EPISODE 759

[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 y our daily real estate syndication show. I'm your host Whitney Sewell. Today, our guest is Hans Box. Thanks for being on the show, Hans.

[0:00:31.9] HB: Thanks for having me Whitney.

[0:00:33.6] WS: Hans is a principle of Box Wilson equity and a senior director at old capital lending, a top mortgage broker in Texas. As a sponsor, he has created 122 private equity funds with his business partner together Box Wilson Equity a 30 million dollars into equity placed.

Hans is personally been directly involved in acquisition, investment and management of over 350 million dollars in multi-family and self-storage assets and has asset managed 3,700 multifamily units and has invested in or had equity in 4,300 multifamily units and 2,000 units of self-storage.

It's incredible to have you on the show and get to meet you, just talking to you a little bit. Your background and just says, put you in a position to be so experienced and have such a wide knowledge base of this business. But I'm going to let you fill that in a little bit for the listeners but welcome to the show, give us a little more about your background and let's jump in to your super power.

[0:01:33.3] HB: Sure, quick background, I am a CPA by trade, I went to a school here in Texas and got a Master's in accounting and did the whole route to the W2 going to g t a job with one of the big four accounting firms at PricewaterhouseCoopers. I was there for a number of years, probably nine or 10 years. And then right after the great recession, I decided to take a risk and get into multifamily. I went from a basic six figure job salary to not much at all to go partner with another individual in the BFW area to fix his accounting and his payback to me was he's going to mentor me in multifamily.

At that time, I'd already bought rental homes so I kind of had gotten a flavor of it but this was the huge step into going full-time into real estate. Worked with him for two or three years, got invested in a couple of his deals. Long story short, this is probably where my greatest learning experience ever occurred. In the first few I got involved with him where I put 100,000 of my own money into it which at the time, was basically my net worth. I mean, it was probably a little bit less but not much but I didn't have much more beyond that.

I cashed out my IRA to do it and got involved with him in that deal and long story short, he's a good sales guy but he's not a great operator. And we actually, myself, now, my current business partner but at the time he was just a fellow investor, got voted in by the other investors to basically take over the deal and take control.

[0:03:02.1] WS: Wow.

[0:03:02.6] HB: Yeah. I was green, I was very green. I was literally sitting in the upstairs office of a class C property in Dallas, you know, trying to run the budget and work on getting the thing turned around, we managed to hire a management company that we've been pushing for. She helped turn it around and so at the time, we turned it around about a year, a year and a half and when we took it over, we were going to lose money if we sold it. And then when we sold it, we made about a 24% gain which isn't great when you think about it but considering we were negative equity, it was a good turn for us and we sold it for a record price in the sub market at that time.

Now, that was 37,000 a unit to give you an idea, that deal probably sells for 100 grand a unit right now in Dallas. But it got me started with number one, I met my business partner and we synced really well, we work well together, we're both analytical, he's an engineer with Stanford and Northwestern, he's way smarter than me. But we work together. And it also established a base set of investors that were confident in us after seeing and save their investments.

That's how we got started in the syndication model because we weren't really planning the work together after that but then they started asking us, "Hey, you guys going to give another deal?" We're like, "Yeah, maybe," and then we started thinking through it and it just kind of took off from there.

[0:04:17.7] WS: Nice, that's an incredible experience, I'm so thankful that it turned out the way that it did, it could have been so much worse. Wow. It's incredible, you took that leap and I'm sure you receive some push back potentially from family or friends saying, "Hans, what are you thinking, you've done all these works, all the school, all this time invested into this career, right?" This corporate career and I usually ask people that's made that transition because I know there's listeners that are wanting to do the same thing.

What gave you the confidence to do that? How did you handle the pushback or maybe some negativity from friends or family?

