

EPISODE 723

[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 Lee Kiser, thanks for being on the show Lee.

[0:00:32.5] LK: Thanks Whitney.

[0:00:34.0] WS: Lee is a principle and cofounder of Kiser Group, Chicago's leading multi-family brokerage firm. Kiser Group celebrated its 15th year anniversary earlier this year, Lee has brokered more than four billion dollars in multi-family transactions in his career.

Lee, thank you so much for your time, grateful to have you on the show, you are such a big part of this business, I mean, you're somebody that everybody that's listening needs to understand how to work with and what your role is, what your job is because hopefully, we are calling you or somebody in your position at some time soon, right? Working with somebody like yourself. So we can buy a property but welcome again, give the listeners a little more about who you are and maybe what you do in this business and let's jump in.

[0:01:18.5] LK: Sure, thanks for having me on, like you said before, my company started 15 years ago, been in the business for 23 years. I've only done multi-family brokerage my whole career so over a thousand transactions and my role is a facilitator, it's a consultant, an advisor to both the seller and the buyer so I'm usually, my company or myself, we're hired by an owner

of a property to value it, let them know what we anticipate the market value would be and then we are hired to market that, promote it, collect offers from perspective purchasers and advise the seller on the feasibility of a sale.

[0:02:02.9] WS: Nice, well you know, let's jump into that a little bit, just help the listener, sometimes also, especially when someone's just getting into the business, the first few conversations with someone like yourself is kind of daunting, right? I'm afraid I'm going to say the wrong thing, I want to build this relationship and it be a good relationship but I'm afraid that I won't be taken seriously or maybe I don't have enough experience, all those things.

Maybe you could just speak to that a little bit, you know, if someone's calling you, they're just getting into this business, things you're looking for in that conversation as a potential buyer. I know you're working with sellers and I want to talk about that next but are there things or ways that you could guide that new potential buyer a little bit in those conversations with someone like yourself?

[0:02:42.5] LK: Sure. I think it's important, well, be prepared for questions like sources of capital, meaning, the broker may be as bold as they just say, do you have enough cash to buy this. Usually, someone a little bit more tactful would ask about the capital you have available for an acquisition and what that would look like. Typically, the broker's going to be, if you're new to the business, the broker's going to be asking qualifying questions.

They're basically seeking some insight to your credibility as an investor as an investor. I think that it is critical, especially if you're a syndicator and you will be going out perhaps once you have identified a target to raise the capital for that acquisition that you disclose that and it's important for the broker to understand that professional broker will not be disqualifying of that but rather, would be embracing of that and would probably seek to understand your plans better.

And, could advise whether or not the subject property or the particular seller client is a good match for that kind of process. But, they'll ask a lot of questions about your qualifications as an investor, they'll probably also start probing your experience with the property type, do you understand mechanical structures in the building, do you understand the architecture and the

repairs needed, et cetera. This is all going toward u understanding who you are as an investor and a probability that the property you're currently analyzing is a match.

[0:04:23.4] WS: Nice, that should be expected for sure, right? I mean, that broker or someone like yourself is going to be asking those qualifying questions. Any other questions that that individual should be prepared for and maybe even before there's a deal in mind, maybe we're just reaching out to say, "Hey Lee, I saw you on Loopnet and you seem like a very active broker and someone I wanted to connect to." What should they be prepared for even if there's not a specific property of mine, just to begin the relationship?

[0:04:52.4] LK: I think the more you can explain to a broker, someone who specializes in the product type you're interested in purchasing, and I think we're talking about multi-family here. The more you can disclose or comfortable with, depending on the person with whom you're speaking of course.

Goals, business plan, target range of acquisition, general areas you'd be interested in, and mainly professing what you don't know and I think the more forthcoming you are with your spectrum of knowledge with where you are in your trajectory. A good broker will help fill in those gaps for you, can actually be instrumental in helping you build a plan with a higher probability effectuating it.

[0:05:41.4] WS: You got to step out and have some of those conversations, right? Even if the first one is not very successful, right?

