

EPISODE 813

[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]

[0:00:23.8] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Ira Singer. Thanks for being on the show Ira.

[0:00:31.8] IS: Thank you, Whitney. It's great to be here. Looking forward to our conversation.

[0:00:36.2] WS: Me too. And Ira has more than 25 years of experience in construction and leads new business development, marketing strategy, team culture and development, construction production and the management of trade partner and vendor relationships for Mosaic Construction. Mosaic Construction is a design build industry leader and has proudly served the Midwest for more than 25 years. They partnered with clients to provide best in class renovation, remodeling and building services for multifamily, residential, and commercial property owners and managers.

Ira, thanks again for your time today and just being on the show. You are an expert in this type of business plan that we hear everyone talk about or so many people, it seems, over the last number of years and looking forward to diving into this value-add opportunity that everyone talks about. Give us a little more about maybe your background just a little bit, what you all are doing and you're specializing in and as far as the construction side of the business and let's jump in.

[0:01:32.8] IS: So, we are, at heart, we are renovators. We take existing stock of asset real estate and we transform it. We believe in the consultative approach. As design builders we are upfront early on in the process, helping with pre budgeting, material selections, understanding workflow, critical point of the schedule, all in advance of getting the project started. And so the experience factor of having a transparent, trusted design build partner is what we've built our business on. Relationships matter not only from our client relations, our trade partner and vendor relations, my team, my production team, the ones that are actually putting on the production getting us from opening night to closing, those are really important things that we focus on all around the actions of anticipating needs, doing things the right way and building trust.

[0:02:34.3] WS: That's awesome. I want to get into, in just a minute, just that pre work that you and I had discussed, and you talked about the things you need to do in advance, just setting yourself up for success. Let's back up just a little bit and talk about just the value-add opportunities or the value-add types of business plans a little bit, because I know we hear that a lot and some people say, "Well, this isn't really a value-add type deal. This one really is." People call it a value add and other people say, "Oh, that's not a value add."

To you, Ira, what does that mean exactly, for it to be a value add? You and I briefly discussed as well like, across different asset classes even as well, regardless of the class. Could you just elaborate a little on what that means to you as far as value-add opportunity, and then whether it's Class A versus Class C?

[0:03:21.7] IS: So, if we look at the overall term, adding value is the determination of where the asset currently exists, what surrounds it in the various comparable asset classes where this particular property is low, they're missing or could use some improvements. And then strategy around what is the investor's intention around the property because if it is a long-term hold, value add has a different meaning. Twenty-five years of owning an asset, that asset everything you've done 25 years prior, it's going to need more work over the course of 25 years, certain things are one and done improvements, but in the wear and tear of an asset as residents are living in common areas in the units even in outdoor spaces. So, we have to understand where the opportunity is for the owner, operator, investor and what their plan is with the property.

Once that is understood, we have to look at whether the asset is in distress with a fix that's targeted towards a specific area. The roof is leaking, we need to replace a roof. That's a fairly targeted deployment of capital to solve a problem. The nuance of value add is where the pre work exists. So, you and your listeners understanding that everyone thinks you know value-add multifamily investment, ownership, management of real estate is easy. It's hardly easy. If it was easy, everyone would do it. I think everyone can jump in, find something that's in distress and put some money into it, raise the rent and make a lot of money and sell it for a ton. That's not the way the game is played. It takes a lot more science into it, a lot more research. And when the budgets are being created, they have to be created looking at the return on investments.

[0:05:25.8] WS: Nice. So, yeah, if it was easy, everyone would do it, no doubt about it. So, let's talk about the pre work, like you talked, and I love to elaborate, you're free to elaborate on this. And because I feel like almost in anything you're doing even if it's painting a room, it's the prep work that makes the job finish so well. It's not actually putting the paint on the wall. So, let's dive into that a little bit, talking about just setting yourself up for success, but in advance, right? Anticipating needs, you talked about just thinking through the timeframe. So, let's jump into that. Get us started on you found something or whatever, you're going to start working on a project. What does that pre work look like?

[0:06:05.8] IS: Well, so as a collaborative design builder, we understand the design process – not everything you're going to do in a multifamily is going to be a permit required improvement, and substantive construction work on a distressed property typically is going to need design. And so, design is collaboration. Design is looking at options in the pre, before you ever go hard on property, as you're in due diligence, putting together pro forma budgets, bringing a contractor in early, that is really, really important. As experienced as you and your listeners may be, there are still things that exist in assets, a smell, a visual, a slope of land. There are things that a contractor is experienced and understanding that can be presented before you ever sign on the dotted line and work through collaboratively what it is that you want to put into the property.