[0:04:56.7] HB: The reason for it, I know, to answer your question two parts, the reason for it is when I saw the recession hit and I saw individuals and employees getting laid off in other industries in other companies, Pricewaterhouse actually didn't lay off anyone, they're very good about keeping talent aboard and then trying to tread water until – because they don't want to lose talent, it costs a lot of money to get talent back.

I wasn't really worried about losing my job but I saw that and I saw the risk that could happen or if this happened again and I didn't want to depend on a W2. At the time, I was married but no kids and not many obligations, you know? I was living cheaply so I was like you know, if I don't do this right now, and take this jump, number one, regret it and number two, I might get golden handcuffs in the next five years and not be able to leave just because you couldn't bring yourself to give up once you get to a certain level at those firms, you can make pretty good money but you're also working 70 hours a week, right?

I was like, “I got to do it now or I might get stuck.” And so, that was my main reason for doing it and as for push back, my parents were very supportive, I didn’t get much push back at all and my wife, was very supportive as well so I have to say I didn’t have to overcome any pushback.

One thing I did have to overcome, she also started law school at the same time and took on debt to do it. At the same time, I gave up my higher paying job. It was a – we suddenly were living on rice and beans as they would say. I literally was unplugging my plasma TV, it was in my condo to save on electricity, I was doing everything possible to save money. That was probably the hardest part of it for a while.

[0:06:33.6] WS: Wow, that’s incredible. I love hearing stories like that. Because I know it helps encourage the listener as well that’s approaching that decision or working through that, it’s not easy that’s for sure but so worth it when you can make it happen like you have.

I know from your background, I want to get into the lending a little bit or the current lending market and situation but on another note, just from your level of experience as a CPA but then also, you’re getting to see so many deals, you’re getting to see so many sponsors, how they underwrite and you know, you’ve become an expert no doubt and underwriting and analyzing sponsors’ deals, you know, as active operator but then also as a passive.

I thought you could just speak to vetting a deal or vetting a sponsor in probably much more detail than a lot of people for that passive investor that’s listening right now.

[0:07:23.0] HB: There’s a lot to vetting these – I’m going to speak multifamily, that’s what we’re speaking but this can really be applied any commercial real estate investment. There’s quite a few things and number one you have to understand general terms, like cap rates, what a waterfall is, what a preferred return is, once you get that base knowledge which you can get on the internet in half a day. I think the number one thing you have to do is you need to be able to vet the sponsor.

To me, the jockey as you’d put it, is the most important part of a deal, you know, a good sponsor can turn a bad deal into a good deal and a bad sponsor can buy a great deal and destroy it. I’ve seen it happen, in fact, I was in one obviously. I think vetting the sponsors number one and one of the biggest things I look for with a sponsor is transparency, I tend to ask a lot of questions about the deal, just to make sure I understand what their goals are and their strategy is.

The sponsors that I feel most comfortable investing with are the ones that answer my questions fully and don't try to get around it or our brief and the response. They give me a comprehensive answer and that will actually share their proforma with me. You know, I'll be honest, I've had sponsors that I thought were pretty good but they wouldn't show their proforma so I could really dive into the numbers and see how everything was calculating because they told me it's proprietary. I'm like, "It's an Excel spreadsheet for multifamily deal, there's nothing proprietary about an underwriting for a deal."

I think your listeners should just look for sponsors that are open, transparent answer your questions, aren't offended by your questions because that's what we do with our – we have quite a few investors that are – that dig in pretty deep to our deals and we answer every question, we jump on the phone if we need to and we make sure that they understand what they're getting in to.

Another important thing with the sponsors, you need to make sure that they can articulate the true value-add component of the deal. If there's not a value-add component, you shouldn't be investing in the deal, there always should be a value-add component, I don't like the term, 'yield play.' There needs to be that margin of safety between what you bought it at and the equity you can force to protect your investment. Always look for a value-add component and have the sponsor clearly articulate that.

But that's probably the most important thing about vetting a deal, I mean, I can certainly get into the legal stuff, I also can get very detailed into the operating agreements and stuff like that.

