EPISODE 804

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:23.7] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Tim Vest. Thanks for being on the show, Tim.

[0:00:32.2] TV: Thanks for having me, Whitney.

[0:00:33.9] WS: Tim is a multifamily investor and syndicator. He is focused on applying his technology background and mind for analysis to the commercial real estate space, bringing it all together to bring value to his business partners and investors.

Tim, welcome to the show. I know you have some unique skill sets that you're going to be able to help us with today and I know, looking and analyzing markets, figuring out where we're going to invest next, I think a lot of times, obviously, we know, prices are inflated in a lot of areas right now. I know you're going to share a little bit of that from personal experience, but just looking outside of our normal markets that we invest in can sometimes seem challenging, right? Or where do we go, what do we look for, and I'm looking forward to getting into that with you. But give us a little more about you and your business, and in where you all are right now and just your syndication business and let's jump in.

[0:01:28.9] TV: Yeah, sure. So, Tim Vest. I have a company, Harvest Properties Group, and we're primarily focused in the southeastern portion of the United States, North Carolina, South

Carolina, down into Florida, Alabama, and starting to branch out into Tennessee, and then over in Texas. I'm partnered with a good team out of the Midwest as well, primarily focused in Ohio, Indiana, Illinois, Kentucky. And that's kind of where we've had our focus for a while now, like you mentioned, things are heating up pretty, pretty quickly. So, we are starting to branch out into some other areas and some additional markets as well.

[0:02:10.7] WS: Nice. Well, let's jump into that a little bit and just how you look at a market. Why don't why don't we first look at, what what are you analyzing when you're saying, "Okay, this is a market we would consider, "and you can even use the current market that you're in and very familiar with, how do you know that's a good market? What is the market? What do you look for? And then we can discuss why you would look outside of that market.

[0:02:34.8] TV: Sure. I'm right outside of the Charlotte, North Carolina area. That's where I'm based. That's where I started looking originally back in 2006, 2007, most of what we were doing was more in the land development, land syndication space, more than multifamily. But we focused in this area, and in areas within kind of two to three hours of Charlotte. Here recently, Charlotte has exploded. The COVID-19 has caused the southeastern United States, especially in the Charlotte and South Carolina areas to really, really heat up. We have a lot of traditional Northeastern investors that are pulling out of the Northeast, and they're bringing that money into the Charlotte region, South Carolina region, Bollinger and it's really causing prices to escalate.

So, it's getting a little bit harder to find good value add deals here in the Carolinas. So, we're starting to branch out outside of this area and that really gets into kind of our analysis that you're talking about. What we really focus on is we try to look for cross sections, where generations or groups are coming together. So, right now, what we're really focused on are two groups, the baby boomers and the millennials, two the largest generations ever in the United States. And they're coming at a unique time right now. The millennials are starting to look for areas to settle as much as millennials do, they tend to be very mobile.

Then you have baby boomers that are reaching kind of that retirement age and they're reaching that retirement age and looking to settle in areas where their kids are, their grandkids are, which just happens to be with the millennials. So, we're doing a lot of analysis on where are millennials are going, where they focused, what are baby boomers looking for as and saying they downsize. And truly, as they start to get out of home ownership and they also look for the ability to be more mobile, more flexible with where they live, so that's coming that's coming to a head where we're starting to see a cross section of baby boomers and millennials are ending up in a lot of the same areas and they're both looking for opportunities to rent properties. You're starting to see that in places like Des Moines, Iowa, down into Texas, Alabama is very big, Memphis, believe it or not is very, very big with millennials, due to the cost of living, and then the opportunities that exist there for jobs.

So, those are some of the areas that we've been able to identify. And, you know, as you can imagine, a lot of those are in the Sunbelt region, more Southern, more southeastern, as people kind of migrate out of the Northeast.

[0:05:47.4] WS: So as far as like leaving Charlotte, I know you talked about the prices are inflated, and investors coming from other markets, and wanting to invest there, just getting more and more competitive. I guess, when do you draw that line and say, “Okay, even though we spent all this time here, we have these other projects here, we're established in this market, you know what, it is time to look somewhere else,” is there some time where it's like, “All these deals we're looking at are so overpriced, it's just too risky”, or we think that it's worth the time to be become established in another market, where potentially it's not as, as competitive yet?