If you're going from a C class to a B class, what does that mean? Is that specifically units? Is their amenity upgrade that needs to happen in order to attract a different type of resident into the property. Aesthetic exterior, what is the waterproofness of the asset? How well is it built foundationally? Exterior finishes, insulation, shingle, water management, landscaping, signage,

these are all things that we want to do ahead of time, understand the checkpoints of what's going to be improved, put dollars to it. That's all ahead of time. That's all pre-launch construction. The more you're in line with knowing that information upfront and putting dollars to it, selecting your contractor so at the time of close, there is a strategy around the order of the construction. If you're going into units and displacing residents, where are they going? What is the cost impact of lost revenue? Those are all things that as much ahead of time, game planning for the game and then the actual project goes smoother. And selection of the contractor helps with long lead items to be known. So, you're not stuck in a demoed space waiting for materials.

I cannot emphasize enough the importance of transparency, relationships to contractors that can bring the vision of what your investment platform is to life and to completion. Everyone thinks it's all about having the investors. I mean, you're a syndicator. Having the investor network is really key. It all falls on the sword if the contractor that is charged with executing the program with directing the show fails you.

[0:09:02.7] WS: So many great points there and one that we stress so often is the relationship aspect, whether it's with the investors or with the general contractor. So important, like you're talking about and also you talked about getting them in there, early, I could not agree more, earlier the better. Would you say typically you are talking with an owner or say a buyer before the property's even under contract? Are you all discussing properties in or is it usually right after contract is signed? When are you typically getting into a property or at least starting that discussion?

[0:09:36.0] IS: Our best clients across all of our brand verticals are working with us ahead of time. We have an existing relationship. There is a rinse and repeat certainly to the type of work we're doing for that client and the value of our eyes and our – I mean, even if we bring a few key trades to a walkthrough as it's in due diligence, that just helps the owner get clearer on. And so, we believe in doing that, oftentimes design build aspirationally is not how a project goes. It's money up front, it's figuring out, we've got this pot of money, we think we can buy it for this, here's the strategy for the five years. Now, let's find a contractor that can make that work. Well, that's a little bit of a cart before the horse, because what you hope to be in the spend may not translate to actual, what you think are the areas that need the improvement may be due. But

there may be other ones that you're not seeing just based off of the smell in the shared laundry room, that might be sewer gas, because your underground plumbing, which no one can see is at risk.

So, I do think that there is something to be said for bringing in a design builder to help level the playing field, to set expectations and priorities around spend and timeframe, versus designed, bid and then built. We win a lot of work by bidding competitively. And what often happens is that you get three or four bids from GCS, and they're all over the board because they see things in the walkthrough that weren't named on the plans, the plans aren't well enough designed, and all sudden, you're trying to level the GCs against each other to scope equate against everyone, and it's not as easy to do. So, choosing a partner ahead of time in terms of due diligence, identification, pre budgeting, pre scheduling, long lead items, go to contract with the GC after you go hard on the asset, and then put yourself in a position for success.

[0:11:52.1] WS: Could you speak to different asset classes again, just a little bit as far as value-add business model for a Class A multifamily versus a Class C? We talked about, obviously, where's it located? Are we moving it from a C to B? Those types of thoughts you need to be having very early on, what are we trying to accomplish here and discussing that with your contractor. Like a Class A project? How many value adds do you see on something that's like a newer build?

[0:12:20.1] IS: So, Class A out of the ground, that's 5 to 15 years old, is very nuance improvements. It's already Class A based on its location, based on what's surrounding it. You got an old and tired 15 years in, a refresh. Value add is probably too strong of a term on a Class A makeover. It's more likely a refresh. Creating unused spaces into smart spaces based on the world we're living in today, where people are spending more time at home. If that's an apartment building, then having something in the building that adds value for that resident, be it something related to pets, be it something related to fitness, be it something related to outdoors. Those are all Class A type of value adds that may not exist from when the asset was built 5 to 15 years ago.

Affordable housing, senior housing, student housing, all have kind of check the box improvements or amenities that are targeting and I have three children, they've both been

through Class A college campus, new product that they're living in that has gyms and study areas, and concierges and in-unit laundry, and all kinds of things that matter in student housing, versus senior housing, which absolutely has almost unto itself, needs that physically need to be attributable and thought of, for the safety and convenience of the residence. And that could be from C to B, that could be from B to A, is still the value add is really, as you know, it's kitchens and baths in units. I think the outside of an asset oftentimes is left kind of second-hand decisions and I would try to push that to the front.