[0:09:42.4] WS: Yeah, let's jump in to what you just said a little bit further there. Like transparency, you know, I ask a lot of people you know, first, are the most important thing when working with a sponsor, the top things like communication, right? Transparency. I want to know what's going on, no doubt about it. What's a way about the communication and you did highlight some things there as far as asking questions and maybe you can even bring out a few questions that you ask?

Just in seeing how transparent operators or even the passive investor right now, it's listing that probably didn't have the underwriting experience that you do, let's talk about that a minute, what are a couple of things they could ask just to get a feel for how transparent the operators been if they don't have the experience obviously under writing like you do.

[0:10:23.9] HB: Yeah, the first one I would ask is really, ask them to basically jump on the phone with you or the email clearly articulate the margin of safety and the value-add component there. Another good question always ask is what is your downside scenario on this deal, a lot of sponsors in and this is something we include a lot, this isn't technical? You just want to know what's worst case scenario and at what occupancy say and what collections were like could I consensually lose, we could break even or we couldn't pay our debt because that's where your capital becomes at risk.

So, what I typically want to see with a lot of sponsors is some sort of a scenario analysis where you have a downside maybe and a target and an upside. And then there's certain knobs within those that you turn to see. Downside, we lower our expectation on rents, lower expectations on occupancy, increase the exit cap and say here in Texas, property taxes are a very big factor, maybe you are very conservative on your property taxes so this is not Armageddon but this is the reasonable downside scenario, right? That's what I want to see.

And then you want to see a target and you want to see an upside so sponsor should be able to provide that, I think that plus the value ad are a good starting point for somebody that's new.

[0:11:38.1] WS: I like that, I would hope that that sponsor has already played out that downside scenario right before that phone call, no doubt about it. That's great information and so, vetting the sponsor, yes, first and foremost, any deal specifics that you can share that would help you to eliminate whether it's a great deal for you or not?

[0:11:57.7] HB: Two things that come to mind, you know, just off the top of my head, one is, this is personal preference, some people disagree but I really must have a preferred return first. As an investor, I don't want to go on a deal where every dollar of cash flow is immediately split say 80/20 or 70/30 with a sponsor, I want to get a preferred rate of return, whatever that – that can be a different amount depending on the type of deal or type of asset class we're in but say, an 8% preferred return, meaning, I want to get paid 8% on my investment before the sponsor shares in cash flow. That's important to me.

Fees, I always look at fees and see if those are aligned with the investors, there are certain rules of thumb on fees and just one quick example is an acquisition fee. Typically, it's around 1% but I've seen as high as two which to me is extremely high and what really should happen is on some of these bigger deals that re 15 million, 16-million-dollar deals, they're still charging at one or one and a half percent acquisition fee.

It doesn't take anymore work to buy 15-million-dollar deal than it is to get 10-million-dollar deal. It's the same math, you just add zeroes. They shouldn't' be making $600,000 on a deal and then if those 10-million-dollar deal, they're making 100, right? There needs to be a cap. As you get bigger, there needs to be a cap on absolute amount of acquisition fee and I kind of just tested out, I mean, when I look at a deal, I don't have a rule of thumb, it just makes sense for the deal and everything else.

The other thing is the one thing I want to stress all passive investors and look at is the operating agreement and how the distributions are done. I have seen some agreements where they – how do I say this, this may be getting too deep into the weeds here but on a sail, they just distribute all proceeds, say, 80/20. But it needs to have in there receive your capital back first before you do the 80/20 split and I literally seen company agreements where they don't. I would stress looing for that for your passive investors.

[0:13:59.8] WS: That's a great tip of advice right there. I would definitely ask the operator that for sure before I invest in. Awesome. That's really good, you know, right now, as a passive investor, what's your preference on the asset class and the class of property that you're investing in.