[0:06:28.0] TV: Yeah. So, we tend to stick to the value-add strategy and we have very strict guidelines for what we're looking to invest in. We don't account on natural appreciation. We rely on forced appreciation. So, to answer your question, if we can't go into a deal, and through our own work without dealing with just the competitiveness that forces appreciation, if we can't do our own work, force the appreciation to a certain level, then we move out. We tend to move out in the area and look for areas where our metrics or our guidelines do apply. We’re typically looking for anywhere from an 8% to 12% conservative cash on cash return, and then something within the two X multiple inside of five years and that's through our underwriting. That's not taking into account market appreciation, natural appreciation, if you will.

So, if we hit those metrics, we will look for areas where we can, and again with a very conservative underwriting, which is why honestly, over a three to five-year hold, we tend to actually beat our own analysis. We're very conservative, you don't count on cap rate compression or any of those things. In fact, right now, cap rates are compressing, and we're assuming that they will be compressed over the next three to five years. So, a lot of our underwriting is riding into areas today, where you're seeing 4% and 5% cap rates. Now, my analysis is showing those that say 6 to 7% in the next five years. So, that's that's kind of it in a nutshell.

[0:08:17.9] WS: So, could you elaborate a little more on what makes your underwriting conservative? What are a couple other things, what makes us conservative and we're preparing for the future?

[0:08:29.9] TV: So, talked to you a little bit about the cap rate piece. We will absolutely take into account today's cap rate, but like I said, our cap rate from three to five years, we tend to add a couple of points to that. And then one of the other places we see it as being able to raise rents. A lot of times we'll get deals where the person that brings it to us to say, “Hey, I think you can raise rents, $350 to $400.” We don't write that end. We're looking more at the market analysis and we're saying, “Yeah, you're saying 350, but we're going to write in 200 to 250.” And if we hit that 350 mark, great, our investors are going to be really, really happy. But that piece of it.

We also tend to be conservative in our underwriting on what we can do from an expense standpoint. We're very aggressive when we go into a deal with cutting expenses. But we're very conservative in our underwriting and what we think we can cut. Then once we get in there, we get our hands on the property and we start to live it and breathe it, then we start to look for areas that we didn't necessarily identify in our underwriting. So, those are probably three main areas.

[0:09:49.9] WS: Now that's great. And I want to talk a little more also about when you're looking for that next next market, can you give us some of the analysis that you're doing? I know you have a technology background and you use that for analysis of just other markets. Are there some technologies that we could also use and what do you look for?

[0:10:10.9] TV: I don't think we're actually on the cutting edge of the technology. I mean, we're using a lot of the same stuff that other people are using, city data, rent a meter, jobs reports. And I just try to stay very in tune with job announcements. I'll give you one example. I track

Amazon very closely, where Amazon is expanding to, especially with their distribution facilities, because we look for those C and B properties, especially with their distribution facilities, and warehouses, I track with Amazon very closely in that regard.

Typically, for instance, in Memphis right now, Amazon is investing heavily in there. They're building a very large facility near the FedEx facility there. There's going to be some natural synergies. Their jobs currently right now, just with the crew, building the property, and those will naturally transition to the people that will then work at the property. So, that's one example. City data, obviously, using CoStar, and then just pulling a lot of those pieces of information together and looking at their cost for for areas of cross sections and synergies with all that data.

[0:11:43.2] WS: Is there some specific things inside of city data that you look for? Is there specific a type of population growth, or wage growth or job growth or anything's like that, that you specifically look for and say, "Okay, wait a minute, this is an area we should focus on."

[0:12:00.8] TV: We look for job growth. I don't necessarily track wage growth as much. We do, obviously track median household income, median home price, those are the standard things we look at. But it's it's more around it's more around job growth. Somebody told me a long time ago, if you go where the jobs are, where you go where the jobs are moving, you're probably not going to do wrong there. People follow the jobs and that's just a good trend to follow as an investor.

So, not so much wage growth, because I'm a true believer that the wage growth tends to follow the jobs. If there's job competition for the resource pool that's in the area, the wages will follow. And then, you know, obviously, household median income, household, household median price. One of the areas that we were looking at recently that we decided not to go into, the median income was was pretty good. It was in the 50,000 to 60,000 range. But the household median price was low, which to me says, "You got people they're making money that can buy homes, they're less likely to rent, and probably not going into that area." So, if I can find an area where you're looking at either low housing inventory, or a high median home price, then that's a decent area to get to look into further.

