

EPISODE 587

[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 Brett Luskey. Thanks for being on the show Brett.

[0:00:34.0] BL: Whitney, thank you for having me, been looking forward to it for a while.

[0:00:37.5] WS: Yeah, was honored to meet you, I know you'd brought it up and mentioned that we met a few months back at the Old Capital Conference in Dallas.

[0:00:44.8] BL: That is correct. It's been a long few months.

[0:00:47.8] WS: Yeah, seems like it was so much longer ago than it was but great vent by the way and I just encourage the listeners to look it up as well but a little about Brett in case you haven't heard of him before. He's a partner at Fairmont Management Company a third party management company based out of Dallas, Texas. Fairmont was founded in 1994 and offers comprehensive accounting and financial reporting and they employ experienced and dedicated property supervisors and managers.

Brett, looking forward to this conversation because there's not a ton of management companies who have been around that long as well. You know, much less that's had – maybe the employees who have the experience as well that you know, some of your group or most of your

team it sounds like has. Looking forward to getting into that but give the listeners a little more about who you all are and a little bit because I know quite a few of them are in Dallas and maybe they'll reach out to you if they don't know who you already. Tell us a little more about Fairmont and let's jump in to some of this management stuff that we need to know.

[0:01:44.9] BL: Sure. Fairmont is a third party management company, we manage mainly multi-family but we also manage office retail industrial, those that just kind of come organically through 1031 exchanges and stuff like that but really Whitney, our bread and butter is the multi-family industry. We were founded in 1994 by my current partner and my father in law.

I got into the company about five years ago and you know, throughout the course of Fairmont, what we have found is that treating people correctly and treating them the way that we want to be treated leads to overall success in general. Maybe you know, you have the bumps in the road but overall, you kind of consistently move up as you treat people with the golden rule.

[0:02:33.0] WS: Treating people correctly leads to overall success. I couldn't agree more and I look forward to diving into that a little bit because I know you've mentioned even before we recorded just how keeping employees long term, just how that creates, you know, not only success for you all but just for the owners and operators as well, you know, the properties, I mean the owners and the properties you all are servicing, looking forward to getting into that but let's talk about that a little bit. What that means to you all and I mean you're trading people correctly, what does that mean?

[0:03:00.1] BL: Sure. Whitney, first of all, you know, it starts with our employees but it also works with our residents but we understand that the residents can't be treated correctly if we don't have the proper employees in place that in their defense, they feel respected and appreciated, our regional managers have been with our company over 20 years and we have maintenance guys that have also been with us over 20 years, other managers have been with us over 10 years and I mean, you know, that you just get in the routine, they are properly compensated, so they don't have a reason to leave.

But other than that, whenever you treat people with the respect and you know, you value their opinions that want to work for you and don't want to work hard and you know, that kind of has

the trickle down effect to where they treat the residents in the same way and leads to overall success.

[0:03:47.7] WS: I mean, this is going to apply to whether we're on the operator side or have the real estate business or management company or whether your software company, you know, it's like, you're treating people the way you want to be treated, right? I mean, just goes such a long ways.

But I love to know a little bit more. I mean, you talked about how you all have employees and managers that spend with you all 10 years or more and then even some maintenance people who has been there 20 years and it sounds like you know, numerous — that goes for numerous employees, it's not just like one or two or just the founders.

You know, some people say that when it's like just the founder's been there that long. But I'd love to know, a little more about some tips or things that you all did to maintain employees that long and keep them happy, you know? Or to motivate them to work and you know, things like that.

[0:04:31.3] BL: Sure. A few things that we do is we do provide health insurance for our employees that is you know, obviously everybody. Once we offer a robust package with that, we also – look, we also treat them – I mentioned earlier but we compensate them in a fair manner, we sometimes get in trouble when we're riding proof form for potential clients because we're sitting there riding it and we're writing it with realistic numbers.

You know, a client will kind of come back to us and say, "Hey man, I need my parallel expense to be 850 bucks a unit to make this work." And we're sitting there saying, "Well, realistically, it's about 1,300 bucks a month." And you kind of go back and forth and then you kind of pose the question of the difference between 18 bucks an hour and 15 bucks an hour. It's roughly \$700 a month, right?

By you paying that person three extra dollars a month and it cost you an extra 700 but they're bringing you in an extra \$5,000 a month, are you ever going to question the added expense and

arguably the answer is no but whenever you're sitting there fighting for these deals and underwriting and it's hard to look at the big picture of it that way.

Look, part of our challenge is you know, Dallas has been such a competitive marketplace for the past 10 years and it is hard to find new managers, right? Because that makes me nervous whenever we have to go out and we pick up a new property, we bring in somebody new, those aren't people that have been with our company for 10 years, those are people that have been with us for the interview process, right?

