

EPISODE 617

[INTRODUCTION]

[0:00:00.0] 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]

[0:00:24.4] WS: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today, our guest is Arleen Garza. Thanks for being on the show, Arleen.

[0:00:33.2] AG: Great to be with you, Whitney, and great to share whatever we've learned throughout this whole COVID-19.

[0:00:40.1] WS: Yes, I know, from your all's experience and track record, we have a lot to learn from you. And so, I'm looking forward to this conversation.

But a little about Arleen in case you haven't heard of her, served as Senior Vice President at the Bank of America, in a career spanning over 20 years. She also co-founded Reep Equity, a vertically integrated multi-family real estate investment firm with her husband Jacob.

Arleen and Jacob had bought, managed and sold over 2,200 units in San Antonio and Houston Texas. In 2019, Reep was named the fastest growing company by the *San Antonio Business Journal*. Well, congratulations on that. That's pretty cool.

[0:01:17.7] AG: Thank you, that was an exciting night and we are glad that our team was there with us because they make it happen.

[0:01:22.8] WS: Yeah, that's awesome. Awesome to enjoy that together as a team and acknowledge their hard work as part of it and I hope we get into that a little bit.

But first, why don't you tell us a little more about just who you are and maybe leaving the corporate America and moving into this full-time into real estate?

[0:01:39.7] AG: Sure, it's a great story. Truly enjoyed my time in corporate America and the banking industry provided a wealth of knowledge and skills that I found that I've been able to utilize in this industry. And my husband had a property management software company that he founded shortly after we were married. And when he sold the company, he said, "You know? We're going to move," and so we moved to San Antonio because it's very landlord friendly and we felt like there were opportunities to buy real estate.

I hadn't really been exposed to real estate other than just underwriting from a lending standpoint at the bank. But – so when he said, "Let's buy real estate," I said, "Hold on there," because I'm a very conservative person by nature. He's more of the salesman. He's a little more on the sales end and risk side, so he convinced me. We took some classes just to – I felt like I needed to educate myself on the industry. And 2012, we bought our first property, a small-24 unit and decided to run it ourselves.

Part of that was to gain the education behind what it takes to run a property. We did every bit of it. And happy to say – I mean, back in that time, we should have bought more properties at 19,000 a door but didn't. But we had an excellent return over 370% on our first property that primarily we owned ourselves with another partner that lent his experience so that we could get the loan.

[0:03:13.3] WS: Nice, that's such a great way to get into the business and learn a lot, right? Especially partnering with somebody else that's more experienced and I recommend that all the time. Like finding that person, even if you got to give part of the deal away and I mean, it's so worth it to have that experience onboard.

[0:03:28.0] AG: It really was, especially that one, it was a true mom and pop owner. Literally, he showed up for our due diligence in his green pickup truck with a suitcase full of paper. We asked

for the leases and he opened up the suitcase and there they were. It was great to have somebody that had done it before and I would highly recommend partnering with somebody if you're new.

[0:03:51.7] WS: Nice. It sounds like there was a very organized set of leases there, right?

[0:03:57.0] AG: Yeah, it was interesting. But the great thing about that property is it had great bones. And so, we also knew that it was run very well below market in terms of rent, so we knew the upside was there, it was just a matter of making it happen.

[0:04:10.7] WS: Okay, you know, I'd love to dive into that but I feel like I want to move in to why, I guess you all decided to have your own in house management, you know, be vertically integrated and you know, was that because of the first deal or was it a few deals later until you all really made that decision or did you use professional management for a while, just explain a little bit of that to us?

[0:04:31.3] AG: Sure. Well, our first three properties, we bought the 24-unit, we bought a 28-unit around the corner, really thinking that we gained efficiencies of scale, we'd have – be able to hire a manager to run both. And then we bought an 88-unit and 143-unit so we kind of progressively got a little bit bigger so we managed all those four properties on our own.