[0:13:37.2] WS: Tim, what's been the hardest part of this syndication journey or process for you?

[0:13:43.2] TV: For me, personally, it's probably the networking aspect. I am not a natural networker. And as you probably know, networking is everything in syndication. I'm not a natural networker. Put me in front of a computer and let me analyze things on a regular basis and I'm very, very happy with that. I got a neighbor who's a sales guy that lives across the street and he's always got people over his house. And he always gives me a hard time because on Friday night, about seven o'clock, lights are off, garage doors down, I'm happy here. So, it's truly that networking piece but I've been working hard to kind of get out and overcome that and then show through the people I network with the skill set that I can bring to the table.

[0:14:34.0] WS: Yeah. Is there a specific way that you've overcome that or that you're working overcome that? I bet many of the listeners also struggle with that same thing. Most of us have or do at some point. So, is there a tip that you could give them?

[0:14:46.6] TV: I got be honest. For me, it was just making a commitment to doing it and taking that meeting, taking the next meeting, reaching out to somebody. That's really what it was. I tried a lot of different things in terms of reading a book on how to network or talking to somebody on how to network, really wasn't until I made up my mind and changed my mindset about networking, that I was able to make a change. And honestly, it’s just taking that step and getting more comfortable with it. Today, whether it's a meeting or an opportunity to connect with somebody in the area that I'm actually trying to get to, or not, I take the meeting, just to have the experience of talking to somebody, just to have the experience of making myself get outside of my comfort zone, and go out and get it done.

I'd like to say that there's some secret samurai trick or something that I could offer up, but really, it's just about doing it. Making up your mind and doing it.

[0:15:55.3] WS: How do you prepare for a downturn, Tim? I know we talked about a few things that probably relate to this, but anything else you'd like to add to how you all specifically prepare for a potential downturn?

[0:16:06.2] TV: Yeah, so I learned a pretty hard lesson back in ’07, ’08, ’09. I mentioned land investing and I got into land investing with some developers, I had some partners and one of the things coming out of ’09 and 2010, that I look back and learn from, we lost a lot at that time. One of the things I learned from that was an exit strategy. We had one exit strategy in those deals. We were completely dependent on the developer. They were highly lucrative when they were going well, but then they went south quickly. It's all about exit strategy for me. So, when preparing for the downturns, I'm looking for opportunities to add at least three exit strategies. If I can refinance and hold while it cash flows, great. Obviously, the golden ticket is being able to refinance, pay all my investors back, keep everybody in and continue to cash flow, or cash flow to take money out and sell. It's all about exit strategy, having multiple exit strategies. That's how we're preparing for the downturn, for any downturn that we meet.

[0:17:24.7] WS: So, you could refi and then just hold and cash flow, I guess until the market improves or until it is time a better time to sell? Or you said you just cash flow, take the money out and sell. I guess over a projected time.

[0:17:39.8] TV: Right. Yeah, that's correct. The worst case, we look for deals were worst case where the market is not moving, things aren't selling. Worst case, it’s cash flowing. We're able to pay our investors every month. We're able to pay ourselves every month and you know, that's a worst-case scenario. Honestly, that's not a horrible worst-case scenario to have. You’re still making more money, the property's paying for itself and you're invested in it.

[0:18:08.1] WS: It's a lot better than if they had their money in the stock market and they went down, right?

[0:18:11.1] TV: Yeah, absolutely.

[0:18:13.5] WS: So, what do you predict to happen, Tim, in the next 6 to 12 months in the real estate market?

[0:18:18.4] TV: In the multifamily market, I think if you had asked us seven months ago, I think a lot of us would have said that there were going to be a lot of issues. I don't think it's going to be as bad as we thought it was going to be seven or eight months ago, when the pandemic first started. I do think it's still going, there's still going to be a downturn for for some people who are not performing well. If you're not cash flowing well, if you're barely making it, I think those syndicators, those landlords are going to struggle. Because I think there are going to be some downturns coming. And then people who over paid, I think that's going to be a problem coming up.