[0:05:47.8] LK: It's a double edged sword for a buyer because most times, that broker isn't being a seller's representative and is hired to achieve a certain end but a good broker is not a sales person but like I said in the beginning, a facilitator, they advise, they consult, every single client we speak with is ultimately going to be selling the property that they are buying and so, it's more of a role where you are an investment advisor, not a salesperson if you're a true professional.

Those who have some track record and credibility in my industry can pretty quickly sift through someone who is serious about investing and I actually have very much enjoyed my journey with

many clients from their very first properties when I know a whole lot more than they did to years later. I'm learning all kinds of things from these people and what they've experienced. And it's a great relationship over time so I would say, my advice is, if you feel you have the right person, be as forthcoming as possible and trust in some guidance that this person can give you.

[0:07:04.5] WS: Yeah, great advice and I love that it's a long term relationship, right? We hope to do many deals with the same brokers and you know, working together but I would also add, I've heard other people say this as well and if you're wanting to buy properties in Chicago and Lee's the guy you're wanting to connect with but you haven't had conversations with a broker yet, call a broker in Birmingham or Dallas or somewhere else to kind of get some reps under your belt first, would you say that's advisable, Lee?

[0:07:32.8] LK: Absolutely. I think a lot of the principles of investment in multi-family are consistent across different markets, each one has its idiosyncrasies and you have to adapt to those local systems and ways of investing but generally, advise will hold true across geographic reasons. Yeah, call somebody in Chicago like me, just to find out more about how investments are handled, whether you ever choose to invest there or not is not relevant.

You don't need to tell the broker I'm never coming to Chicago but no, I actually talk with people all around the country who call seeking advice, they'll find me on LoopNet, they'll find me through situations like this that are publicists set me up to speak with. I'm happy to talk with anyone anywhere just about any time, it's a business of networking and building relationships. Most of those people that I speak with are not ultimately going to be direct clients of mine but I know someone in a new area, I'm able to refer, they're able to refer and we're all in the same industry.

[0:08:41.2] WS: As long as you've been in multi-family and this industry, I'd just love to hear like why multi-family for you, Lee, why is that your choice, I mean, to spend this many years in and investing in and working with people?

[0:08:52.5] LK: Why multi-family versus other commercial real estate product types or versus other residential product types?

[0:08:59.6] WS: Yeah, either way, I mean, you've been hyper focused on multi-family and there's — why multi-family?

[0:09:05.3] LK: Well, I have to say, my choice to go into multi-family — when I decided to go into commercial real estate brokerage, my choice to go into multi-family was a fluke. I was at a big national company, it happened to be a spot they had available so I jumped in, both feet. Over time, I stayed with it and have come to appreciate that it's kind of a unique asset class in commercial investing and it's as simple as everybody needs a place to live and so, it is probably the least susceptible to economic shifts of all the commercial real estate product asset classes. I have found that it's the most resilient whenever there is a significant correction and we have been through many.

It's usually the very first to rebound and to come back out of it and I think it is as simple as the fundamental concept that everybody needs a place to live but yes, everybody needs a place to live but people also buy houses and condos and all that. Why am I in multi-family? It's also not a business driven, investment is not driven by emotion or personal choice. It's an investor who purchases a building, it's a business decision, it's based in analytics and numbers. My father was a builder of single family homes in North Carolina and I grew up as a construction guy and going to college, I was a carpenter.

And my dad said, "Hey, he's pretty good people, let me put a tie on him and I'll stick in the model house on the weekends." And I was working selling houses and I didn't understand people's decisions because how can you understand someone's emotional reaction to something, it's unique to the individual. And everything could seem like it was perfect and then it goes a different way and there's no logic to it. In multi-family, there's logic to the investment and while everyone may not agree with your analysis or your logic. It's based on analysis. Not on emotion.

[0:11:15.6] WS: Love that.

[0:11:17.3] LK: I tend to gravitate toward that.

[0:11:19.1] WS: Yeah, I like that thought process too. Yeah, it's hard to understand someone's emotions sometimes and you can't determine where that came from or when it's going to come, right? The type of emotions, that's a great answer.