And then through a mentor that we met, it was recommended, "You guys are spending so much time on the business that you can't really grow," and we hadn't run very fast. It was enough for us so we decided to go third-party in later part of 2014. And we did try our third-party management, a couple of companies and I just want to be clear to say, there are some excellent third-party management companies out there. We just found that we knew a lot.

And so, it was tough to wait a month to find out what had happened at the properties. We were very accustomed to knowing daily whether occupancy was moving up, where collections were, et cetera. We decided in March of 2017 to bring the properties back in-house and part of that was, we had reached a certain level of scale. We had over a thousand of units at that time and we felt like we could hire the right team below us to run the day to day and therefore we could still focus on acquisitions along with running a management company.

[0:06:00.0] WS: Nice, okay. You tried a few other management companies and I can understand that and relate. We did some self-managing when we first got into real estate. But then all the larger stuff has been third-party. But I can't imagine trying to do all that myself. You know, especially now. But then can see though how it would keep us from growing. I mean, I'd be so focused on all the day to day stuff and making sure all that's done and it will be hard for me, but it sounds like you all have been successful building really your own management team.

And so, you know, at a thousand units, you know, you've got the scale now to start hiring people and bringing in that in. Can you elaborate a little bit on that transition and maybe some points that maybe we need to know if you know, if the listener or some of them are at 800,1000,1200 units, and they're contemplating bringing that in-house. What are some things that you all learned that we need to know?

[0:06:47.1] AG: Sure, that's a very good question. For us, it was finding that right regional, at the time, we hired a regional, we felt like that was enough for the properties that we had. Finding that person and you know, you're competing with all the big guys, you're competing with the Greystars and the [inaudible 0:07:04] and the big companies for talent.

We felt like we had to distinguish ourselves. What we offered was a culture that we felt was conducive to happy employees. And sounds very cliché, but that really has been a big part of our focus is having an environment where people have the ability to contribute and contribute at a high level to what we were doing.

Hiring the regional was key, the other piece was accounting. I think that's the element that scares a lot of owners the most is having the accounting team in place that can process all your payables, project your cashflow et cetera. That was a big part of the two big pieces that we initially hired.

And then we still kept pieces of the company in terms of running it and we ran it that way. And then Jacob and I, my husband and I were both kind of overlapping a lot. And so, for any couples that are out there doing this together, I would just recommend find your unique abilities. I had an

opportunity to go through strategic coach and one of the first aha moments was we're duplicating our efforts.

I came back from one of the meetings in Chicago and I said, "I'm going to do acquisitions because that's my background and how about you do operations?" And it's worked out beautifully. He loves it and I get to step in and still contribute on the financial side of it, but I'm happier doing acquisitions on my end. It's been a really good thing.

[0:08:44.5] WS: I like that, I think a lot of times, whether your husband and wife or whether you're just two business partners, there's probably items that you don't realize you're both working on and it doesn't have to be that way, right? You could free up some time.

[0:08:57.9] AG: I agree, and there are lots of things that you hate doing. I mean, there are those things that you're better at and make you happier. And so, once we determined those things, it's just made life much better because we're with each other 24/7 so it's important to have that balance.

[0:09:14.7] WS: True. Okay, moving forward a little bit, you all have had in-house management now for a few years, you know, what are some things now that you know now that you wish you had known, say, three, four years ago when you were getting this started?

[0:09:29.5] AG: You know, I think the thing that I wished we had done more was automate a lot of processes. We've done that. Luckily, six months ago, we decided to have every property do all the payments online. And so, we rolled property by property, ended that process and it's proven to be of immense value now when residents weren't coming into the office to make payments and could literally do that via ACH or affinity card through a vendor, HCB, Walmart, et cetera and so, that was a huge thing for us, in addition to developing a set of key performance indicators.

I think when you first start out as an owner, you're busy with the operations and then you realize there's some things that I really need to track in order to know where the business is going and so developing those and having an automated process for gathering the data through the soft-

ware system and then others that we do just through our asset manager has proven to be really important.

[0:10:34.9] WS: Could you elaborate a little bit on how you have automated the process of gathering the information for your KPIs?

