

EPISODE 576

[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 Mike Taravella. Thanks for being on the show, Mike.

[0:00:32.7] MT: Absolutely, Whitney. Happy to be on and just living the dream one day at a time. And super excited to be on.

[0:00:39.0] WS: Love that. When we first got on, Mike and I were talking and he said, "Living the dream," on a Monday morning. And couldn't agree more. And just knowing a little more about him, about the team that he's a part of. I know he's an amazing asset to them and a great guy.

So, a little about him in case you haven't heard of him before: Asset manager of over 1,600 units. 100 million dollars' worth of units. Certified Public Accountant licensed in the state of Michigan, auditor CPA turned real estate investor, thanks to working with Dan Gilbert, owner of Quicken and the Cleveland Cavaliers. Wow.

Mike, thank you again for your time. I appreciate you being on the show because this topic, your expertise is so needed, but what we were also talking about before the show, it's not talked about enough. You know, everybody's talking about their raising the capital and the branding,

which we do talk about a lot because it's very important. However, if you can't perform, you're not going to be in this business very long.

And so, I love it when guys kind of like yourself and just come on and just kind of dive in to what happens when you finally get the keys.

[0:01:44.4] MT: Yeah. Absolutely. That's the it's the scariest part of once you get it. Even when I was owning my single-families, you can run the spreadsheets over and over. But now you got the keys and you're like, "Now what? Now what do I do?" It's just exciting topic to talk about. Love just the execution piece of it.

[0:02:01.0] WS: Yeah, you know, why don't you give us just a minute or so of your background and why the asset management piece is your specialty and let's jump in to how you all are managing that many units?

[0:02:11.8] MT: Yeah. I was always good with numbers so my high school teachers were like, "Just do math." My mom was like – I didn't want to be a teacher. My family worked at Chrysler, so I ended up doing accounting in my – everyone called me a sell out for it so I picked accounting because I wanted to do business. I went through undergrad and masters at Michigan State University. And I love the numbers aspect because accounting is the true language of business even – I was listening to podcast with Howard Marks who says, you need to understand accounting to be an investor.

Just understanding all the aspects of the numbers and what they need because it's what they need because it's a language of business. I started my career in Ernst & Young. Learned, it's a head first dive into financial analysis, understanding each line of the income statement, balance sheet, every document you're going through footnotes. Super exciting stuff I know.

Being an auditor, everyone loves being told how to do their job, making sure they're doing it correctly. But I transitioned and I went to work with Dan Gilbert and work with his startups. So, I want anything from launching e-sports organization, media production to more startups. It's the execution piece. People don't understand the numbers and they had to have a feel so I was educating a lot of the entrepreneurs on the number aspect. But also, it's correlating with execution.

But more importantly, I think with that group, as I learned, seeing the power of real estate. Seeing Dan Gilbert buy properties in Detroit, overhauling with his dynamic team. And just executing and just his vision of Detroit. So, inspired me to get into the real estate and single family and I was trying to go through and buy one house. But then I had to wait enough, a long time to save up enough capital and buy another one.

There's got to be a better way. I'm always talking about processes with these startups, I got to do this with real estate. And I came into multifamily thanks to my mentor John Casmon, introduced me and I fell head first and six months to a year later, I took my financial statement background and accounting background and applied it – I got invited to work with Jake and Gino on the Rand Partners scheme. So, Jake Stenziano and Gino Barbaro, and just been working with the numbers. I mean, people talk about the underwriting.

But the process of even building with my startups that I've worked with, we've been taking those and putting into the property management and reporting piece so that we can see how we're doing and looking at all the different aspects to see how we can improve operationally.

[0:04:30.9] WS: Awesome, I can't speak highly enough about Jake and Gino and just them personally and you know, in business as well. I've got to know them over the last few years and just incredible guys. I know that speaks a lot to you as well. But you know, you said there – like knowing the numbers and how they connect to your execution.