[0:14:17.9] HB: If you asked me just to pick one, it would be industrial right now. With the rise of ecommerce that was occurring already and then of course COVID has made ecommerce even more important, distribution per square foot is actually, I think it's one and a half times if it e-commerce as compared to retail like mortar and sticks. So, it was already being increased the need for industrial and so I think industrial either buying existing or investing within developers is something to look for. I am actually looking for that myself and then you know there is nothing wrong with multifamily. I think it is just hard to find deals right now because everybody is looking for multifamily but housing is never going away.

Mobile home parks that to me is a good area to be in because we're not really building any more mobile home parks or very few and affordable housing is a huge issue. RV parks, I never invested so I am completely newbie in that area but I've heard some good things about RV parks and I mean you can't find an RV to buy. I really think that may be a good place to go for somebody that is looking at a start anew and dive deep into the details.

[0:15:25.8] WS: What's been the hardest part of this syndication business for you?

[0:15:29.8] HB: The hardest part is the responsibility you take on with investor's money. I've done enough deals where there's been times where our deal wasn't going the exact direction we thought it would. All of them actually had done well and we've met proforma so far. But there is always twists and turns in the road and those times are the hardest parts for me because we have some investors including a few widows with those where their husbands are investing with us and they have passed and literally they depend on us for finding deals and they invest with us for cash flow and that is a lot of responsibility.

And so, I think that is the hardest part is when you have deals not quite going exactly how you want and you just wake up at night thinking, "Oh god, we got to fix this because we have a lot of people depending on us." So that is the hardest part and a lot of people don't realize that when they get into syndications. The rest of it is project management and knowing how to run a business really and if you can do then you know you can be a syndicator.

[0:16:24.7] WS: How do you prepare for a potential downturn or like to see even an operator being prepared as you are going to invest passively?

[0:16:32.7] HB: That goes back to our prior conversation, margin of safety. That is why I won't buy a deal that doesn't have it. If there is not a large enough margin of safety and forced equity I can put into a deal then we won't buy it because any downturn or any loss of occupancy or income, it starts cutting right into your equity. You have a very low margin because your equity is the first thing you lose, right? The debt is at 75%, you are the 25% of the top that starts getting haircut and valuation goes down. So, margin of safety, number one.

And then the scenario analysis I want to see your downside there and if the downside is for instance in our deals, if we run a downside and we can't end up at least have at a nine or 10 IRR then we won't do the deal. Even if the target looks great, we won't do that because that means we are getting way too razor thin on our downside scenario and it is just not worth the risk.

[0:17:22.1] WS: What do you predict happening just in the real estate market over the next say six to 12 months?

[0:17:27.5] HB: That is a loaded question, right? I think there is going to be some distress. I keep thinking that it will start showing its head but it hasn't yet. I don't think it will until these forbearance agreements have started to expire. But I think in 2021 we will see some distress in multifamily and some of these deals that people have been buying that are just razor thin and had no margin for error. Although I don't think it is going to be anywhere close to '08.

This is pending there is not another black swan event between now and then, right? It's depending that we have a normal election, nothing crazy happens in the world. We don't have a huge resurgent of COVID or some other pandemic but I think there will be some distress. I think the distress in office a bit overblown. I am actually invested in quite a bit of office stuff with a very experienced owner-operator and there are some facets of office that I think are going to have issues.

Especially the ones in the high rise downtown maybe but I don't think the flight to work from home is near what a lot of people have been saying. I have been seeing anecdotal evidence and articles etcetera that people are already getting tired of working from home, it is not as efficient and then the deals I am invested in, the companies that just signed like I think over a 100,000 square foot of office space within the deal I am in are bringing their entire workforce back to work on October 1st, entire workforce. So, I think that is a little overblown.

And then mobile home parks I think they're a great hedge against what's going on. They're always going to be needed I think that is a good area to get into and self-storage. It is just the self-storage cap rates that's gotten so low and it's hard to find a good deal like multifamily but it is always going to be needed and be there.