But we understand it having the proper people in place is key to the success of the property. We'll sit there and well, now we'll go through an extensive interview process, you know? They'll interview with the regional manager if we have to, we'll bring in another manager to interview, they'll interview with myself, they'll interview with my business partner. Just because we realize how important bringing in the right people is to the ultimate success of the property.

[0:06:35.9] WS: No doubt about it like we've talked about. I mean, I think it goes for whether it's my executive assistant or whether it's you know, some type of management position it is so important who they are and I love thinking through some times like kind of show them that I appreciate them, you know, how we motivate them to work and do you all have some examples of how you all have done that?

[0:06:56.3] BL: Sure, I mean, just look man, I can renovate a property and we can go out there and pick the paint colors and stuff but instead of me walking out there and telling the manager to stay in the office and just keep leasing, it's, "Hey, I'm walking with me, what do you think of option A compared to option B? Which one do you like better? Which one do you think that you're residents would like? And look, that's not a financial compensation at all but that is a respect that you are giving them to let them be vested in the property and that stuff matters also.

[0:07:25.5] WS: It almost gives them some ownership – feeling of ownership, right? They get to make some decisions.

[0:07:30.4] BL: 100%.

[0:07:31.4] WS: Love that.

[0:07:32.5] BL: Yeah, it will actually be interesting. I mean, I know that we're interviewing on April 29th, this is coming out later in the month but what will be interesting to me is to see the employee pool going into the summer, right? Because look, for the past eight months, we've been fighting with everybody for this manager, that manager and it's not like the pool was that large to where it looks. People are getting laid off, there's going to be a larger employee pool to where short term, this isn't very fun for anybody but long term, this actually could be, if you could obviously — got to maintain and you guys stay above water but this could be a positive in the long term for a lot of people if they're able to hire the right employees because of the virus.

[0:08:18.1] WS: Yeah, you know, on this note, we've talked numerous times on the show about different questions, say that operators should ask management companies when they're interviewing and just thinking through which management company we should use. But I was thinking about how it's not talked about very often about the questions, maybe we should ask about your employees.

We think about the manager on site, maybe some policies, procedures, you know, that you all have in place, how you do some specific things. But do you have anything off the top of your mind that maybe an operator should ask the management company that we're looking to employ about their employees and how they treat their employees.

[0:08:56.7] BL: I'm going to take a step back from that question because, Whitney, if I were to manage your property, the only employees that you should theoretically be worrying about are the employees at your property. While I can sit there and say yeah, this person's been with us 10 years and this person's been with us 20 years, if they don't directly affect you, [inaudible] Yeah, it matters because it proves that we're good guys but ultimately, that's not going to affect your property, right? I think that a key question to ask management companies is, "Who do I get to talk to?"

Not just, "Yeah, we have the policies and procedures in place." No, whenever there's a problem at the property, who do I get to talk to? Do I get to talk to the regional manager, do I have to talk to an asset manager, do I talk to the principle of the company? Who is the mover and shaker

that I get to talk to and if you're telling me that look man, make sure you get the right answer, right? If you're one of those guys that wants to talk to the principle of the company, pick the company that you're allowed to do that, right? If you're okay being part of a larger company to where maybe you talk to an asset manager, who has to go above and beyond to get a boiler replaced or whatnot.

Then maybe that's the route that you go but, look, I don't think that everybody realizes is that you're almost marrying a management company whenever you're buying these properties, right? I like all the brokers in Dallas but you don't talk to them for – throughout the entire lifeline of the property, your insurance agent, you talk to them like a couple of times a year and you know, during certain times of the year, more than others, the loan brokers, I mean, those are the guys that are very important to the key to your success. But we're the guys that you talk to every single day. I will just make sure to ask the questions to get the right fit for you.

Sometimes you're going to go and you're going to think they have the right fit and it turns out not to be just personality based or whatever. But make sure that you're getting with the right size company and the right personalities going into the property. Because it's – look man, it's a lot easier to go through it and enjoy your day and to tackle the issues if you're enjoying the person that you're tackling them with, rather than looking at your phone and seeing caller ID and saying, "God, I don't want to talk to that person for five minutes." That would be my advice for who you are talking to whenever you're interviewing the management company.

[0:11:16.7] WS: You talked about their personality a little bit, how would we know that? How would we think through that or figure that out, do that interview process.

[0:11:24.2] BL: Yeah, look. You build your team before you should even make offers on the property, right? We joke back and forth that we interview the potential client as much as the potential client interviews us, we don't take every property just because it's another business decision, we look at and we sit there and say, "Whitney, we've talked for three hours how and yeah, a part of it was about the business and how we run things but part of it was also, hey man, what's going on with the Cowboys draft or what's going on with the Redskins who I hate but you're from Virginia, so that's probably your team," type of a thing.

