bit of how you reached out to your investors. I mean, because you could have just made the decision, right? But it’s nice that you – you reached out and you kind of took a poll but you know, what was that process like and then tell us a little bit about the feedback?

**[0:05:30.1] GL:** We’re 100% transparent with our investors and engage with them for any major decision. It’s not like they get brought on every single thing we do but we want to engage with them and want to keep them abreast. We send out monthly reports that are super detailed

because whether a lot of them don't even read quite honestly. But for the ones that do, there's all the information they need to stay on top of what is going on.

So, we first put a teaser out and our monthly newsletter and say hey, this is something we're thinking about, more information to come. And then we sent – I think it was like a letter basically going through all the scenario, what it means for them as an investor, potential ranges of money that return on their investment and then a line for them to sign to vote I they'd want to –

Are in favor of selling it and that they were in favor of joining in on the 1031. You know, we got feedback right away, and then we have a quarterly Zoom call as well so we went over some of that as well. You know, if anyone had questions, they'd call us but pretty much everyone said hey no, it sounds good, let's do this.

**[0:06:37.3] WS:** Nice. You mentioned you have a quarterly Zoom call with investors so you do updates that way as well?

**[0:06:42.5] GL:** Yeah, we'll do a monthly newsletter but we'll do a quarterly Zoom call. This way it gives them a forum to ask questions and we'll go through the same stuff. But it's just another touch point that we have. It's recorded too, I could you know, if people can't make it, and you know, we could send it out to them and they can watch on their own time.

**[0:07:03.7] WS:** I like that, it gives them an option to interact with you and see your face again and know you're real and you know, you're really somebody operating this investment. That's through Zoom, right? Does everybody just on their kind of like in a group call or?

**[0:07:17.0] GL:** Yeah, we'll have good percentage of the people on the call and they can, we'll go through our key points and then any questions that they have, free to answer in front of everyone. Yeah, I mean, it's not a huge turnout on the zoom call, everyone is very confident in what we've been doing but yeah, it's just another touch point, you know?

**[0:07:39.6] WS:** Okay, let's talk about scaling up from that property or even selling that property or are there any difficulties or anything you've experienced or learned from selling that property right now or any property but for that matter.

But specifically, that property then, what we're doing to scale or move forward?

**[0:07:57.3] GL:** You know, it's just been the normal process so far and nothing crazy yet, you know, we haven't gone full cycle yet so maybe awesome lessons after we do that. But it's just good communication between our property manager and our broker quite honestly.

I mean, given the situation we're in now with coronavirus, I mean, they've communicated, set an expectation saying that, "Hey, we're not going to be doing any property tours right now." So things obviously are going to be a little quiet, we do have some interested buyers, we'll just take this day by day, week by week and see how it plays out.

We're not under the gun to sell it so we'll just monitor the situation and go from there.

**[0:08:38.6] WS:** Okay. Yeah, I'd love to talk a little more about the coronavirus, a little bit in a minute and what you – how that's affecting your all's business but you also have a deal you were best in final on, is that right?

**[0:08:50.5] GL:** Yeah, today, we're on a deal for about some final – we still love the property, again in Tucson so we have a great team in place. And you know, we're not starting from scratch, we know confidently, we've got, given this situation that we can go in and do well but what we did is, we looked at the T3 and so they're at 85% economic occupancy.

What we did, we have it down to 73% in year one so we increased the loss of the lease, we increased the vacancy, we increased the concessions. So really conservative underwriting. That goes forward other years too. We were operating at a loss, even in the first year, not a loss for the property but a loss from their T12 and T3.

What we do have as well, I know we've added a lot more working capital so that you know, we're completely covered there. And freeze rents. We are not going to increase the rents even though about \$120 per unit under market. I mean, we can – assuming we get the deal on everything that goes forward smoothly, we'll continue to monitor that. But for now, we can freeze

it if there's room to go going forward then we'll take advantage of that. But huge opportunity, obviously, they're closing offices right now.