You know, let's dive in to that because it's where most people I think start to stumble a little bit or maybe we don't want to admit that we don't really know what that means or what to do at that point once we get these keys. Like you said yourself, it's curious times like after you get the keys, that's so true.

Let's dive in there, you know, you got the keys and now – maybe even a few things we need to know before that, obviously. But you know, let's get to getting the keys and then you know, some things you all do to immediately after and how you're tracking all that.

[0:05:17.7] MT: Yeah, we have a 90-day takeover check list that's evolved from – since I first got here. We've been really making sure the transition's smooth. Because the first couple of months, it could be, it's a 'wait and see' with your current residents. What's new? Different processes, expectations so we have a 90-day checklist to lay out every single thing that would need to get done from buying checks, setting up LLCs. You name it on the back end.

We take out our rhythms, I think that's the most important piece whether you're doing third-party or in house, establishing the rhythms before you get the keys because the biggest thing is, there's so many things happening. They are looking all over but if you have those weekly rhythms, biweekly – I'd say recommend weekly to start. Now, here's when we're meeting because them during the chaos, you don't have to think, put it on autopilot.

We have the 90-day checklist and we really communicate before what the business plan is. What are our top priorities when we're going to take over properly? The communication to the residents, of making sure you get the checks out to the correct property management company because there's people who still write checks and they got to get it to the right spot. So, it's making sure the expectations are aligned on what the priorities are and the communication with the residents but also the business plan.

A lot of times, we take over property, it's mismanaged. So, we have to educate our residents on the new systems, the new processes, what's going on because we're immediately coming in with our all-star team and making the things better. We're handling work orders. We're making sure move ins are getting executed still.

And then from there, it's what that calmness goes or that chaos goes, it's the next phase of what do we need to improve on? Is it the exteriors? Jake loves stripe inserting in parking lots. It's one of his favorite value-adds. Just making it look super nice.

So just figuring out what does a turn look like? What does the grand turn, the medium turn and the light turn? And just seeing what we can do. Those are kind of the big things.

And then plus two with our investors. Not only do we have to communicate with our residents, we have to communicate with our investors. We do a monthly webinar with our investors, those

first three months just to make sure, “Hey, we didn’t just take your money and just run away with it.” We’re showing the meat and potatoes of it because we know a lot of our investor base is doing properties. And we want to make sure they see what we’ve been doing each month and kind of checking off the 90-day checklist to make sure everything’s going smooth as it can be.

[0:07:45.4] WS: Love what you just said. The monthly webinar for investors for the first three months. I haven’t heard of anybody else doing that. I love learning things like that that other people are doing because I think that’s so valuable.

Like investors know you’re going to be communicating in that way and I want to jump back into some other things you said. But during that webinar, investors live, is it a recording that you’re sending out or how do you all host that?

[0:08:05.1] MT: We do it live and it’s just a quick 20 minutes and it’s just pictures of the property, showing their dream team. We’ll do like a snap shot of a closing statement to prove we closed. And it’s just little things that go through. Some of the highlights we do are why did we resurface the floors versus gut it?

It’s little snapshots that you can take away with. And we look at our investors as partners so we want to show, “Hey, here’s why we did this.” Not only is as spreadsheet because the spreadsheet sounds great but people love the pictures like before and after of photos of painted exteriors of buildings. It’s that tangible piece because people love the story and can really get behind something they see it and they’re like, “Wow, look at the improvements,” not only just revenue and expenses and et cetera.

They love seeing that tangible piece of what’s going on.

[0:08:53.7] WS: Can they interact during that webinar?

[0:08:56.2] MT: We do. We’ll answer questions. I mean, sometimes we get them, sometimes we don’t but we get a lot of follow ups. So, when we send a replay, that’s when we get a lot of replays as well. And one thing we’ve really been doing during COVID-19 is we’ve actually opened

up an office hours on Zoom from two to four eastern and just really highlight, “Hey, if you guys have questions, we’re here.”