On that respect as well, on that same thought. Helping that seller now in multi-family, you know, you had mentioned like anticipating the market value or helping that investor understand the value of a property. Let's talk about that a little bit. How you all do that? You have a relationship with an owner and they're going to sell a property, could you just kind of walk through a little bit how you're going to determine that value and helping that seller to understand the value as well?

[0:11:57.6] LK: Sure, it's not a simple process, there's a lot to consider and the variables are the functional obsolescence of the property, meaning, the age of the property, the systems, the capital expenditures needed, reset renovations, just the whole physical side. Then there's the operational side, is the property being leased and operated efficiently and where it should relative to an average product in the same market. Tenure of ownership is very different when someone has owned the property for three or four years is looking to make a move versus someone who has owned it for more than 30 years.

All of these come into play, really a broker will take a base line measure of what the market is in general. Meaning, where should the unit type of one bedroom, a studio, a three bedroom, duplex, whatever it is, where should that unit in this condition be renting in the market? We're looking at all kinds of comparable properties to find well run, well managed, very average middle of the road, similar units and where they are renting across the board. We will also look at average operating expenses for the market in general for building similar in size and scope and location as our subject property.

We'll then look at the current operations of the subject property and see are they in line with everything else or is there a significant delta? That helps us understand the uniqueness of the individual property. We look at how a new owner would operate that property at its most efficient and maximum level both from a revenue perspective and an expense perspective.

That picture of where the property ultimately would operate is what affects our evaluation more than anything else and we talk with the owner about the value of that property and why, there are numerous things we'll take into consideration when arriving at this value for our seller, our client, we're always looking at cap rate and that's a wonderfully horrible parameter for an investor to consider.

I wrote an article for Forbes that should be coming out this week on their online thing that it talks about the fallacy and harping on cap rate if you're an investor but it is inevitably a measure that we will use, we look at price per net rentable foot, we're looking at expenses per that rentable foot and that property taxes, we're looking at casual cash returns, price per unit, multipliers, everything, to try and determine where this property should trade in the open market.

That helps guide us to a value and getting it on the market. It is then our challenge to make sure that our investor clients understand the pricing and evaluation and understand where the opportunity is, especially when you have a property that's been owned by the same owner for 36 years and then I have won 115 unit property right now in a far south western Chicago suburb, it's been owned by the owner for 36 years. It is not being operated optimally, and so when someone looks at it, you know, the price per unit that we are asking once in line with cost but we are in a very low cap rate. And it is because the current operations are so far from optimal that it is a compressed cap rate on its current operation.

So we're actually around the five cap on the current operations but doing very little to the property and simply managing it more effectively. They don't even use online services. It is word of mouth marketing, people are still slipping checks through the mail slide at the management office to pay their rent. I mean this is archaic. So with very simple modernization of their operation, their marketing, their promotion and the stabilization of this property, we are able to show an investor that within the first year to 18 months of ownership through that stabilization it's actually there's 200 and 250 basis points move in that cap rate.

And so yes, while it may be crazy considering a five cap and a 1970s construction far western suburb of Chicago, having a seven and a half to seven and three quarters gap is actually quite an impressive acquisition and so that's why I say that is one of the many, many reasons that cap rates aren't really applicable. But we're able to ground that analysis by looking at more physical

pricing, like price per unit and price per square foot, to make sure that we are in line with where it should trade. I realize I just went off on a tangent, a very long winded answer.

[0:17:17.5] WS: No, it is all right. It is a very good conversation. It is really good to think about even cap rates compared to a property like that and what that relationship is and how much weight you should put on some of those things. But working on a seller like that, is it typical that they're going to when you tell them you have evaluated the property and you say, "Okay Mr. Seller, this is what we think the property is worth or what we should list it for." Are they shocked with what you think you can get for or is it, "Well, wait a minute Lee, we think it's worth double that." What is the typical thought process that they are having?

[0:17:47.8] LK: The typical process is that the owner always thinks it is worth more than what you are telling them and the buyer always thinks it's worth less than what you are telling them. I guess if they weren't that differential that there would not be a market for brokers. But I would say that there are times rare as they are that yeah, there is a bit of disbelief. There is another property in the city in Chicago that we have under contract right now.

