

EPISODE 580

[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 Paul Worcester. Thanks for being on the show Paul.

[0:00:33.3] PW: Thank you so much for having me Whitney, excited.

[0:00:36.4] WS: Yeah, I'm really looking forward to hearing your story Paul, just reading through your bio and I was like wow, you've done a lot and you've made a lot happen and as a family as well and just looking forward to hearing that and as the listener, in case you haven't heard of Paul before, I want to tell you a little about him and then he can elaborate better than I. But he grew up in lower middle class in Oregon and after reading *Rich Dad Poor Dad*, he borrowed his parent's life savings of 200,000 and went into business with his two younger brothers and father and founded Worcester Investment. They partnered with over 80 investors to syndicate over 4,000 multi-family units worth 400 million dollars in Kansas City and have over 140 employees. He became frustrated and fed up at traditional property management so he founded Simplify with two million dollars of his own money, am I saying that right Paul?

[0:01:28.4] PW: That's right.

[0:01:29.6] WS: Simplify? Simplify helps multi-family owners boost profits by leveraging technology to bundle costs. Looking forward to hearing about that as well Paul, give us a little

more of that background though. I know the listeners are wondering, wait a minute, you know, you took \$200,000 of the family's life savings and that's obviously a big risk, right? People would take that as a big risk but look at you know, aren't you – it's an amazing story. I'm looking forward to hearing it.

[0:01:56.9] PW: Yeah, I would never advise someone to do exactly what we did. I was 24, my brothers were a little bit younger than I. We grew up lower middle class, my dad was a pastor, mom was a third grade school teacher and we read *Rich Dad Poor Dad* and it just changed our perspective of money and being a business owner, entrepreneur, completely. We didn't have any perspective other than it was other, it was someone else and for the first time it was like, I guess we could do it.

He explained it so simply and so, we had a series of family meetings and we decided to go into business together and start buying small multi-family properties. We did that, my dad didn't have any money so he put a second mortgage on his home and that's where he got the \$200,000. He gave it to us and my two younger brothers and my father went into business, we bought our first property in Salem, Oregon, a fourplex, it was actually part of 16 units and the guy we bought them from moved to Kansas City. I went and visited him immediately and we never left. We really grew our business in Kansas City.

[0:03:02.2] WS: Wow, the \$200,000 came from the second mortgage? You said you wouldn't advice doing this but you all have made it happen. Congratulations first and foremost, it's incredible but as a family, you know, you all committed to this, what you learned in *Rich Dad, Poor Dad*.

[0:03:18.8] PW: Yeah, that book obviously is very basic, it doesn't go into how to buy multi-family but the truth is there, right? We wanted to buy assets that at the end of the day, produce some cash flow after paying the bills and that principle is what we've been doing for the last 13 years. We started buying small multi-family properties and then we bought 40 of those, 2007 through nine and then we began, per your show, we began formally – the first ones were not formal syndications but then we learned what that actually was legally and so forth, we started syndicating large multi-family properties in the greater Kansas City area.

[0:03:56.9] WS: Wow, that seller though, the first seller was from Kansas City or he moved there and then you went to visit and then you all started operating there as well?

[0:04:05.3] PW: Yeah, our only experience was what we saw in our backyard which was Eugene, Oregon and that area and this was 2006 and the market did not crash and could not crash, this was pricing — I could not find stuff that made sense. When we looked at Kansas City, Midwest market, you know, property made a lot more sense, you know, you could buy two, three times as much real estate and the rents might be you know, 15 to 25% less.

It was much easier to find cash flowing properties which is what we were interested in. Because we read *Rich Dad, Poor Dad*, from the very beginning, we were not in the a mindset of we're going to buy something and flip it and make the chunk of money, we wanted to buy something that intrinsically, if we held it forever, you know, Warren Buffett talks about that. If you have to keep it forever, it's going to be month by month produce some cash flow.

[0:04:58.4] WS: Okay, tell me the — I guess the first things you did though, moving from single family into multi-family, what helped you make that transition?