The asset whether it's a three to five-year play, or a very long-term hold, the exterior aesthetically, and most importantly, from weather is really, really key. To buy something and not address waterproofing and water tightening, air tightening the building as much as possible, is a recipe for spending more and real systemic issues within the building and those things need to be addressed up front regardless of asset class.

[0:14:46.9] WS: I'm glad you brought that up. Yeah, I wanted to ask you just like where do you see, I guess most people, putting most of their focus in – is that where we should be putting it when we're completing a value-add project?

[0:14:56.7] IS: People live inside their units. People live inside their homes. That's what matters to the resident. So, when you try and marry what's important to the resident when they walk into the unit and see a recently renovated kitchen, and nice flooring, and a decent bathroom, and good lights and some blinds on the windows, those things all matter to the residents. And they matter for getting the rent you're targeting. The aesthetic value, if you pull into the drive of a community and not just a singular building, having an aesthetic appeal on the building is really smart. Whether it's nice lighting, color, the finishes, what the products are. You're not going to want to walk out of the parking lot and trip over a piece of concrete that is not properly installed. You want to have decent signage, into the property at the building, nice colors.

Again, being a project junky, things that matter on the outside, the wall finish for water protection and beauty, the windows and doors for good operation, beauty and most importantly, efficiency watertight. The roofing and the gutters to handle water management, so water gets down to grade and goes to where it's supposed to go. So, if they happen to visit on the rainiest day of

the year, they're not walking through standing puddles because the water management and topography of the asset hasn't been thought of.

If you had one of those things as a problem, maybe not a big deal, two or three, the visitor notices, they're not coming back to you, regardless of what's your play is on the on the rebrand on the upgrades. If it shows poorly from the outside, you're at risk for not being able to close the lease.

[0:16:44.0] WS: Just speak a little bit what does this mean for the overall ROI?

[0:16:48.9] IS: Well, I'm going to talk more at a level of systemic versus pointed improvements. So, getting a dog washing station is great if you are a 50% or more tendency with allowing pet. That is going to be something that is attractive, you're speaking directly to the end user, but that is a targeted deployment of capital into an ROI that should benefit because of the target. Systemically, as you look at the building, you cannot think to own the asset if your roofs are constantly being patched for a hole here, a leak there, a problem there. You have to do a full assessment to the systemic issues that are HVAC, roofing and gutters, insulation, windows and doors. I would even throw common area hallways into that mix where these are systemic issues, you have to address them typically full bore because if there's problems opening 10% of the windows, the other 90% of the windows are not far behind. And now once you start to make improvements in some but not all, it really changes the the overall personality of the asset where clearly the new stuff stands out. Unfortunately, it makes the old stuff stand out even more and that's where the eye goes. When you're that renter going into the unit that has the ugly entryway, but the other entryway was done because there were some bad bricks so you chose one, it makes the other three that exists look poor to the overall condition of the asset.

So, I do think in ROI, you have to look in the big picture and then you have to look at what is going to help you attract the renter, keep the renter, make them happy and differentiate you in the market.

[0:18:47.7] WS: What differentiates some of the best value-add operators to you that you've worked with amongst the rest?

[0:18:55.3] IS: As far as what they're doing in their assets?

[0:18:58.3] WS: Right. What are they doing? Or even their working relationship with you or the contractor or what makes the the best standout? What are just a couple things they're doing?

[0:19:09.2] IS: Well, we work best with a team environment. And so, the team that I bring, which is my production team, our trade partner team, that's really important and there has to be somebody on the owner's side who is not on my team, but is certainly rooting for my team, as my direct report allows us to have access for answers. Because it's a man plans, God laughs business, my construction world. We are planners to the max and then we wake up in the day and it's raining or the delivery didn't happen, or the renter wasn't ready for us and they're still there and they're not supposed to be there. And there are things that are beyond our control. And so, having best in class on the owner's side with someone assigned to solve problems, to be anticipating needs is a three-week look ahead in the schedule. Somebody that we have collaborative daily communication with, that's separating our clients from, here's the contract and go do it and then you try and reach the owner and you're not getting responsive timing, which impacts the timing of the project as you can't get answers.