As a whole, I think the multifamily market is going to stay pretty strong. And it's all going to depend on the jobs really, if we can get people back to work, and those guys can pay their rents, and I think it's largely going to be okay. It's really the people that are operating on razor thin margins that I think they're going to be in [inaudible 0:19:26.1].

[0:19:27.1] WS: So, Tim, I believe anyone that has a successful business must have a high level of self-discipline. How did you gain such a high level of self-discipline?

[0:19:36.9] TV: Through practice, through just learning as I went. I'm a QA, a technology QA guy and project manager by trade. If you don't have a level of self-discipline, you don't deliver on projects. You don't high-quality products. So, it really kind of came out in my technology space. I would be lying if I didn't say that, but if I said that I didn't struggle in the first couple of years in technology of being behind on projects and not delivering on time and things like that, I had to learn how to get disciplined about getting up every day and following a certain point. I think that's carried over into the real estate space.

[0:20:25.8] WS: Yeah, I think we all have to learn it at some point. Some of us learn it earlier than others and I think it's continuous learning, you never just like arrive and have that level of self-discipline I think that you desire, but it definitely can improve. I think it's a choice that we all have to make, but do you, Tim, have any daily habits that you're very disciplined about that have helped you achieve success?

[0:20:49.8] TV: Absolutely. So, I'm very disciplined about what time I get up in the morning. I get up at 5 a.m. I always do a little bit of catch up from the day before, getting up to speed about anything that came in overnight. That's usually about 30 or 45 minutes' worth of just a real quick catch up. And then I immediately go into a workout. I'm a big believer that if I don't treat myself well, I'm not going to perform well.

So, I spend about an hour doing some sort of fitness workout, cardio, weights, things like that, go for a walk, and meditate in my head while I'm doing that. And then it's right into get ready for the day. I'm in front of the desk, and ready to go by around 7:30 a.m. most days. And then, truly having my day planned out. I have a very specific checklist that I worked through. And obviously, I think we all know that that helps guide us, but it's not something that is always 100%. But I have a very specific checklist that I work through and I have goals each day for what I want to accomplish. And then at the end of the day, anything I did not accomplish on that list, it gets moved to the next day's list and prioritized accordingly.

[0:22:11.1] WS: Nice. Now, that's some great info right there. And quickly, you mentioned that you get up at five and the first thing you do is catch up on work for about 30 minutes. And I've heard different trains of thought about this, but I love your opinion. Most people will say, I don't want to see my phone or think about any work until it's time to get to work and they're going to exercise or meditate or pray or whatever, first thing in the morning, what's your thought process on using that first 30 minutes to catch up on a little work before say working out or doing whatever before the day really get started?

[0:22:45.1] TV: Yeah, so I think mine's more born out of like how my team is set up. And again, this came out of technology. Technology was one of the first areas to utilize offshore resources, specifically in India. And I have some virtual assistants that are in India, getting up and connecting with them at 5 a.m., that is that is roughly about 2 or 3 p.m. their time. So, it’s a way for me to connect with them during their day. We have very short windows of overlap with the folks in India, in the VAs that I use there. So, mine is really born more out of that piece of it. I utilize folks in that area.

[0:23:25.9] WS: That makes complete sense. I mean, just a need for your team to operate. And and so that makes complete sense. Tell me though, also about the checklist, like you said, you have a very specific checklist you go through. How did you develop this checklist? Are there a few things you could share that would help us?

[0:23:42.0] WS: Yeah, so the way I develop the checklist is I have a weekly plan of things I want to accomplish during that week. So, every Friday, towards the end of the day, I sit down and I figure out what my next week wants to look like. I know I want to write blogs. I know I want to be analyzing bills. I knew I have specific people I want to connect with. So, I developed my checklist based off that. That's my weekly goal. And then I break that down into a daily goal. Monday, is typically connect with people in my network, expand my network and write blogs. Tuesday, is analyze deals, reach out to brokers, partners I have, and then so forth and so forth. And then Friday, is all about planning for the next week, which includes, I use some technology to plan out my social media.

So, Friday, I sit down and I schedule all of my social media on Friday afternoons for the next week. Then you might see me posting on LinkedIn or whatever, but that's been planned out probably four to five days in advance.

[0:24:52.3] WS: You said you struggle with networking. Look at that, look how prepare you are. What about a way you've recently improved your business that we could apply to ours?

