

EPISODE 631

[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]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Mike Ballard. Thanks for being on the show, Mike.

[00:00:32] MB: Great to be here. Thank you.

[00:00:35] WS: Mike helps owners become property managers. His firm, Ascent Multifamily, provides back-office services, accounting, bill paying, reconciliation, financial statement preparation, human resources, and payroll for more than 40,000 units all across the country. He's worked in the real estate and accounting industry for almost 30 years.

Mike, I'm pleased to meet you and have you on the show, just – your business, I can't believe I haven't heard of this before, especially 40,000 units, and the way you all have grown, and just this service that you're providing. I can just see that being so beneficial to so many people, but let's just jump right in. Give us a little more about who you are and how the firm got into business?

[00:01:19] MB: Okay. The genesis of the firm started back in 1990 when my partner and I, we were both selling at a national accounting firm, accounting software. We were supporting accounting software for Laventhol and Horwath, which was one of the nation's largest accounting firms for the real estate industry. He then got hired to work at a property

management company, and that company was Realty Management Inc.

Realty Management grew over the next 18 years to 27,000 units, and they had properties all over the country that they managed. They were a third-party management company. In 2008, they sold to Riverstone, which is now Greystar. They had a noncompete. My partner did. I was off doing other things at this time. My partner had a noncompete but he was close to the people at RealPage. He was on the advisory board, he was the chairman of the client advisory board for RealPage. RealPage's CEO said, "Hey, I saw Riverstone bought your firm. Anything I can do to help you out? You really know your stuff. How about you working on some of our clients?"

RealPage started referring us business. They hired basically our whole accounting group, moved them in a suite right across the hall from where they used to be located, and they started doing outsourced accounting. From 2008 until now, we've grown. We created a set multifamily accounting about five years ago and we had probably about 6,000 units five years ago. Today, we're not over 40,000 yet but we're almost to 40,000.

[00:03:11] WS: That's a lot of growth in just the last few years. Is there anything specifically that you would – on the business aspect, I want to get into more about exactly what your firm does and how you all help people on the management side, because I think it's incredible. But what would you contribute that kind of exponential growth to?

[00:03:27] MB: I think we really started focusing on communicating to our clients that we wanted to grow. We started going to some conferences and speaking at those and explaining what we did. It was like, "Oh, I wish I had known about you five years ago or two years ago," or this type of thing. We serve two primary clients. The first one is the owner, who's kind of like a lot of your listeners here, right? They started syndicating, they've got a couple properties, and they're paying a 3% management fee. They get a level of sophistication and realize, "Well, my properties are paying the payroll of everybody on the property. What do I get for this 3% management fee?" Or the 4% management fee or whatever it is.

Then they say, "I seem to care more about this property sometimes than this other person does. She has like five other clients besides me. I think I want to try this on my own." Then they try it on their own and they're really good at the property-facing stuff, but the back of the house just

overwhelms them. Now, that's not their core business. Then they start googling and then they start finding us. We started putting in a lot of content about what we do online, and people just started finding out about us.

[00:04:55] WS: Okay. Wow! Let's jump into that a little bit about those clients that you're working with and what typical size of a portfolio will they have? Let's jump in a little bit to – I mean, making that transition I can imagine – I mean, it's a big deal to say, "Okay, I'm not using our product management team anymore, and we're going to start self-managing." It's a big decision, no doubt about it, a big undertaking.

Who are they typically or maybe like how many units? How long have they been in business? Is this somebody with a few duplexes? Is it somebody with a thousand units or somewhere in between? Then let's kind of go into that process a little bit.

[00:05:32] MB: Okay. Our smallest clients, we have a few that are under 100 units. Our largest client has 7,000 units. Our average client has about 1,000 units and 6 properties. We have clients smattered – it's kind of evenly distributed all the way through. We've got clients with 4,000 units, 3,000 units, that type of thing.

But typically, like one of our most recent clients in Southern California, they had been talking to us for two years. They've got 3,000 units, and they knew that they needed to make a change. They wanted that control. They wanted to be able to do that. They've got the resources and they realized it's time. Then they just started working with us and transitioning, getting the software. They have a bias to use Yardi, which is fine. We have probably clients with more than 10,000 units on Yardi. They got their own platform of Yardi, instead of using the different property managers. They were probably using three different property managers in different states.

The one thing about this, it doesn't work for everybody. There's times when it hasn't worked, and let me give you one example. We had a client that had a few properties in like six states. They hired a regional or a VP to oversee all the property managers, and she ended up being on the road all the time. After a little while, she quit, and then they had trouble replacing somebody. They had trouble replacing that person, right? If all your properties are geographically dispersed, it may not work, right? If they're all in one location, it's helpful because you've got to

be there. You've got to visit the site.