A 32 year owner and I never will forget, I walked the property with her a year ago and I've known this client for 25 years and we got done and she took me for pancakes to the Pancake House across the street after the tour and she said, "Okay, I know you need to go do your thing, do your numbers but shot from the hip, what's my building worth?" and I just said, "Shot from the hip." And so in my head I am just thinking, "Where is the fall on the sword number?" That is a no brainer.

I know what it will trade for at least with us and I said, "10 million is a low threshold." And she just went, "You're kidding me." And I don't know if she meant that was low or that was her high and I'm like, "No, it's a 10 million threshold." She said, "I think you're nuts. I don't think it will trade for anywhere near that." And so that was a very rare, infrequent reaction. We are under contract right now significantly higher than that. So she was very pleased with the efforts.

But yes, a lot of people have no idea what the value of their property is. The usual reaction I get is when I would have said 10 million, they'd say, "Yeah, I wouldn't sell it for that, you know? Unless you can get me 12 million I am not just a seller." So that's the more usual case. We list

for sale approximately 18% of the properties we analyze. Because you were that big and it's connected then –

[0:19:47.9] WS: Nice, that is a bunch you are analyzing then.

[0:19:51.1] LK: Oh we are analyzing a bunch but when you become an expert within your field, your opinions are trusted and if there's a significant disconnect between expectations and evaluation, usually you and the client just decide, "Okay, then now is not the right time." And hopefully they come back to us when it is then.

[0:20:10.6] WS: Right. Lee with your experience level and just years in the business, what do you predict that is going to happen in the real estate market over the next six months to a year? Do you encourage people to be more sellers now or buyers or you know, is that a year from now? What are your thoughts behind that?

[0:20:27.5] LK: I think each market has its idiosyncrasies that would perhaps alter that perspective. I think there are some areas of the country that are booming so much right now that it's probably a great time to sell and I am thinking Austin and Nashville and some cities that are just doing this from a multi-family standpoint. I think most parts of the country though that are much more consistent and stable and I would put most mid-western markets in that category.

I don't think that there is a six or 12 month event on the horizon that will significantly affect values enough to say, "Now is the time to do X." Buy, sell, whatever. It is pretty much a consistent industry. The only think I would have concern about is interest rates and I think that I know as you do Whitney that we are in a record period of time, the length of time that interest rates have been abnormally low. I do not think that that sustains and I think that will gave the potential.

The rise in interest rates that will inevitably accompany periods of economic growth will have an effect on the investment value of property. So I would say watch for that inevitable increase and plan your acquisitions or dispositions with those changes in mind as you are watching what I believe in the coming months will be a steady increase of interest rates. Watch how it affects the

values and time appropriately. I think that is probably more important if you are selling a property than if you are buying.

And again, I don't think that it necessarily will have a dramatic enough move that we see values go down but I do think that it will have an effect on the rate in which a property will appreciate in value and I think that that curve of appreciation as interest rates begin to rise that curve of appreciation will flatten. So when you are looking at the time value of money and your investment not for that 32 year owner but for the three to four year owner, I would watch interest rates carefully. And try to time a disposition around periods where it is not really that dramatically affecting the appreciation curve yet.

[0:22:53.2] WS: What is a way Lee that you have recently improved your business that we could apply to ours?

[0:22:58.0] LK: Oh wow, I found myself earlier, last year looking at the mirror and realizing some of the gray hair now, "Oh, I've been doing this a long time." And like that 32 year owner, I haven't been that long in the business, but are there better ways of doing what I do? And so at the end of last year, my partner and I made the bold decision to hire someone who is better at figuring that out than we are. So we hired a COO and first thing the COO did was take a look at all things Kiser Group for three months.

And then bring a report saying, "You want to grow? Here is the tough decisions you have to make." And so this year we have literally been tearing at everything apart. Staff, workflows, technology, our CRM, everything and rebuilding it the way it needs to be to propel us towards growth. That is what it has occurred with my business in the last 12 months. I would say my advice would be, you said what might be applicable to you and your audience is always be honest with yourself and always look for better and more efficient ways of doing things.