[0:25:01.2] TV: I would say, just networking and networking and using that network as a willingness to learn. What I find is I'll reach out to people with a very specific goal, trying to find a property trying to network with investors, things like that. And the next thing I know, we're having a conversation like you and I are, and you know, they're teaching me something. I always grab something from it. And then, along that same lines, like earlier this week, I shared this with my mentor the other day, earlier this week, I took a meeting with somebody that was pitching me, they wanted me to come in as a new passive investor on one of their deals. I took that meeting, honestly open minded about it, but then as we were going through it, I started to realize they were things I wanted to take notes on, of how to better prepare myself for my own meetings with investors. So, I think it's just kind of that networking and willingness to learn is really helpful.

[0:25:59.6] WS: Nice. What about your best source right now for meeting new investors? I know we talked about networking a little bit, but is there like one thing that it's like, okay, for Tim, right now, this thing is working.

[0:26:11.3] TV: I have really been focused on LinkedIn. LinkedIn is where – that may sound like a very standard answer, but I really decided this year to focus on social media and expand my network. There are 15 different social media platforms out there at least. What I have always found is that if I try to focus on everything, I don't do anything well. So, I decided to pick one, LinkedIn made the most sense to me, at least for what we're doing here. And so, I've really focused on expanding my network through LinkedIn and that's probably the single biggest impact that I have used.

[0:26:58.0] WS: What's the number one thing that's contributed to your success?

[0:27:01.5] TV: I go back to the willingness to learn. That is absolutely the number one thing. I mentioned 2006, 2007, I just jumped into something, didn’t really research it all that well, I had a couple of partners we came across some great deals, and it worked really well for a while, didn’t expand outside of that, didn't seek a mentor. And ultimately, that did not turn out well. Coming out of 2009, 2010, looking back on that and figuring out what we did wrong and then just educating myself from that point forward, looking back, doing kind of what we call a post mortem, if you will. We do that on every deal. We do that for everything we do. And then, just a willingness and an open-minded approach to when I talk to people, when I read things, just that willingness to absorb knowledge, I guess.

[0:27:56.5] WS: Your willingness to learn and just your willingness to be so transparent about a difficult time like that too, I think we can all be transparent and just share, we've all had moments that we've learned from and made mistakes, and if you say you've never made any mistakes, and there's a problem, right? So, Tim, what about how do you like to give back?

[0:28:17.0] TV: So, I like to help others. When I'm when I'm networking with folks, if they have something they need, I like to help them out not just in the real estate space. I had a call the other day with somebody who is in my network, and they were looking for they were looking for help setting up their website, building their website. I was happy to help them with that. I was happy to make suggestions and guiding them through the process. I think it's just that willingness to give back to others. I've learned a lot in the last five or six years just from others jumping on phone calls, and talking with me, having Zoom meetings and talking with me, and you know, I want to share that.

[0:29:03.9] WS: Nice. Well, Tim, I appreciate your willingness to get back to us today and just talking through how you analyze markets and why you might switch markets and what's happening in your current market, the reason you would start looking out and even some difficult times through 2007, '08. But then, you talked about the returns that you need and these things have to happen, you talked about cap rate compression and different technology, things like you mentioned a Rentometer, and Costar city data, job reports, numerous things there that we should all become familiar with as we're analyzing markets and buying deals. No doubt about it, but even you brought up the Amazon silly thing too. I think that's pretty incredible. What was it, Wendy's, they focus on where McDonald's goes. I think, it's one of those, like that. There's so much research being done by certain groups. We can definitely use that to our our favor. But having numerous exits strategies, it's so important.

But then also, appreciate you just laying out some of your daily routine stuff in your morning routine. I love hearing how different people are so self-disciplined about some specific things that help them to achieve bigger goals. So, that's very helpful and I'm sure it is to listeners as well. Tell them how they can get in touch with you and learn more about you.

[0:30:22.7] TV: Sure, so you can catch up with me. My website at www.harvestpg.com. And then, anytime through email, tvest@harvestpg.com or on LinkedIn. I'm on LinkedIn all the time.

[0:30:43.9] WS: Awesome, Tim, that's a wrap. Thank you very much.

[0:30:47.3] TV: Thanks, Whitney.

[END OF INTERVIEW]

[0:30:49.2] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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