I’ve called all of our investors and let them know kind of updates to look for and what’s going on. But we just – I think the promise we have is transparent piece of mind investing so at any given time, I’ve been on phones with investor at nine PM, nine AM, eight AM, anywhere in between so we’re just, we want to make sure everyone feels comfortable of what’s going on and there’s as much know and possible

[0:09:37.6] WS: Love that, I appreciate you sharing that. Okay, you talked about having the 90-day checklist before you take over property, I love that. You got to have a checklist, it’s the only way I feel like you can improve. You know, did you say you have a system, right? And it’s documented. And so business plan and top priorities, you talked grand turn, light turn, medium turn, what does that mean?

[0:09:59.5] MT: When we take over a property, there’s – each unit’s in different phases of how much renovation it needs so if we have a blank unit day one, we try to comp out, we try to say “okay, based on if we do a grandiose business plan, how much ROI are we going to get on that new turn?” Then there’s other units that are less messy or some slight tweaks. We kind of just do light, medium and heavy and see what our ROI is when it comes to those turns.

If we get new appliances or update the flooring or do it all, what is our ROI and what can we get? Because it’s all great when you’re doing the rental comps to see what it is but is your marketing actually plan getting executed, are the turns getting executed, and does your customer want that?

It’s just really proving it out that our rent analysis can hold true during this. It’s just a big ROI calculation and really game planning to see what fits in that market.

[0:10:54.6] WS: I want to dive in to really – the after day one, after we’ve closed. You know, what needs to happen, what are some key things that you all do? I know we talk about the videos with investors webinars which are so important. But really, the on the ground or the asset management piece that you specialize in, what are some things that we need to accomplish or

have planned for right away? What are the ways that you're communicating with your management team? I'd love to get into those conversations a little bit as well.

[0:11:19.8] MT: Absolutely. First thing's first is have a budget. I've seen a lot of PM's talking with people in the community, they don't want the budget. And the reason for that I think is just the biggest piece of the budget keeps everyone accountable.

From the property management side, it's signing off and saying, "I'm adhering to the budget." There's going to be variances, stuff happens. We all know that. However, it just really making sure that if all goes to plan, here's what we're operating between. And the reason that's so important is because every month, it could be a swing in bills and everything going on but this is really your measuring point of what's happening. Are we doing exceeding expectations? Are we below expectations? Being so granular with it is super helpful. It's not a pretty process and if you're new, it's overwhelming because you're like, "I don't know how I got these numbers," but go with your property management.

You might say in your underwriting you have a hundred dollars, property management's saying 200. Compromise. And really measure and see what moves the needle. "If I spend 150 here, can I reduce something here?" And it's just helps you just get a peace of mind of where the numbers are instead of just the property management group or whoever giving you the number. You kind of look at it like I don't know what to make of this. Having that budget on the front end just adheres to it.

And then from there, we have a pulse document that gives us the pulse on the property. It starts with occupancy and it's kind of a flow chart if you will of if that occupancy is not at 95% in our markets, then we're looking at our leasing conversions. Our leasing conversions is the guest card, the number of people who inquire, stopped in to look at the apartments, called the PM, property manager to see if they have any questions. And we divide that and we compare that to our applications that we got in for that week.

If we're not up 95% occupied, then we're looking at our marketing conversions. It's very telling too because you can be at 90% occupied but there could be a lot of guest cards that came in, but not that many people applied. Then it's talking with the property manager. "Hey, what hap-

pened this week?” Or it could be the opposite of there’s not that many guest cards so apartments.com could have been off or Facebook ads weren’t hitting or there could be somewhere numerous options.

But it really drills down to if not this, then why? You’re like four or five hows or whys to get to the root of the problem that you can really dive deeper on and hone in on. Instead of kind of just, “Well, that’s what the property manager told us it happened.”

[0:13:51.4] WS: How did you all create something like that because I know a lot of the listeners are probably thinking, “Well, that sounds great but I don’t even know where to start to create something like that?”