Don't think that there is a single right way to do something and even for the earliest investors, choose your mentor. Choose someone who can advise and help you get started but learn from everything that you did right and wrong in that first transaction and adapt and change for the next one and I see you are nodding your head and looking at your trajectory. I think that you have gone through that grad school very quickly.

[0:24:41.3] WS: We have worked hard at those things you just mentioned, documenting things so we can improve them every time, every process. I am messaging my assistant, different people on our team all the times, you know different thoughts I have. I would put this on this process or we need to do this next time. It is just a constant thing but I like how you mentioned hiring somebody to help with even thinking through this.

I think it just puts you so much further down the road because there's systems and processes that somebody else knows how to implement that you hadn't thought of yet that could just push you so much further down your path of success as opposed to trying to figure things out the hard way, for years and years. Lee, what's been the number one thing that's contributed to your success?

[0:25:21.0] LK: I think it is different for the company than for me personally. So I will only talk about me personally. I have in my DNA something that makes sure that when I am representing someone as their agent and if you look up Webster's definition of 'agent', that is what I subscribe to, it is stepping into someone's shoes to be their representative. I take that very seriously and I think it is learning their business. Learning to look at their investment and their world through their eyes rather than focusing on the size of the deal, the amount of the commission and how do I get it closed.

And if you focus on meeting the client's objectives rather than your own, your own objectives are met as a byproduct of that primary initiative and I think if there is anything that has helped me personally, it is being able to really remove my own needs from the equation and focus solely on what my client has hired me to do and that leads you in all kinds of tasks. Yeah, always within the balance of ethics and morality but you have to follow what your client needs done not what you need done and as again, a byproduct of that comes success in the field that I am in.

[0:26:45.9] WS: Lee, how do you like to give back?

[0:26:47.7] LK: We have a lot of things that I talk about with my partner before. My partner is Estella Kiser, she is also my wife. She is our general council for our company and we work very closely together with almost everything.

[0:27:01.7] WS: The boss.

[0:27:02.6] LK: Yeah, well, we'll leave that alone. But no, there are a variety of things that we like to do. As a company though, Kiser Group has actually found an organization in Chicago that helps disadvantaged youth. It is quite an extensive program of housing, education and placement and we've worked with this organization a lot in Chicago's most challenged neighborhoods and with the kids who are in this, they are mostly high aged kids.

And I am smiling because we just had a Zoom call with everything is virtual now. So instead of getting together with these kids, we did a Zoom where we had 60 high school kids on a Zoom call with us and we're just talking to them about because they are interested in learning about commercial real estate and apartment buildings and just talking to them about this world that is all around them because they all see these buildings.

Most of them live in apartment buildings and not have any idea of the business and the economics that are involved in this and being able to work with them and show them a different perspective on the world and just watching the lights come on in their minds as they saw this. As a company, we like this organization a lot. We work very closely with them and as a company that's how we give back.

[0:28:26.4] WS: That's incredible Lee. I wish I had been exposed to this industry at an early age like that. So that is awesome and to give back in that way and probably tons of people are going to look up to you that are trying to get into the space from the Zoom calls. So Lee, thank you again for your time today. I am just grateful for you sharing getting started in this business, the relationship between somebody new in this business and somebody like yourself that is so experienced on the brokerage side.

And just the importance of that relationship but then also working with the seller and just anticipating just the market value of a property and helping them understand the value. I am just grateful. Tell the listeners how they can get in touch with you and learn more about you?

[0:29:04.6] LK: Sure, the last name has no 'A' in it. It is K-I-S-E-R. and you can go to kisergroup.com and you can find whoever you want there at our company and we're easy to get in touch with, easy to find. Thank you for having me on. It's been my pleasure talking with you and I look forward to watching your success and the trajectory of your company and following this podcast as well.

[0:29:27.9] WS: Thank you Lee.

[END OF INTERVIEW]

[0:29:29.1] 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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