We've got a great client on the East Coast, had a couple thousand units, and all his properties were within a 20-minute drive of each other, right? He calculated he had – let's say he had 2,200 units, and his average rents for 1,400 a month, right? He had 95% occupancy and he was paying a little over 3%. Some of the properties were 3%. Some of the properties were 3.5%. He was paying over 100,000 a month in a management fee, right? He said, "What am I getting for that? I've got a regional who has other clients besides me. She probably makes 10,000 a month. Where does that other 90,000 a month go to? It goes to preparing the accounting reports, doing some marketing. I think I can do that better."

He ended up hiring his own VP of operations. He hired us and he saved about half. He saved 50,000 a month. That's 600,000 a year. That's real money.

[00:08:55] WS: That is a lot of money. Yeah, that's a big deal. No doubt about it. How do we calculate? Say, working with a company like yours, do you all do percentage basis or per unit or what does that look like?

[00:09:08] MB: We don't because whether you have a 40-unit property or a 400-unit property, you still have one landscape bill. To us, it's the same amount of time to process that, whether the fee is \$200 or \$2,000 a month. We have kind of a base fee plus, but just for some ranges, for a 100-unit property, it's \$825 a month. For a 200-unit property, it's 1,150 a month, right? For a 300-unit property, it's over 1,400 a month. It gets a little more economical the more units that you have.

For some clients, their average fees are about 450 a unit, our largest clients. For some – we have a client with a large portfolio of properties that are 10 to 40 units, and he's paying an average of probably 10 to 20 dollars a unit.

[00:10:05] WS: Okay. So let's jump into a few of the things that you're helping these clients with. Like just to work with you, how do our operations look different and just the communication? Or the things, like we would normally have weekly calls about KPIs or any indicators that we're tracking, things like that. I guess fill us in a little bit about how that process

takes place, to then working – because I guess working with you, if I can get this right, I'm really bringing in the property management in-house into our own company, right? Then I'm creating maybe my own property management group to manage our team, but then we're really hiring you all to help us with all the backend stuff, like you talked about, everybody dreads, right? Or it's usually a mess and hiring you all to really keep that clean. Is that accurate?

[00:10:51] MB: Exactly. Typically, our client uses one of the major software programs, and we're agnostic. They all serve a purpose, they all have their place in the market, and you've got to figure out what's right for you, whether it's RealPage, Yardi, ResMan, Entrata, Buildium, any of the packages. Typically, the property looks at the invoice and puts the invoice in the system, right? They are the ones that know whether the Home Depot supplies were delivered, whether this was delivered, that type of thing. They put it in. We check it and every Friday we put together a list of items to be paid and we send it to the client. They look at those items to be paid and they say, "Yes, I agree with this, this, this. Maybe we hold off on this guy. I want him to jump through another hoop for whatever reason and I feel I need to pay this guy." We say great.

You send that. You sent it back to us let's say Friday or Monday, and we get it paid a few days later. We do that every week. Then during the middle of the week, we're also talking about different things as well. We are answering questions just like for the property manager, just like we're at the home office, but we just happen to be based in Las Vegas and not in their town, right? Then at the – however we process payroll and however the client normally likes to process payroll, we handle all the payroll. We don't have to. Half of our clients don't use this for payroll. They use ADP or Paychex or somebody else. They don't have to use our payroll services. But we have our own health insurance.

We kind of created the HR services because we had someone who was a VP at a large management company. We found an owner that wanted to give her some properties, and she had to replace all of the benefits that the big company had. She's like, "Oh, this is going to be a nightmare." We had it all arranged. We knew these problems ahead of time. We said, "Look, we've got a similar benefit package with health insurance, vision, dental, 401(k), other supplemental life insurance, and other things." We offer those for them to offer to all the property people. Oftentimes, if it's important enough, we'll fly out and register everybody. Get them all signed in.

[00:13:20] WS: When you say everybody, you mean like the employees of each property or something like that.

[00:13:23] MB: Exactly, and we have someone who is Spanish, a native Spanish speaker. She'll come out and she'll answer all the questions if you've got a large part of your – in certain parts of the country, a large portion of the workers are Hispanic, and so we have people that'll help in their native language as well.

[00:13:45] WS: What's some of the biggest roadblocks in that transition? Is that hiring employees at a property, or learning how to actually take over all the day-to-day management? What's some of the difficulties maybe some of the owners have? Then we'll talk about some of the – how that transitions into maybe their businesses operating better down the road.