[0:10:43.1] AG: What we've done is we've really worked in partnership with ResMan, who provides our property management software and we looked at – they actually had a daily report that provided a lot of information.

And so, one key thing was to meet with their operations team to understand where does the data come from in your system? And is it on a daily basis updated, is it you know, behind a day, your renewals, all of that data? And then we said, "Okay, what does the system provide us and then what are some additional things that we need to pull just from our own processes?"

It's been a combination of those two things to make sure that we are tracking our move-ins, move outs. And the big one is our lease trade up report. Are your numbers going up or are they going down, what are your property teams doing? And then establishing the processes where our asset managers really on a weekly basis determining where is the pricing? We aren't using the rent optimizer software, it's probably something we will do in the future. But the dollars coming in are huge, we can monitor expenses and we do an excellent job of keeping those on the low end but the income really drives a lot of it.

[0:12:01.0] AG: Sure.

[0:12:01.6] WS: Any other KPIs that other than the obvious ones that you all found have been very valuable for you to track?

[0:12:07.8] AG: Well, I think for us, I mean, on the collection side, is a big piece of it because you can get data down to your other income versus your rental income and that's been big. But for us, it's been that unit availabilities. How many units are available of each unit type at any time? And setting a goal of what percentage of your units need to be available because you can't lease them if they're not ready to be leased.

And so, having that number is important, along with the pricing of those units, upgraded or standard units et cetera. Those have been big things for us.

[0:12:48.9] WS: Let's talk a little bit about how being vertically integrated, helped you all through this pandemic? What that looked like and how you all handled that? Maybe being vertically integrated versus if you hadn't been.

[0:13:01.3] AG: Again, as I mentioned before, you know, third-party is great, however, your data isn't arriving very quickly, you know, you might – at the end of the month, when you receive your financials, then react to what has happened. What we found is, from the very beginning, when the year started, there was all the talk of you know, real estate will soften, et cetera. We realized that 2020 was going to be the year of operations and it has proven to be so in a big way.

When the news of the virus and what was going to be happening and then the shelter-in-place, directives were coming from our state and local, and federal government, we said, "Well, how are we going to do this? What is it going to mean to us?" The big key was that we were deemed to be an essential business, which meant that we could stay open.

Now, what we found is that we needed to have a plan to stay open. Which sounds silly, right? I mean why do we need to plan to be open. But in this environment, we found that we really needed to be. So, our Vice-President of Operations developed training for each member of the team and literally she and her team went to every property to train everyone on the safe way to do work orders, to interact with our folks in our leasing offices, etcetera. So that was a big thing.

And then the second piece was for our maintenance teams, how are they going to do service orders? How are they going to be able to do that in a safe way? So again, the training on how to clean their tools, all the PPE, the personal protective equipment, how to utilize all of that was important. And for us, we know that people will not renew their leases if work orders haven't been done. I mean that's what makes people the angriest, I think, at our properties.

So, for us, it was important that we not only fix emergency items, which a lot of our competitors were doing just emergencies, but any work order that we could get done. And so, for us, we've

had over 1,500 work orders completed since COVID started. And we hear it from our team, we hear it from our residents but the key was making the employees feel safe. Giving them and training and giving them the equipment they needed to feel safe going into a unit or interacting with a resident.

Now, in addition, to that we also modified the leasing offices themselves. So, we went in and put in the acrylic shields in front of the leasing desks with a little bank window where you've got the little box cut out where you can slide your paperwork through and that was very well received by our team. They felt like that was going to help them in staying safe in this environment while taking care of residents' needs. So that was a big one.

We put signage at the entrance of our leasing office that said, "This is how we are going to take care of your needs but it will be done in a very different way. But we still want to take care of you." We marked off our leasing offices. We put the little social distancing feet that you can vinyl stickons that you can put in. So, people knew where it was safe to stand.