Look, just the general banter going back and forth, look, setting up how you want the business brand. Making sure it fits with like how we run it. Those are just things that while you can't guarantee success, they do greatly increased your odds of having the success because look man, you're buying properties with hundreds of people living in them, they don't own these properties, there's going to be bad stuff that happens at this properties. Who are you willing to deal with that sort of stuff with and you know, just get through it and be okay with it.

[0:12:33.3] WS: For sure. No, that's great information. But you know, let's talk about what's happened in April and how you all have dealt with it a little bit. You know, it's great talking to somebody like yourself because you are in the thick of it, right? Not just with one properties but you all are taking care of many properties.

It's great to like you said, have somebody like yourself on the show. Let's talk about what's happened in April a little bit, maybe we cover collections a little bit and what you all expected and kind of how that ended up.

[0:13:03.9] BL: Sure. So I think that April across the board not just for us but for the entire industry has ended up way better than expected it. I know that kind of when the economy started to go down because of the COVID-19 virus. It was, oh my God, the world's instantly ending. That was mid-March and I was like, "Oh my God, April is going to be worst month that we've ever had or at least in the past 12 months," right?

Well, looking back on it even people that were laid off, they were laid off made the late March. So just from a timeline perspective. So well they might not have their full March income coming in they had part of it plus the stimulus checks have started to roll out in April. So we have actually ended up much higher than expected and we have ended up at 97% collected, which is a huge pat on the back or whatever you want to call it for our managers because they are the ones speaking to the residents every day and to stop at April real quick, you know some of the items that we've done.

We have a running list that we are consistently putting out to the residents that not only have places that are offering rental assistance, Salvation Army to name one, some of your local food banks, et cetera, your local churches. But we are also keeping a running list of which companies

are hiring, which look, whether the residents take advantage of the resources that we are providing, we at least have to be able to provide those resources to where the two or three that sit there and say, "Hey man I am going to take you up on that," here you go. It is clicking, go to the website top of the thing.

Now look, I am nervous about May and June and however long the stay at home orders are taking place. I am happy that Governor Abbott is starting to release those orders to where some people are going back to work but from a personal standpoint that makes me nervous just because like what happens if a month from now everybody goes back to work or starts going out just hanging out at North Park or wherever and by all means, there is another huge outbreak and then we are all going to another stay at home?

I don't know but just in our current, you know, where we currently are in our time frame, a lot of people that have been laid off, aren't back at work yet. So each continuous month is going to get more difficult with collections just because you are burning through savings accounts. You are adding to your credit card payments I mean all of that stuff matters and eventually people is just going to run out of money.

[0:15:27.2] WS: Yeah, so tell me how has that been say, if you could break it down and you don't have to know this numbers off the top of your head but you probably have a pretty good idea say per class A, B or C what's been the worst during this time?

[0:15:42.4] BL: So we manage specifically B and C class properties. I mean it is funny realistically across our board, we're kind of all, I think our lowest property is at 90% collect in one of our smaller properties in a tertiary market. Look, it is a rough property. It is one that struggles more so with collections, so while I am sitting there saying, "Yeah it is 90% collected" well, it's about where it usually is. I can't sit there and say, "Well it is down 10%," they are all where they're supposed to be.

Again not to belabor with the point but I do think that May and June are going to be very telling and I think those are going to be the months — I think that the threshold of what you collected in April is the top of where you are going to collect in May. If you collect in 94% in April, don't expect to collect 96% in May. I think your ceiling is whatever you collected in April. So look, we

will see what happens I think just a few minutes ago they announced a medicine to come out that might help COVID. And if something pops up in the next week. I think that you know this conversation completely changes, so it something to target.

[0:16:48.7] WS: So how has your operations changed as far as the way you work with tenants? You know that could be communication, it could be accepting partial payments, what are maybe a couple of things that you all had to change as the way you operate?

[0:17:01.7] BL: Yeah sure. So we had the offices down to where tenants can't just come in and hang out. They need to call through those issues. We are also looking at it from a what's an emergency work order compared to just what is a work order that here is a light bulb and somebody just needs it changed in the bathroom type of a thing. We are looking at those, we are offering more virtual tours. All of our properties are set up to accept online payments both credit cards, ACHs and money orders.

And, look, a lot of those were set up to where the tenant eats the fee. Well, these properties have turned around and they are eating the fee for the time being just because we want as little of face to face interaction as possible. I mean it's like going to the grocery. I don't really want to talk to people. So if I sit there and I say I don't want to talk to people, it is hard for me to sit there and put our employees in that same space and at the same time I just look for the betterment of humanity.

The further apart we are right now and the proper social distancing I think the better off we're going to be. So we are doing that sort of stuff, online tours, you know even if it is just a — you are texting back and forth with the resident, you walk through the unit and send them a video well, I mean there is just multiple things that we are tackling in more of a virtual world. But, look, our teams are in place. We have our managers working from nine to five.