[0:13:58.3] MT: Yeah, we can share our pulse dockets. It’s not very complex. We just look at it from the occupancy because occupancy drives revenue. I think when we’re looking at it, it all has to tie to the income statement. So, it just threw – Jake and Gino have been doing this for over seven years now. I think it’s just seeing the key numbers that they look at. And so, we’re happy to share it with your listeners and everyone just to give an idea.

If you are starting off too – If you have no idea like I don’t know what to ask the property manager, these are great questions to have: What are your key performance indicators? Because if they don’t have any good ones or they can’t lay out if this then that, it really shows a professionalism of the group.

So even if you are just starting off, don’t get overwhelmed. It takes time. It is a team sport and we’re all here that is why we are doing this podcast to share the knowledge. And then it just shows you what to look at and how it affects the income statement and balance, any income statement.

[0:14:54.4] WS: So, how often are you communicating with your management teams? Is that different for different properties?

[0:15:00.0] MT: We have the pulses come out weekly. So, there is other factors on that document like the delinquency and lease terms and lease renewals just to get full comprehensive

picture of it. But we talk weekly on that. And then every month we are doing a financial statement review of going in, we are checking on the budgets versus the actuals to see what is performing. We are seeing any month. So, month to month variances on actuals to see what are the big swings?

For example, one of our properties if you look at it just for none explanation, why are the utilities 20,000 or 3,000? And it is just the water timing bill. So, every other month we get billed for water. So, it is just having those we'll have the weekly. And then we'll have the monthly and that is so important having those weekly communications because if something is wrong you can correct it before it hits the full income statement.

So that means that is some money you are saving or increasing the NOI on before you get to those financial statements at month end.

[0:15:58.8] WS: Love that. You know let us talk about a few of those key performance indicators that are crucial or maybe there is some that you know that you all track that have really moved the needle for you all that maybe some other people aren't or don't know to look at?

[0:16:11.8] MT: So, I think marketing or occupancies for our market for shooting we're 95% and then from there it is the marketing conversions. We like to see if it is not 95% occupied, we have to have at least 30% applicants divided by guest cards.

[0:16:28.2] WS: Guest cards?

[0:16:29.9] MT: Guest cards. Yep, so in that folio that the system is just any inquiries or walk ins, so any people inquiring about the property is the denominator number of applications, it's the numerator. So, we like to see that around 30%. And so, if you have that occupancy up to 95 it is going to be much harder to get to that but that's just our rule.

And then from there, delinquencies. By the end of the month and this is I think a key piece we found that our delinquency should be less than 3% of total of other income. So, there is always going to be some delinquencies and something happened but I think less than 3% delinquent has been our sweet spot for a great humming property.

Other than that, I think a renewal rate were still inbound our property managers took it upon them to get 60% renewal rate. I think industry average is 40. But their expectation as Jake says, the Chick-fil-a of affordable apartments. So just really trying to be the industry leaders and keeping those renewals and that's why we are investing in reviewing our customer journey which I would highly recommend all the listeners to look at the book *Never Lose a Customer Again*. It is a phenomenal resource of just using all of these different options to communicate with your residents, investors, etcetera so.

[0:17:43.3] WS: What was that book?

[0:17:44.3] MT: *Never Lose a Customer Again* or *How to Never Lose a Customer Again* by Joey Coleman. It is a phenomenal resource and he's great. He's been on Jake and Gino's podcast twice. And something that I highly recommend going through it.

[0:17:55.3] WS: Nice, I appreciate that resource. Yeah, a renewable rate that's not something I hear most people talk about like something they're tracking. They may be but if it is not talked about, I am not sure that they are tracking it you know?

So, anything else that like where you all are standing out as far as "You know what? We really focus a lot on this," maybe outside of occupancy obviously and other things are standing to that, right?

Like these other things that we are figuring out how to keep the occupancy up, right? So, anything else that it really has helped you all to perform above and beyond or raise your NOI?