But what we found is that the feedback we got from that was, "Thank you for doing that." I mean our residents care about their safety just as much as our employees do. So, the other thing that initially when they did it I wasn't quite sure about was removing the couches and the chairs from the leasing offices because again, that encourages people to come and sit and sometimes it is not the six feet or the social distance that we wanted.

So, it was okay, it's been okay and again, it told our residents we care about your safety and more importantly, it told our team members we want you to stay safe. We appreciate that you are still coming to work every day and we are going to do our best to keep you safe.

[0:17:09.3] WS: So much about communication isn't it?

[0:17:11.4] AG: It really is. Even with the residents, I mean that has been the biggest thing that we have seen is everybody was worried about collections and what is April going to look like? And then what is May going to look like? And now we are into June. And a lot of that I think has been very successful for us because we have talked to our residents. We reached out to every single one of them and let them know that we care about them too.

We did grocery bags for our residents. We had an assistant manager that came in and he said, “You know I feel really good. I am doing my job and I am collecting the rents.” He said, “But I’ve had a couple of people come in that said I am going to process my payment online for you, but I may not have money for groceries,” and that just broke my heart. I thought you know, “Wow, they’re doing everything they can.”

So, my husband and I had groceries purchased and our corporate team bagged all the groceries and we delivered them to the property and then they delivered them to the residents and just to see those smiling faces and the relief was a big one, a big one for us.

[0:18:21.0] WS: Wow. I guess and you can answer this probably a little better than I can at the moment but think about that compared if you do have a third-party. I just want to – you know we work with third party it’s been great but ultimately, depending on that relationship you may not have been able to provide as good as service.

[0:18:36.8] AG: That’s correct. I mean what it would have been was communicating to them, “Hey, this is something we want to do,” and then they would have to determine how it would get done. In our case, we just did it. You know the decision was made on a Wednesday to do it and by Friday the bags were delivered to residents. And so, we felt like we could move a lot faster than had we been in another position.

[0:19:01.1] WS: I like how you laid out too, okay first we developed a plan and then we started training everybody because I think that shows you care, shows that you are teaching them how to be safe. I mean whether they’re at the leasing office or whether they’re the maintenance man, they are all crucial and we need them to know how to be safe and still operate right?

[0:19:17.1] AG: Yeah and our most recent one, we call it Reep cares, is we actually had masks made with each of the properties’ logos on them and we again, did the snag bag, included the mask in there and it does two things. One, it lets the resident know we care about you and we appreciate that you help us be safe, but it also promotes the property. So, as they are wearing them to the grocery store or wherever they may be going we had people say, “Well, where did

you get that or your property does that for you?" So, it's been a very good thing and a win-win for us.

[0:19:55.6] WS: Managing a team of 50 people or so I know you had mentioned what is a key that we need to know as far as keeping a great environmental culture amongst that many employees?

[0:20:06.1] AG: I think it is communication but the other thing is promoting respect. I think one of the things we get every meeting, we had our first company meeting since COVID started a week ago and our message was the same. It is about respecting each other and respect our residents. And what respect means is I personally ask them to go around the room and said, "How many of you commit to helping to anybody on this team whether they are at your property or another property?" And every single hand went up.

So, I think they know that if they get in a bind or they have 10 move-ins by Friday that we'll send resources to help them and those resources are more than willing to go even though it is not their property. So, truly building that teamwork and that culture of share your ideas. We don't have all the answers. You guys are out there on the frontlines every day. Tell us what you are seeing. Tell us what we can do better and that has been a huge, huge thing in our company.

[0:21:08.1] WS: Arleen, what's been the hardest part of this syndication business or journey for you?

[0:21:12.2] AG: I think initially it was the fear of raising capital, right? I think so many new syndicators go, "How am I going to raise that money?" But it is about building that reputation and that brand, which really comes down to us as individuals. And communicating with people and communicating with investors. And I will say that that's the other piece that we have focused on during this situation was when we amped up our communication.

So, whereas before, we were sending out monthly reports. We have been doing weekly videos, weekly emails, we ran a stress test on every single property, looking at where the cash is. Cash coming in, what if we had a decline of 20 to 30% in our revenue? How far could we go before we would need to look at other resources? And I think that provided some peace to our in-

vestors to know that we are watching collections, we are letting them know every week how collections are looking.