Our maintenance staff is there, our maintenance staff is split up to where they are working and make-readies use just to keep them moving all the time but they aren't working together. They are in separate units. So it is just being cognizant of the space in which people occupy, while being efficient at the properties.

[0:18:38.0] WS: What's the best way you all been able to keep occupancy up right now?

[0:18:41.4] BL: People aren't on wanting to move right now. I mean I don't want to over simplify it but the people that there is less traffic right now but there is a greater percent of you leasing to the person that is looking. Why? Because people aren't just window shopping right now. The people that are looking at apartments are the ones that are looking to move and with that being said, look, again I am referring to this in a Dallas window because that is where we live.

But Dallas, the past however longest man, you know upgrading unit and lease it for a 150 bucks, \$200 more, right? And that has just been the bread and butter right? You put in the vinyl planking, you need to upgrade the fixtures, you redo the painting, you spent 4 to \$7,000 depending on the size of unit. It is like a simple math formula and it works. But, look, if that is still the formula that you want to go with, great. That is not the formula that we are necessarily prescribing right now.

It is a walk to these units, if you just need a touch of the paint and clean the units, it is not an upgrade unit and you have to lease it at the old rent, get somebody in because you know just to throw out a number 650 is a lot more than zero right now. Putting somebody in that unit is important and if you're overpriced or that unit could sit there for a while and you can be disappointed in the long term.

[0:19:59.9] WS: So being in your shoes getting to see all of these properties how they're operating, working with so many operators. What has been a few things that have made some operators stand out as far as how they were prepared for something like the coronavirus or something hitting them like this or some type of down turn. Are there anything that you see that stood and said, "Okay, you know I can think of these four operators and they did this or these things?"

[0:20:26.8] BL: I think this all hit us like a sledgehammer really quick to where nobody was really prepared for it. I think that the biggest thing comes back to your underwriting, making sure that you are able to sustain the expenses that you currently have. I mean if your mortgage – look, the people that are getting in trouble are the ones that their mortgage is eating up 70% of their income right now or just to throw out a number, just a huge amount.

So it comes back to buying it correctly man. I mean the people that have the cashflow at the end of the month are the ones that are able to take the 10, 15% decrease in revenue, moving forward but the ones that are requiring every single penny are going to be the ones that are in trouble over the next couple of months.

[0:21:09.1] WS: Brett, what is a way that you all have improved your business recently that we could apply to ours?

[0:21:13.3] BL: Look man, we are always in touch with our residents but just making sure that they are taken care of man. I mean remember that they are going through this also but with that being said, you know, from a renter's standpoint you look at it and say the big bad wolf is coming to collect my rent, whenever realistically, your rental income is going to maintain the property. So whenever somebody comes to you and say, "Well I am not going to pay you because you can evict me."

Don't just turn around and say, "Well great, fine. We are going to evict you as soon as possible." But have the friendly reminder of, "Well, you know we are using your money to maintain the parking lot or to resurface the pool or put a playground in for your children." And bring the humane perspective back to managing and owning these properties.

[0:22:04.0] WS: So what is the one thing if you could pick one thing for you personally that's contributed to your success?

[0:22:09.6] BL: Taking the high road. And look man, I keep coming back to I have a four year old and a two year old right now and — thanks man, I have to tell you my four year old is learning basically all of the stuff that I am telling you on this podcast but I can't stress it enough, just being a good person. Look, stuff is going to happen, it is the real estate industry and not everything is sugar and gumdrops. It is hard and there's bad stuff that happens man but just taking the high road.

Working with your clients, realizing that stuff happens and that you are going to get through it together is not only is going to lead to long term success but you're going to have better days because of it.

[0:22:51.9] WS: And tell us how you like to give back?

[0:22:54.3] BL: How do I like to give back? well I volunteer at the local, one of the local churches that I am involved with, our kids' school, teaching our kids and their friends how to play baseball and stuff like that. Just trying to help the next generation coming up.

[0:23:08.6] WS: Cool, Brett grateful for your time today just great discussion. I appreciate just the focus on the HR side and working with employees and it is such an important part of any business. But you know especially in your all case that flows through to the operator in a big way no doubt about it and congratulations on the 97% collected as well. But tell the listeners how they can get in touch with you and learn more about you all?

[0:23:34.1] BL: Sure, Whitney first of all thank you as well. This was — greatly appreciate you inviting me to be on the show. I look forward to your continued success as well. But you can reach us either at calling my direct line, 972-284-1045 or you can email me directly at bluskey@fairmontmanagement.com. We'd love to help out in any way possible.

[0:23:57.2] WS: Awesome Brett, that's a wrap. Thank you very much.

[0:23:59.6] BL: Thanks man, I appreciated it.

[END OF INTERVIEW]

[0:24:02.2] 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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