[0:19:08.3] WS: What about just giving us a quick update on the lending market right now and what you foresee in lending over the next six months as well you know as an operator, what we should be preparing for?

[0:19:20.8] HB: I think interest rates aren't going anywhere as we all know based on what the fed has said. I don't think interest rates are an issue. Honestly a lot of our borrowers are looking at floating rate loans because you can buy interest rate caps on these deals for minor cost and it gives you flexibility. There is no pre-payment. There is only a 1% exit prepay and it is only for a year. That's sometimes a good option for our borrowers to go if they're thinking about flipping the deal in two to three years.

In terms of escrows unfortunately, both the agencies Fannie and Freddie are still forcing principle and interest escrows for basically 12 months. There is some cases where it is only six and there are some cases where it is 18 but it is a rule of thumb. It is still a one year's worth of principle and interest reserve on agency loans on acquisitions and refinances. So even if you own the deal and you refinance into a Freddie deal, which I am doing right now with a borrower of mine here in Austin.

He is still forced to reserve 12 months in PNI until certain guidelines are met and or COVID, the COVID scare winds down and Fannie and Freddie decide to let go of it. So, it is still your money. It is just sitting there; they're just holding it in case you get in any kind of trouble due to COVID. That is kind of a high-level summary of where we are now and I don't see rates changing. I really don't and lenders want to win. It is just finding good deals.

The LTD's here in Austin aren't great because the cap rates are so low but you get out more in the tertiary markets. We are still getting the 75, 80% loan to value on multifamily stuff.

[0:20:48.0] WS: Nice. Well I am just grateful of the update. I know there is a lot of operators that listen as well and just would love to hear your opinion on that so grateful for that. Hans, I feel like anybody that has success in business has a high level of self-discipline and you definitely have that. How did you gain a high level of self-discipline?

[0:21:05.7] HB: I went to a small school but my parents were always pushing me on grades. So, I was very conscientious in terms of my homework. I was not the smartest kid in our school by any stretch. In fact, there is a guy that graduated behind that was state champion in university interscholastically in math or something. I mean the guy is brilliant but I beat him. I was valedictorian of a very small school so it was not that big of an accomplishment. It forced me to work hard.

So, I just carried that over into my college years. Same thing, obviously much tougher at a much bigger school. I went to Texas A&M and it just carried over from there and that's probably part of the reason I chose to become a CPA. It is all about being detailed and analytical. It has translated well in my syndication and lending business.

[0:21:48.9] WS: Are there a couple of daily habits that you have that have helped you achieve success?

[0:21:53.1] HB: Number one, I think and I don't know if it is daily but I concentrate on growth. So, I am always listening to podcasts like yours and others and real estate and business not just real estate. I branch out to get into deeper business kind of podcast and then reading. Reading books and just trying to learn and it doesn't have to be strictly real estate strictly multifamily. I think if you concentrate on growth and getting around a network of like individuals that will push you, I think that's huge and that is what you need to concentrate on a daily basis.

[0:22:27.8] WS: Knowing what you know now, what would you have done different on your first syndication?

[0:22:32.2] HB: Well, I wouldn't invest with him but at the same time, it actually got me to where I am. I don't have any idea where I would be if I hadn't invested with him and done what and basically my feet were put to the fire and I had to learn suddenly and it forced me to learn. So, I don't know, I mean knowing what I know now I wouldn't invest there obviously. That is what's kind of guided a lot of my passive investment rules that I've created for myself but going back and not knowing what I know now, I am glad I invested because it forced me to get into the business fully.

[0:23:07.1] WS: What's a way you've recently improved your business that we could apply to ours?

[0:23:11.2] HB: One thing that helped us with COVID is it forced us to – we always look at our P&Ls in a very detailed manner on a monthly basis and any questions we'll send a full bullet point list to our management companies about things that we don't either don't understand or don't like. It forced us to dive even deeper, where can we cut expenses? When COVID hit, we did more of a deep dive into expenses into our various properties and deals and really tightened that up.