[0:05:07.3] PW: Well, we kind of jumped to multi-family immediately, we bought a hand full of small single family but it was always a mindset of rental cash flow and we just thought you know, more is better so if you have more units, you know, we thought we could buy a duplex easier than you could buy two single families, right? And a fourplex easier than you can buy two duplexes and so we just kind of — for the first two years, we bought basically one to eight unit properties.

And then in 2009, it was a huge paradigm shift in our world, we bought a 60 unit property in a sub market of KansasCity and it was producing almost immediately as much cashflow as approximately 120 units were the entire previous two years. It didn't actually take that much more work to buy a 60 unit than it did like an eight unit, it was more but not a pro rata or more, not eight times, more than an eight unit.

[0:06:02.3] WS: Ain't it such a mindset shift though? It's hard to get that across to somebody that has been buying single family for a long time and you're like, "No, you can make it happen."

I'm just glad that you just expressed that. Let's elaborate a little bit or you elaborate on just this process of getting even into the syndication business, you know, that mindset shift.

[0:06:22.0] PW: Yeah, when we started, we didn't know what that word was, we didn't have any money still, so for two, three years, we were buying property, we were cash poor though. We didn't have a big credit, you know, a bunch of income from a W2 job that we could show so we were incredibly fortunate to have some relationships that we built early on and then frankly, the market, the deals we were able to procure, this is the first thing I would say to anyone is you've got to find a worthy deal.

Nothing else works, when you go to all the other stuff then if you find a really excellent deal at a discount to, you know, market value, there's some built-in value add you can perform more ideally been day one, if it's that way. Then everything else will fall into place, there's plenty of money out there for those kinds of deals.

We found some people that actually signed on personal recourse loans with us with small banks which is incredibly fortunate because we couldn't have done that ourselves and so it took us really years to be able to get up a net worth and a bio to sign as a KP on Fannie and Freddie loans on our own but early days, we just had investors and the deal sold itself, you know?

It was such a phenomenal deal, what the second deal we bought was a 96 unit that we still own to this very day, we bought it in 2009 for 1.4 million and we have a loan on it today I think for five million and it's, you know, it's produced cashflow every year since then. It's been such a – we bought it for 15 a door, it's worth 60 to 70 a door today. Just been a wonderful deal and if you have those, then everything else will fall into place.

[0:08:03.4] WS: Nice, well, there's so many things we could talk about but I know your expertise, one of your super powers is really adding NOI to multi-family properties and I wanted us to really jump in there and really allow you to teach us some things and as to talk about Simplify a little bit and what that does.

Let's jump in a little bit on how you all have added value or added NOI to your multi-family properties, ultimately adding value as well. But maybe an example or maybe a property we could talk about.

[0:08:35.7] PW: Yeah, well first of all, the origins of how this came about. We built a management company that was at one time 140 people managing about 3,000 units including some construction and we had done that always self-managed and we were about average and year after year, we were doing property management and I kept saying there ought to be a better way, we tried little things here and there to improve but by and large, the way it's always been, just swallowed up any kind of small iterative innovations and that's really the thesis of why we started Simplify is because this industry is just so antiquated and broken that someone needs to step in and create a better way and we just –

You know, I find it said, "I'm going to do it because there wasn't anyone else doing it." Simplify is transforming multi-family property management for really the first time ever. In the last hundred years, nobody – there's really two sides, there's property management which is the people and then there's these Silicon Valley tech companies that are coming up. You know, there's a million of them and they come and go, day by day but they're built to work with the property management company.

It's this big fragmented mess that at the end of the day, doesn't really add true value to the end owner. My NOI as an owner, is not really going up due to the innovation, small little innovation, you'll have one company who will say, "I'll help you with your lease payment processing." And another pops up, "I'll help you with the utility management or with this and this and this," but they all don't work together, there's enormous ways in the integrations so what Simplify did, the first company to go to market and say we're a tech company first, we're tech company, we built over two million dollars of tech already but we replace the property manager.

That's the first to ever do that in this space and the way we do it, the way we boost the owner's ultimate NOI is it's not rocket science, we take like any industry, you say where's the waste, right? In the end, where's the waste in the industry and the opportunity and we go and we innovate, we add technology to help bring down costs, I'll give one example. Let's take at how leasing occurs in the multi-family industry, okay?