[00:14:05] MB: I think part of that is they've got to treat the property as its own separate business. We've had a couple clients and, where the relationship doesn't work for us and probably doesn't work for them. We had one client who had a few properties and gave all of his employees individual credit cards, and they would all charge to all of the properties on those credit cards, right? Then he would also take some checks and use them for some personal use. We get – as it's coming near the end of the month, we'd say, "Okay, we got these three credit card bills, and there's all kinds of Home Depot and other stuff. Can somebody please apply them to the property?" They said, "Sure, we'll get to it." Then they didn't, and we would remind them.

Then they would say, "Just prorate them by the units." We said, "Okay, but do you have all the same investors in all those properties?" "No." It's probably not a good thing. "We'll do this as one month but you shouldn't do that another month," right? Then we said, "By the way, there is this bill for the Jaguar made out to Jaguar Financial Services. You really want to charge that to a property?" "Yeah, just hide it in there under miscellaneous." You can't do that, right? You got to want to do this the right way. That's one of the things.

[00:15:43] WS: That's a bigger issue.

[00:15:44] MB: Yeah. Yet, I don't know. We see a few things consistently that surprise us. Oftentimes too, people come to us because they did get behind, right? And they've got to give us the time – we're only human too, and they expect us to get caught up for eight months in one month, and they don't expect to pay anything more than the setup fee. We're like, "None of the things balance, right? We got to kind of do reconciliations for eight months before we can give you" – be tolerant of us or whomever you choose to use. If you've gotten yourself behind, just in that regard.

The other thing, one other area where sometimes our relationships didn't succeed with our clients, once we close out a month, we like to have the month closed. Don't undo a prior month to change something and not tell us, right? We've had a couple clients now that, you know, "We'll close the month. We'll issue the financial statements." They'll send them to everybody. Then a month later, the in-house people are changing, undoing reconciliation and changing a few things. Then nothing ties from month-to-month.

Let us do our job, right? Let us work with you and train you. Again, we've worked like Lennar, the big homebuilder? When they got in the multifamily business, they hired us to set them up. For the first 18 months, we did their first eight properties.

[00:17:22] WS: Like all the backend, all the HR, all the accounting, all that?

[00:17:25] MB: Yeah. I think they handled their own HR because they had that set up for their home-building side of the company, but we opened their bank accounts. They used our chart of accounts, our policies and procedures, and we paid all their bills every week. We did their financial statements. We did all that. We did their month-end journal entries. We've worked with the big guys. We know how to do it right for them. We do institutional quality financial statements at a price that a small business owner can afford.

[00:17:53] WS: When you say like you all handle human resources, say, for other operators, say, what does that look like to do that for somebody like myself?

[00:18:01] MB: That's a great question. Thanks. It's not just payroll, though it is payroll, and all the benefits and that type of thing. But it's also, "Hey, Ascent. I just lost my property manager at

this property in Tulsa, Oklahoma, and we got to get that person replaced.” So then we will post on Craigslist, post on Indeed, ZipRecruiter, all these other places. We’ll get 50 to 70 resumes. We’ll send you. We’ll give you the option. You want 5, 10, or 15 resumes to look at? How many interviews do you want to have? They’ll often say, “Hey, I just want to interview two or three people. Send me 5 resumes or 10 resumes.”

We know this business. The person over at HR, she's been in the business. She started as a leasing agent. Then moved to an assistant property manager, property manager, and then in the corporate office, and has been doing HR now for 10 years. She’ll go and she'll select the best 10, let's say, and send them to the client. He’ll pick out the best two or three. They’ll say, “I like Susie, Joe, and Danny.”

Then Amy says, “Great. I’ll set up appointments for you. When are you going to be there?” He’ll say “Tuesday.” Great. “You want the afternoon or the morning?” Afternoon. “Great. I’ll set up somebody at 2:00, 3:00, and 4:00.” Then he’ll get an email saying, “Joe’s at 2:00, Danny’s at 3:00, and Susie’s at 4:00.” Then he’ll pick whoever he likes, he or she likes. Then they’ll call us back and say, “I like Susie,” and we’ll say, “Great.” Then we handle checking references. We handle them getting their drug tests. We handle them – we do the criminal background check and we take care of all that. Then we’ll even process them through the system.