But you can communicate via email or phone and they're only doing major repairs. They're just not going on and fixing – changing a lightbulb or little things like that. You know, things are – will be quiet when you take over a property during this time. But when you build in to your contract that you got to have a financing contingency.

During this hot period in the past, you really couldn't put it in financing contingency. You also have to build in some contingency of because of the coronavirus. I forget exactly what it's called, it's like material adverse effect is those are the key words.

And so, you build that in as well and if all of the potential buyers are putting that in the contract then it shouldn't be an issue if someone's willing to do to have a contract it, then maybe the buyer's going to go with them but I wouldn't do it at this point because you just don't know and you have to build in safeguards during these times because you just don't know what is going to happen and you got to protect your investors' money.

**[0:11:18.7] WS:** For sure, so was that for the one that you're on best and final or the 42 units? Is that how it's been operated? I know you said people, the office staff are not on-site, right?

**[0:11:29.3] GL:** Sorry, yeah. So, our property management team will not necessarily be on-site all the time or they'll have their offices closed going forward for the time period.

**[0:11:39.8] WS:** No, it's all right. I was just trying to keep it straight. But yeah, any other ways that the coronavirus specifically has affected the way you all are operating that maybe you didn't mention?

**[0:11:49.9] GL:** Yeah, absolutely. So, we were just on a call with our property managers today and then we have with our regional managers, we have another call tomorrow. Up to today it's been business as usual. But now it's really going to be focused on phoning and email and not having as much interaction with the tenants quite honestly. And they'll build in some leniency with our tenants going forward. People on month to month, late fees, stuff like that because we

want to keep the cash flow coming. We want to keep them having a safe place to live so you got to be lenient and really work with your tenants.

**[0:12:28.7] WS:** Yeah, you know talking about being lenient, what do you all see causing the biggest issues for your all daily operations or cash flow considering the coronavirus specifically?

**[0:12:39.4] GL:** Yeah, I mean quite honestly it hasn't affected us yet. But it will affect us when people are getting hours cut or potentially losing their jobs in the next month or so. It really hasn't much of an effect right now but we definitely foresee it and you know there is going to be some government programs, churches helping out and what not. So, I am sure we'll direct our tenants to that to those resources and help them out as best as we can.

You know if someone has been paying on time for many, many months you are going to work with them and you want these people and provide for them because you know you are not going to have tons of people coming to your door saying, "I want to rent now." So, we actually stopped all of our renovations going forward and holding onto that cash because price is really important at this stage of the game. And so, you want to – you know once things start picking up again then you could continue on with your renovation plan. But right now, just hold off, conserve your cash and just keep tenants in there paying.

**[0:13:45.4] WS:** Any recommendations for someone who is in this right now they're managing properties and they think, "Okay, I need to conserve cash just like Gary just said," which is great advice. I couldn't agree more, what about postponing distribution to investors?

**[0:14:03.0] GL:** Yeah, absolutely. That is a conversation that we are going to have to have. Our first distribution for this property will be in April. But yeah, we are going to have that conversation and saying, "Hey, it will accrue but it may be prudent to hold onto that just to ride out this rough spot." Because you know in a few months from now hopefully we can look back and say, "Hey, it was just a blip but we'll see." You know I have been through 2008, I have been through many other crises before.

And you just got to take a deep breath, read all of the information. You know there is going to be optimists, there is going to be pessimists, and work with your team and be transparent and gather all of the information and make a good decision from there you know? And be able to pivot. You know I think that applies not just to asset managing but to anything, you know?

**[0:14:55.5] WS:** Is there a specific amount of cash reserves or a way that you all figured that? I mean most people don't really have a great way of saying, "This is how much I want," but we want to know right? But is there a way that you all are going to figure that to say, "Okay this is enough."

**[0:15:13.1] GL:** Yes, so I mean you want to be able to cover four months of your debt service without any income. You know that gives you plenty of buffer. You are going to get income I mean if you are at 95% economic occupancy, you know it is not going to drastically dip. I mean even I got this data from Tucson at the very lowest point in Tucson, they have a 12% vacancy rate. So, depending upon what market you're in, I mean you look at historicals to help predict the future. You look at the worst-case statistics.