Depending on the study and the place of the mark of the industry and whether it's an A, B or C property, what part of the country you're in, it's 500 to \$1,500 every time a lease occurs, right? The marketing cost, your payroll, all those kinds of things. Every time it's just built in, of course that's what it is, right? You got to have a leasing agent to show someone where the kitchen is and you got to show them during the hours of eight to five of course. Well, that's a bunch of baloney.

In fact, in single family, it's been going on for a decade, that self-touring has been going on and you don't need a person and so, especially in light of what we're going through right now, Whitney, in the COVID 19 world, what we do at Simplifyy is we've setup smart locks and it integrates with smart phone, we can show 24/7, this has been going on in single family for a long time and our costs, every time a lease occurs is somewhere in the neighborhood of 50 to \$100, to our company.

There's an enormous spread and we do the same thing in accounting, we have the artificial intelligence that replaces a huge percentage of the payroll that sits on property at a headquarters just data entry. We've come in and we reduced those, what we call in the industry the variable or controllable cost, we bring them down and we fix them into a monthly subscription. That's how we add value.

[0:12:23.0] WS: Wow, okay. How much will that replace the current management team? Will it replace them completely or is it like here's a few things that we can automate to lower the expense on?

[0:12:35.3] PW: Yeah, I originally tried to blend what we were doing with traditional property management and it was – we'll help you with leasing and it just didn't work, it's oil and water. Even the very definitions of the people that we have like their titles and how they perform work is different than traditional property management.

The only way to make it work is to start fresh, start all over and we come in and we just literally replace property management. We would work with property management if we could, here's the analogy. It would be as if Uber and Lyft you know, 10 years ago, went to all the taxi cab

companies and they said hey, we want to try and work with you and integrate, it would be like you know, different language, it's like what? What are you even –

They don't even understand and that's the way with us talking to property management companies. They throw people at the problem, there's a new problem, hire another person. Just hire another person and the problem is, as the property management company and we have one, we don't feel the pain, right? What do we do? I get my 3 and a half to 6% and I pass it all on to the owner. The owner feels that pain, I don't feel it.

Consequently, I have a slide that I can show but you take an industry like ride sharing, there's an 84x delta in tech innovation investment. Three cents of every dollar in property management is invested in technology. Essentially nothing, all right? In ride sharing, in the ride sharing industry it is two dollars and 50 cents. It is an 84X delta and that's you take one of it. So I think in the next five years, the way that we talk about and look at multi-family, the flow of money and work flow will look nothing like it does in about five years, within about five years.

[0:14:23.3] WS: Okay, so then if you're using something like Simplify then you are technically self-managing. You are managing those processes?

[0:14:30.6] PW: We help an owner. You know if an owner comes in and they say I am dissatisfied with my property management, I think there is waste. I think there is an opportunity to raise NOI, we are a good fit to come in and we help you self-manage. We offer software and the service for it.

So we go in with our team and covers all of the what would be the controllable costs that the payroll — that we replace your payroll on the office side. We are admin and IT, you are marketing and advertising and any sort of a management fee, we bundle it and the one fixed cost and then all of the other things that — maintenance, we just facilitate. No different than a property management company would.

[0:15:10.3] WS: Okay, so we are going to hire a maintenance. We are going to hire, I mean I assume you used to have somebody on site.

[0:15:15.8] PW: Yeah, we have people on site every day and it is just a different mindset. So here is the new mindset: the idea that I need to go my club house to get any sort of question answered, I am a renter or I am a prospect going to a 250 unit apartment home community, okay? And I want to lease or I want to get help with paying my rent. I want to submit a work order, the old mindset is I've got to go to Joe or Fran in the office to get anything done.

That's bogus. In fact, what we found the renters far prefer if I can have 24/7 access, I can text or call on the thing this second, I am on the phone or text me with a person to help me with my problem, they actually prefer that to waiting in line between the hours of eight to five and frankly, a lot of times they go in there, they are gone. They'd be there at the restroom, they'd be on their lunch break or there is a line of three people and I don't have time to sit and wait around.