And we are also telling them about all of the things we are doing at the property and that has been very, very well received. So, communication again is the top thing and it is communicating with your investors, your potential investors, even if you don't have a deal going on.

[0:22:30.1] WS: What is a way that you have all recently improved your business that we haven't talked about that we could also apply to ours?

[0:22:35.2] AG: Well, I would say that the big thing is looking at the acquisitions process also. I think you cannot make the decision in a vacuum sitting here myself and our acquisitions manager. We loop in the whole team. They are a part of we do our own due diligence, we have a construction supervisor in-house our team and that has saved us tons and tons of money.

We had a fence project for example that we have bid out. Externally it would have cost us almost a 100,000 to do the fence. We did it in-house for about \$48,000. So, having the right members at the team and looking at the big picture, but involving them at the acquisition stage. So, when we go to our property, our construction supervisor goes, our VP of operations goes, our regional goes, everybody provides their input and we build the acquisitions plan as a team versus just myself and the acquisitions manager putting together the numbers.

It has to be a viable thing. And then the end, the on-site team has to deliver the numbers. So, they need to buy into the process from the very, very beginning.

[0:23:46.3] WS: What is your best source for finding new investors?

[0:23:49.3] AG: Well, real estate groups and online actually, we have an investor relations coordinator that joined us about six months ago. And so, her whole focus is answering questions. I mean an email comes in from an investor, she's got an answer to them that day if not that day the next day. And then other is our online presence just like our properties. We want to make sure that our websites our good, we focus on making sure that our website provides information.

We have done podcasts just like you do, not as grandiose. But we have done podcasts for our investors on the different topics that we think will help them stay educated because the better educated they are, the better passive investor they are. They understand it. They don't have as many questions and they feel more comfortable with the whole investing process.

[0:24:43.5] WS: What's the number one thing that's contributed to your success?

[0:24:46.4] AG: I think the number one thing is you got to like people. You know if you don't like people, don't get into this business. And I think really having a good way to talk to anybody whether that is our maintenance guy or a half a million-dollar investor, everybody wants to have the sense that they can trust you. And I think building that trust has helped us quite a bit both with our team and with our investors that have joined us on this journey.

[0:25:15.8] WS: How do you like to give back?

[0:25:17.3] AG: I like to give back well one, giving back as I have shown through the groceries, to the donations to the industry. But the other thing is sharing our knowledge. I have phone calls from people that we meet, potential investors or potential syndicators who will call and ask me questions whether it is about their underwriting, you know, "Take a look at this and can you tweak it? Is there anything else I should be looking at?"

So, what I believe strongly in is somebody helped us get started with our very first property that sharing their knowledge, sharing their experience. And I believe it makes sense to pay it forward and I don't mind taking the phone calls or the emails and sharing what I know with anybody because it is a team sport and it takes a village to buy these 20, 30, \$40 million properties.

[0:26:10.4] WS: For sure. Well, Arleen, I'm grateful for your time. It's been a great show. I have enjoyed getting to know you better and understand more about your all's business. Tell the listeners how they can get in touch with you and learn more about you and your website.

[0:26:23.5] AG: Great, you can reach us at reepequity.com. The email is invest@reepequity.com. Or my personal email, arleen@arleengarza.com.

[0:26:39.7] WS: Awesome Arleen, that's a wrap. Thank you very much.

[0:26:42.5] AG: Thank you, Whitney. Have a great day.

[END OF INTERVIEW]

[0:26:44.0] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

Subscribe too so you can get the latest episodes. Lastly, I want to keep you updated so head over to LifeBridgeCapital.com and sign up for the newsletter. If you are interested in partnering with me, sign up on the contact us page so you can talk to me directly. Have a blessed day and I will talk to you tomorrow.

[OUTRO]

[0:27:24.8] 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 for free material and videos to further your success.

[END]