That was one experience through COVID and I thought we are already pretty well at that but you know you can always tighten the screws a little bit more and that's probably been our best move through this. We suspended distributions in a few deals. We didn't have to but we did to conserve cash and now what's great is we have that cash sitting there and now we are back to sending full distributions to our investors. So, we have a little bit of more margin of safety built in terms of cash.

[0:24:01.2] WS: What's your best source for meeting new investors right now?

[0:24:04.4] HB: You know obviously coming on a podcast like yours is a great area to do it. Before COVID hit, I went to quite a few meet-ups here in Austin where I live and I've met quite a few investors via that and then honestly, a lot of it has been organic word of mouth from our current set of investors based on our performance. To me that is the easiest way to grow. It is just do what you say you are going to do and it will grow from there and it is actually one point I wanted to make that I meant to say earlier.

A lot of your listeners may be new to real estate or new to syndications. And a lot of people overestimate what they can do in a year but underestimate what they can do in five or 10 years.

So, don't feel like everything has to happen now. Take is slow, take it calculated, think through your goals, you won't recognize where you are in the next five to 10 years. 10 years ago I would never thought I could be where I am now and there's no way I could have really perceived it.

So, I just kept doing it. You know it is about hitting singles and doubles, if you want a baseball analogy don't swing for the fences, just singles and doubles. You'll get there.

[0:25:06.7] WS: Being consistent, yeah, I can relate to that 100% that is great advice. What's the number one thing that's contributed to your success and maybe we just mentioned it.

[0:25:13.9] HB: Probably my – you know in some ways to tell me that and in some ways it is probably it's molded me and made me who I am is my risk mitigation. I really think if you lose money in a deal and here's an example, you invest a hundred grand. You lose 50 grand because you just rushed into it. You didn't – whether you're the deal sponsor or to passive investor and you lose 50 grand. Well, now you only have 50 grand left. Now you have to make a 100% return on that 50 grand just to get back to even.

So as Warren Buffett says, rule number one don't lose money and then rule number two, remember rule number one, right? I really think risk mitigation has probably been the biggest single biggest. That and continued growth and learning.

[0:25:57.9] WS: How do you like to give back?

[0:25:59.3] HB: A lot of that is through my fellow investors and people I meet. I spend a lot of time helping people look at deals. I spend a lot of time coaching people just on the side that have become friends. To me that is a great way to give back and or you know, it makes me feel good because I know they are not getting taken advantage of or they are not losing money and deals or they have a lower risk of losing money. So, I spend a lot of time working with acquaintances here in Austin and in Texas in general helping them out if needed.

[0:26:29.7] WS: Nice. Hans, a great show. I am grateful for your time and just going through how I mean the leap that you took at the very beginning and investing in a 100,000, how you almost lost it but how that was a crucial step to getting where you are now and how you turn that deal around and just your experience now and sharing how you vet a sponsor and the deal. You know even your preference right now of investing and updating and lending.

You have such a great experience and I am grateful for you sharing that with us today. How can the listeners get in touch with you and learn more about you?

[0:26:59.0] HB: Sure. So, my name is Hans, last name Box. I can be reached at hbox@oldcapitallending.com or at hbox@boxwilson.com, either one. One is my lending business, one is my syndication business and my phone number is 214-641-6309. I am happy to meet anybody. I am also in LinkedIn and Facebook, so you can search that. My name is pretty not common and so you can probably find me on LinkedIn too.

[0:27:30.3] WS: Awesome, that's a wrap Hans. Thank you very much.

[0:27:32.9] HB: Yeah, no problem. Thank you.

[END OF INTERVIEW]

[0:27:35.0] 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.

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[OUTRO]

[0:28:15.9] 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.

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