So yes, we are there on site every day. We are doing work orders, we are checking on the landscaping, we are doing resident surveys, resident parties, not literally today we pressed pause on those with the coronavirus. But we are there to love on our neighbors. We are there to literally add value in their life. That is one of the dirty secrets on our industry is that we think, "Oh we throw people on property and they are really looking out for my asset and really checking on my renters."

We know that is not true. In fact they sit in an office and it is not their fault. They have so much work. They are buried up to their eyeballs in work that when someone comes in and says, "Hey, you know I think I see something going on. There is a work order that needs to happen on the club house or I need help paying my rent," you are a bother to me, because I've got work to do and that is a problem is that we don't use technology. That is where the root problem is.

[0:17:02.1] WS: So how many employees on average, you know whether you want to say 100, 200 unit property, you know are we going to have if we are using a system like this?

[0:17:10.6] PW: Well, when you say we, so we do replace the property management. So if you are an owner, it would be no different than you say, "I call my direct contact, my asset manager or the owner of the property management company and anything I need to get done and ask questions, I go to them." No different would be you'd come to Simplify. So we have our own W2 employees that do everything from maintenance to leasing to accounting, we do it all.

We just do it, yeah, there is literally no extra work and in fact there is a lot less work when you are rolling out the first to market, an owner app that will take all of the horrible antiquated PNLs and balance sheet and budget and variants that comes in a PDF and it is four to five days old by the time you get. Imagine having everything in real time going on at your property including financials but not limited to financials.

Every time there is a lease, a work order, a delinquency that you could tap that on your phone with an app. Now we will reduce a lot of the needs to come to my property management company, the reality is the average property management company doesn't know what is going on at their property. So certainly an owner doesn't know what is going on at the property. With data, data is the key. If you can have good actionable data to share then you can get somewhere.

[0:18:30.2] WS: Wow, tell me some things that influence you in developing something this sophisticated and this helpful.

[0:18:36.2] PW: Well just it grew out of dissatisfaction with the industry. I was banging my head against the wall in trying to improve it and you know the problem would be like this, again going back to analogy of the taxi cab. If you built a technique or a feature for the taxi cabs of 10 years ago. Let's say you built a new screen that took credit cards and you put advertising in there. You built some cool little thing that sat in the taxi cab, you added value to the industry, right?

You made it a little bit better but by and large, you know you are dawn today. The Uber-Lyfts of the world had completely made you irrelevant. That is what had to happen and what has to happen in multi-family property management industry. We've got too many people thinking of I am going to plug in and some of these little thing here and there and so someone, it's us, because no one else is doing it has to step up and say, "We'll be the guys to reinvent the industry."

[0:19:31.3] WS: Wow, okay. That is awesome Paul. Go ahead.

[0:19:35.5] PW: Yeah and ultimately it is the owners and the renters and the employees that benefit. So everyone in that ecosystem is better off with Simplifyy. Now if you don't want to use Simplifyy, so we'll save you money and boost your NOI, same difference. If we take over the property. But folks that don't want to do that, they can self-manage. They can do their own. They can take some different technologies off the shelf and they can do what we are doing it just takes some time and I am happy to share pieces about it. You can go out and you can do the 24/7 self-tour today. Ask your property management company to do that, good luck. They are not set up to do that.

[0:20:12.0] WS: Why don't you elaborate on that a little bit before we have to move to a few final questions.

[0:20:16.2] PW: Well you can go and there is [inaudible] there is Rently, there is SmartRent and a number of other emerging smart home companies. You have to be able to integrate with the communication and take that all but you can show your units. You just got to leverage software. You can lease 24/7, they apply, they tour. We even have folks that are renting without touring. So about one and 10 of our leases are actually occurring without even a physical tour.

You can do that, you could pull them together now the hard part is to make it all work in one ecosystem together. That is why Simplifyy was built is because you can go out and you get software to help you self-tour. You can get software to help you conduct maintenance work orders and do it in a loop but making it all work together that is the big challenge.

[0:21:06.1] WS: Wow that is really interesting Paul. I am looking forward to doing some research on it myself. What is the normal timeline of getting started with something like that?