[0:18:28.6] MT: Yeah, I think just having the budgets. I think our property management group. So, if you get those things right to keep revenue, it is going to really come down to your expenses. So, I have heard many people in the industry say they re-underwrite the property as if once they've taken over to see where they are and compare the two. Because you might think you have 100 dollars a unit marketing but really it is \$400. You're like, "Wow, huge disconnect."

So, it is really comparing what you have been underwriting, your assumptions are versus what is actually happening and that will just keep your PM group happy, your investors happy because you are tailoring it to what's actually happening at the property. So, I think the expense piece is just refreshing your mindset and I know if you underwrite a lot, you're like, "Here are my numbers." Just refresh every month, "Hey, why are we off?" And just comparing it to what is actually happening.

[0:19:20.0] WS: Who is driving that conversation in a weekly basis, is that you or is that the property management company?

[0:19:25.5] MT: It is a little bit of both. So, I mean our property management group has been honing it in on just what the numbers to look at. Because the property managers have such a hard job of the customer service piece and the accounting piece. We have actually invested and got our own internal accountant to help with our vertically integrated property management team. So, it has been a process of just getting through everyone on the same page.

And we are explaining the 'why' and once we have explained the why, property managers are driving the conversations to explain what happened. It is not necessarily an audit of, "Hey, what happened here? You are over budget." It's been a cool piece in seeing the property managers learn and understand the financial piece more and more. But every property management has different backgrounds. So, we always just drill and do a technical underwriting of going through and explaining this.

So, it's been a cool piece to see it built out month over month and it takes time to build these changes. Not everyone got – studied financial accounting and have the thrills of being a lot of nerve that first couple of years. And so, it's been cool to see our team embrace the change and understand the numbers without me or anyone else having to record it. It is always explaining that why on the front end I think goes tenfold in the growth of you and your team.

[0:20:39.3] WS: Love that. I appreciate you sharing that Mike. You know just a few final questions before we run out of time unfortunately. What's been the hardest part of this syndication business or process for you?

[0:20:49.5] MT: I think it is just the deals are harder and harder to come by. I mean even before the case of just I think there is a lot of competition in the space. And there is a lot – I mean we're having international money coming in. There is so much more competition than there was earlier. And so, just trying to find the next deal and getting more and more creative. But I think competition sparks more creativity and so it's just been a cool piece to really go with our team and figure out what we're going to do next. So, I think the competition but iron sharpens iron.

[0:21:21.9] WS: For sure. So how are you all prepared for this downturn?

[0:21:27.0] MT: So, we were having a lot of conversations of what ifs. We actually called a lot of our friends and said we have our mortgage broker in-team. So, he was calling all of his economists and lenders and see how they're preparing and we were just working with our teams and network and just figure out what's going to happen? Because I think April 1st everyone was holding their breath. Seeing the rent strikes. All of these other things and no one knows.

It is a black swan. You can't underwrite it but we are just preparing for the worst. I think our property management team has a corona task-force, we are communicating probably every day for the first couple of weeks and with that communication, we are doing it externally. So, every other day our residents received updates on – Whether it would be temporary assistants for needy families, 211.org for any resources, directing them to Instagram, anything we could do to help them we are there for them. Letting them know taxes aren't due until July. Anything we can do to help them.

And so, we are just constantly updating because I think if you sit in your apartment just watching the news and you just lost your job, it is so hard to navigate this with a level head. So, we are just trying to be the rocks for our residents and our investors to make sure, "Here is the good viable news and here is what we are doing here."

We have also applied for the PPP loan just to help with our liquidity and we luckily got that funding. So, it has just been a full court press from our property management, our leaders and all teams. So, every day is a test day it seems like and we are just going through it day by day.

[0:23:02.8] WS: Nice. So, what is a way that you all have recently improved your business that we could apply to ours?