The other part of the HR business we do is kind of the worker's comp or the issues where we try to take the headaches off of the owner and assume them, right? We’ve had a client that had a challenging employee that got pregnant and became more challenging, right? The person started doing things that are worthy of being fired. But because she was pregnant, they worried about it. But at the end, we decided it was best to – this person should be laid off or let go. She filed a claim against us, an EEOC claim, right? We handle that, so the owner didn't have to. We’ve got three people in our HR group that handle those types of claims, workers comp claims.

[00:20:32] WS: I can just see this being a very – I mean, your group being a very useful resource when we – I mean, my business partner and I have talked about bringing management at some point in the future in-house, or we’ve been trying to calculate, is that the best use for our time? Is that something we want to take over or not? It’s very interesting. I didn’t even know

your service existed, honestly, until today. It's very interesting to think about that and just having the help of people who understand that backend stuff very well, and to help us create that successful management team. That's very interesting, Mike.

I want to ask you a few final questions before we run out of time. But on the business front, is there a way that you've recently improved your business that we could apply to ours?

[00:21:20] MB: Boy, I think, one of the things we did recently, one of our partners took a year off. He is our founder, our managing partner, and he took a year in South America to do service. When he came back, he said, "Before you assign me anything, I kind of want to assess the profitability of every part of our business, especially every account and every client relationship." He just found a few metrics, a few KPIs to be able to benchmark all the clients. We found some were less profitable and some are more profitable. We had been doing the same thing for 12 years.

Several of – we've got – our senior staff probably have worked together, either in the management company or in doing outsourced accounting, for 15 years or more. We probably got six or eight people and we've been doing the same thing. We started looking at how can we change this or that, and we just made a few little changes in the company, and it really helped our company, so sometimes just doing a self-evaluation.

I mean, we've been hired actually to do this kind of thing. We've gone into a big firm in Dallas or a big firm in Los Angeles where they ask us to just benchmark their back office, right? We'll come in and do – We'll send out surveys to all the people in the back office, ask them about their jobs and those types of things. Then we'll interview a few key people. Then in person, we flew in one day and did that. Then we came back two weeks later and said, "Here's 51 recommendations, and here's seven things that you really had to change that will make a huge difference in the first three months."

I think whether you do it with a third party like us, who sees a lot of different firms of a lot of different shapes and sizes in different parts of the country, or you just do it yourself, pull yourself out of the weeds and do an honest assessment. That was good for us. We made some changes as a result.

[00:23:38] WS: What is that the number one thing that's contributed to your success?

[00:23:42] MB: Good people, good people. We try to treat our people really well. We offer an excellent benefit package to our bookkeepers. I think Scott, our managing partner, has created a very good culture of supporting this. Good people like to work for people like that. He's trusting. He's super knowledgeable but he doesn't force himself on people. We've advised, again, some of the biggest companies in the country, and they love talking to Scott because he really knows his stuff. The rest of us are pretty good too, but I think our people. We create an environment where we attract quality people.

[00:24:23] WS: How do you like to give back?

[00:24:27] MB: We give back a couple different ways. I've got another business partner who has an autistic child. We try to give back in that regard. I personally serve on the board of a company called Mentors International, and we help raise the standard of living for peoples in third world countries and Mexico and Cambodia and Nepal, that type of thing, by teaching them life skills, and to help in those regards. I think we all try to give back. I know Scott, like I said, took a year off to do service in South America for his church. We all give back in different ways.

[00:25:13] WS: Mike, this is very educational show for myself, or just helping me like take the blinders off a little bit, or open my mind a little bit to – maybe it's more possible than I had imagined, us taking over management at some point in the future. Hiring a group like yourself could help us greatly, I mean, in not being such a big hurdle, right? Not such a big deal or big undertaking, because completing that whole aspect of property management business is a big deal, and that it's done correctly. It's such an important aspect of our business and to know that, okay, if we were going to take it over that we can bring in a group like yours that can help us with the backend stuff and know that that stuff is going to be done well. It's going to help us to have more assurance that we can make it a success.

Thank you for sharing that, and I look forward to get to know you better personally. Tell the listeners how they can get in touch with you and learn more about you.

[00:26:06] MB: Great. First, we have plenty of resources on budgeting, on a bunch of different parts of the business on our website, multifamilyaccounting.com. Just go there. You'll see all kinds of resources, especially there's a resources menu option, and it has, "I want to start my own firm. What are the things I need to think about?" Or, "I need to learn about budgeting better," or, "I want to learn about how to get energy tax credits or those other types of tax credits." There.

Then if they just fill out a form on the website, it comes straight to my email. Then I normally can call them back typically within half a day, especially if they just suggest what time of day would be best to call. That's the best way to get a hold of us.

[END OF INTERVIEW]

[00:26:54] 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're 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]

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