[0:21:13.5] PW: Yeah it is no different than off boarding or onboarding your property management company. You know it is whatever your contract says that you need to give them notice and you get all the basic information. You know, rent roll, your bank information, we help you manage your property no different than if you self-manage today. Your workload, if you are an owner and you have your own management company like we did self-managing or you use third party.

Really the difference is that there is no difference, you come with Simplify, we will the very first month your NOI will go up. We won't sign you up unless we could add NOI to you the very next month.

[0:21:47.3] WS: Is there a normal percentage that you see go up or decrease in expenses or anything like that?

[0:21:53.3] PW: Percentages are hard because it depends on the rent but we are able to typically add 25 to \$50 per unit, per month or more in bottom, bottom line NOI. So you can take a 100 unit property, you at 50 that would be 60 grand a year, in NOI.

You know, that might be exciting that is about 800,000 with new cap data in the seven cap of added value to that property and the reality is, Whitney, is that this is what I guess a big takeaway for your listeners that the encouraging part that I have to share is that the way I look at it, if you own multi-family today or you are going in to buy multi-family right now and I think pricing is dropping it is a great time to buy. There is built in pent up I will call it secret undiscovered operating profit waiting to be released.

All you have to do is you have to apply technology for the first time and what I used for years as an industry standard, the rules of thumb, all those are going to get better with technology. So the great news is if you are one of the early adopters of this, you can actually, for the very first time in our industry, think about this, if you go in and you say I am going to run this property a lot better than my competitor, the first thought is what are you going to do? You are going to hire cheaper folks and they're going to in the long term you are going to pay for that, right?

There is really no realistic way to add remarkable NOI top line, bottom line to your property, because we all did the same thing. Property management is property management. It is all the same but not really longer. Today, for the first time you can actually be doing things very differently than your competitor across the street and you can have a pretty big bottom line advantage.

[0:23:36.5] WS: Nice. I am looking forward to learning more myself and Paul, just a few final questions but I wanted to ask you too, we talked about it briefly before we started recording is the book behind you, *The Exponential Organizations*.

[0:23:50.5] PW: Yeah, this is a fantastic book. It is not focused on real estate. I have read it I think five or six times, highly recommended. It is on Audible, a great read or listen on Audible but it is really a study of the fastest modern companies in growth and the techniques and technologies that they have used like Airbnb and all of these modern companies that are growing, Uber and how they completely up ended an industry and what it is, it takes some and says:

“Well, what are the commonalities?” You know what can we learn from a company that disrupted an industry and how can I apply it in my industry? So what we did is you know I like to learn from others and wherever I can, I like to reinvent things and so that book, we have taken a lot of the principles in that book and we are just applying it in multi-family property management for the very first time. The principles are really the same, but no one has done it in our industry yet.

[0:24:44.8] WS: Paul, what is the number one thing that’s contributed to your success?

[0:24:48.4] PW: Oh I think humility and the willingness to learn and say I don’t have the answers but in a group, if you get around why as good people then I think you can figure out about anything.

[0:25:00.8] WS: And how do you like to give back?

[0:25:03.2] PW: Oh, we give back, so at Simplifyy, we have partnered with a transitional housing, 501(c)(3). So for every hundred units we take on, we are able to put a family of four, take them from homelessness through a 90 day program and get them back on their feet with financial literacy training and super, super passionate about that.

[0:25:24.4] WS: Wow, well I appreciate you sharing that Paul. I appreciate you giving back in that way as well. It is really neat to hear stories like that and you know I think learning about

something like Simplify today and what you are doing is like hearing about syndication for the first time, you know? It's like, is that really possible? Or opening our eyes to this new thing you know and so I don't have any doubt that in not too many years we are going to be moving in that direction.

And so I am grateful for your time and just sharing your work and what you all are doing. But tell the listeners how they can get in touch with you and learn more about you and learn more about Simplify.

[0:25:58.7] PW: Yeah, go to our website, there is some great information. It's simplifyyy.com and we'd love to help you if we can. If you own or are acquiring a large multi-family in this country, we can help you.

[0:26:13.8] WS: Awesome Paul, that's a wrap. Thank you very much.

[0:26:16.7] PW: Thank you for having me, Whitney, that was a lot of fun.

[END OF INTERVIEW]

[0:26:19.1] 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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