[0:23:07.8] MT: I think it is just going through the processes. I mean for right now I have been trying to work on the reporting piece and our customer journey and from the investor side. I think it is just whatever your biggest – not necessarily your biggest weakness but what is that one project that you have been trying to work on? For me it is the financial reporting and customer journey. I have been learning Excel courses even though I am pretty good at Excel.

My team is like, “How did you spend five hours learning more about excel when you are already good?” But it is just time to get that much better at things. And reading more. Just taking a step back because obviously with this COVID-19 it will go away. It will go away but it is after this, how much better are you going to be to hit the ground running?

So, we’ve been just reflecting on our internal processes of this and it ranges from every group. So, whether it would be marketing, operations, reporting, just come out of this a little bit smarter and have a little bit better process just going forward because I think right now even though we might not have deal flow or anything it is a good way to reach out to people and really hone in on your processes.

[0:24:05.0] WS: I love that there is going to be lots of teams you are just sitting still right now and aren’t going to be better after they come out of this. So, might as well use this time and be as productive as possible. And so, what’s the number one thing that’s contributed to your success, Mike?

[0:24:18.6] MT: Just the network. I think the cliché of the network is your net worth because I was always trapped in like the limited mindset of, “I am accountant, I am accountant, I am accountant.” And once I pivoted to being a real estate investor, the mentors came. It has just been a huge whirlwind of experiences. And it’s meeting wonderful people like you, Whitney ,and.

The real estate industry is unlike any other because everyone wants to succeed. And it is not necessarily that crushing competition of, “I am better of you, I have more units.” We are a team.

Everyone is a team, we are all going through this whether it be corona or your next deal, we are all hoping for success.

So, it's been just that the network has been the phenomenal resource and just changing your mindset to being what you want to be. Mine was a real estate investor, anyone can change their mindset because I actually used to be 60 pounds heavier. And I just had that mindset of I am a fat accountant, I can't do anything and then I ran a marathon. I call him fat Mike and I ran the marathon to prove that I am no longer fat Mike. So, it's been a cool process just getting through that mindset. It's all between your ears.

[0:25:24.4] WS: Wow, congratulations to you. I just want to say that. That is an incredible story and then it proves how important the mindset is, right?

[0:25:32.4] MT: Absolutely. You go to remind yourself every day. I wrote I am a real estate investor. I am an athlete and I just wrote it every day and I became it and it is quick. It is amazing how quickly it happens. So, for all of those listeners out there who is in a rut, just write down what you want to be and you work towards it and you will become that.

[0:25:50.6] WS: Wow. Well, how do you like to give back?

[0:25:53.3] MT: Just helping people. I think whether at their journey because everyone I think day one of the growth is, "How do I do this? What do I do?" I love helping people in their journey whether it be athletic, real estate, just helping them having one on one conversations or whatever.

So, I am just happy because if I can do it anyone can do it. And so, I am just happy to help anyone in their journey whatever they are trying to do. I am happy to connect with people and just help you be the best versions of themselves.

[0:26:21.7] WS: Awesome, Mike. Well, thank you so much for your time. I love talking about asset management because that is so important just how the property performs and the communication between the management team and just the tenants even and amongst the operators and general partnership like you all.

But grateful for your time and grateful just hearing your mindset story there as well and your personal growth. I always say my business started to grow when I started focusing on personal development. So, thank you for sharing that. Tell the listeners how they can get in touch with you and learn more about you.

[0:26:53.6] MT: Yeah. Thank you so much, Whitney, for having me on. And the best way for listeners, they can reach me out via email, miket@rancre.com. Also check out randpartners.com, if you guys have any or see what we are working on next. But thanks again, Whitney for having me on. I am super excited and I will send you the pulse report document that is viewable on Google Sheets so everyone else can take a peek at it as well.

[0:27:15.7] WS: Awesome, we'll be sure to have that on the show notes so people can find it easily.

[0:27:20.0] MT: Absolutely.

[0:27:20.5] WS: Awesome, that's a wrap. Mike, thank you very much.

[END OF INTERVIEW]

[0:27:23.8] 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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