**[0:15:49.9] WS:** Nice, all right, Gary anything else about the coronavirus that you'd like to add before we move on to the few final questions?

**[0:15:56.6] GL:** You know you just got to work with people. You know everyone is in it and getting squeezed. The hourly workers are your tenants and your staff and be patient and you know be human, you know? Be kind, be graceful, you know?

**[0:16:12.9] WS:** Yes, so Gary is there a way that we haven't talked about that you have recently improved your business that we could apply to ours?

**[0:16:20.3] GL:** Yes, so we have been scaling up. So, you know we learned from the \$1.7 million property to 15.15 and you know it is just building our investor database. And that's the four meet ups that you said. And quite honestly, it's you know I have a partner on those meet ups or it just helps. I have a business partner as well. So, what we are doing is we're both not doing the same thing and just able to leverage our skillsets, our time, making us a lot more



efficient. So that we can do more deals that make sense and have more time to talk to our investors and everything else that we need to do to grow and scale.

And we have been hiring some people as well to be some part time VA's, which I know you got. You do a great job with and just the more people that we could have on our team. The more that we can concentrate on the things that we do best.

**[0:17:14.6] WS:** Love it. So, having a partner, splitting up the roles that way you can be more focused, right? On what you are good at, what you like to do and be more productive ultimately, it's awesome. And what about you mentioned you are doing the meetups now, you are talking about growing your database of investors, what is the best way you are doing that now?

**[0:17:33.9] GL:** Well definitely the meetups, you know we have a good enough that come every time but we always get new people coming in and whether we are getting them that way or at conferences, even on social media, I don't have a huge presence but I am on there, somewhat consistently. and when you go to different places they'll go, "I have heard of you," and that's it. It is a great way to start meeting other people whether I go out to them or they come up to me.

I say, "I know you but I don't know you" you know? Just because of social media. I mean it is such a small community of investors and syndicators. So that's really helped.

**[0:18:09.4] WS:** Are there four meetups local to you?

**[0:18:12.6] GL:** So, three are in LA and one is in Phoenix. So, I am based in LA, but [inaudible 0:18:21] are in Phoenix all the time looking at deals, looking at our own properties. So, we just say, "Hey, while we're out there every fourth Wednesday we are going to have a meetup out there," and we have been averaging about 25 people every time so it's –

**[0:18:31.6] WS:** Nice how far is that for you to travel?

**[0:18:33.3] GL:** To Phoenix it is about an hour flight or if we drive it will be five hours so it's not too bad. But obviously we love that market.

**[0:18:42.1] WS:** Nice, all right tell us again Gary the one thing that's contributed to your success?

**[0:18:46.6] GL:** Putting myself out there is the most important thing. Meetups, being on other people's podcast, going to conferences, putting yourself out there and letting other people see or passion for what you do and that's really led to exponential growth.

**[0:19:02.5] WS:** And how do you give back?

**[0:19:04.5] GL:** I have a non-profit. I found it in 2006 called Core Educational Services and we provide services for high risk youth in Southern California area.

**[0:19:13.8] WS:** Gary, thank you again for your time and just sharing your expertise and experience on the show with the listeners and myself. I know I learned a lot. I know they did too. Tell them how they can get in touch with you.

**[0:19:24.1] GL:** Yeah, you can reach me at [gary@breakofdaycapital.com](mailto:gary@breakofdaycapital.com) or go to my website, [breakofdaycapital.com](http://breakofdaycapital.com) and we have a free passive investor's guide and connect with me on social media. I love talking real estate.

[END OF INTERVIEW]

**[0:19:35.4] 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]

**[0:20:16.2] ANNOUNCER:** Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at [www.LifeBridgeCapital.com](http://www.LifeBridgeCapital.com) for free material and videos to further your success.

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