So, that's a little bit on the relational side. We've been fortunate to work for many clients, and many repeat clients. That's been one of the hallmarks of our story over our almost 30 years of being in businesses, the amount of goodwill, good reputation we have built. In terms of the assets themselves, and what makes sense, clubhouses. If it's a community, again, depends on the type of multifamily asset, if it's a 4-flat, make sure it looks pretty decent, and that it's waterproof, and spend money on the four units and you'll do what you'll do. When we're talking community improvements. So, I looked at your site, Whitney, and saw the Las Colinas rebrand to the Ashcroft. That's a major play, that has all kinds of opportunities in it and so, in looking at where you positioned dollars, units matter the most, for sure.

And in today's COVID world, other things are coming to the top, a place outside, walking pads, excellent WiFi, I mean, like, top of the charts, WiFi. As much as you can touch list your property for having a fob to go into the building versus having to like put a key in, the less touch, the better. Package rooms, these are awesome, especially if you've seen Amazon stock over this 2020 year. The stock for online purchasing for the way our world is adjusting to staying at home

and spending money buying stuff, having package rooms is incredibly important for the sanity of your management team, because the amount of packages that come in, and for the organization of your residents to be able to get what they buy.

So, those are some smart ROI, targeted deployments for exterior, for interior. Fitness is always going to be important and I do think that people are finding ways to do that in unit, because there is a concern about being in shared spaces with a workout atmosphere.

[0:22:39.7] WS: I'm glad you brought that up. It's going to be one of my last questions about how COVID has changed where we should add value. I love the Wi Fi, the fob entries, the package rooms, some great items to be thinking about. Ira, Just a few final questions, though, as we as we pivot, are there any daily habits that you are disciplined about that have helped you achieve success?

[0:23:02.0] IS: Yeah, there are. At 54 years old, I've learned how to be my best self by doing the things that weren't so helpful to me in my earlier years. And so, I am a calm person by nature, and that the benefit of having a daily exercise routine is key. It sets me up for clarity of thinking. It's always like a 4:30, 5 o'clock in the morning timeframe for me to be focused, and plan out my day, and make sure that there are two or three things that have to be done that do get done. So, that's number one.

The team that I've surrounded myself with, I have been more successful in delegating the tasks that my team can do, or maybe they need some coaching and training to do but giving away tasks that are better suited to someone else so I can do the skill and leadership that's involved in working with my business and my business partners, those are also things that I struggled with. I wanted to do it all, and I couldn't do it all. And so, asking for help, is something that I have learned is a huge growth opportunity and a sign of strength.

We have been fortunate to invest and donate to a lot of great organizations. What I have also found is that building a good reputation through performance, through doing what you say you're going to do, doing it the right way and building relationships. We focus our business on the mosaic actions. There are six actions contributing to a positive environment every day, doing it the right way, which is both from construction process to respect amongst people anticipating

need, closing the loop, communicating the story which you're giving me an opportunity to do today. Those are all things that make a difference in my life every day. Some of them are natural and some of them are a stretch, and that's okay.

[0:25:08.8] WS: I meant to ask you also, from your opinion, you've been in this business for a long time. You worked with lots of operators, over many years. What do you what do you predict to happen over the next 6 to 12 months in the real estate market?

[0:25:22.6] IS: I think that it's going to be challenging for a lot of reasons. Competition really being number one. People will always need a place to live. Across all asset classes, there's always going to be people that are focused on residents that need to live based on economics and workforce housing versus a senior lifestyle, versus a Class A. And so, as the job and the economics of our country are always in a state of flux, there's disruption, and disruption is creating opportunities. So, I do think that there's always going to be a play in multifamily. I think the spend in multifamily is going to be more judicious, not in terms of buying it, but in terms of being able to get in and get out. I think that that's more challenging in today's environment, for the owner, to think that they're going to come to the table with the side of money to invest, it's all going to get done, which by the way, good contractors are always hard to find. But in a COVID environment, good contractors are really, really busy like we are. You can't just hire any contractor to take a multimillion-dollar infusion into an asset and do it on time and best in class delivery.

So, with fewer of those people around, it makes it more challenging to work through the asset renovation. And so, I do think there is going to be money sitting on the sidelines, people are going to be more selective in terms of what they're buying, and then when the strategy is known and deployed, I do think there's still quite a bit of upside within the multifamily marketplace.

[0:27:04.5] WS: Ira, how do you like to give back?

[0:27:08.1] IS: We as a leadership group represents a lot of board leadership. We have 20 some nonprofit organizations that we support within our company, and 15 that between the three partners, we have served on boards. And so, I look at my give back as time number one, which is bringing my expertise and my strategic thinking to an organization to help them realize

their mission, volunteering at the events that those nonprofits are tied to and then ultimately dollars, which makes a difference in helping them serve their end user. So, that is really some of the best work that I do. I am happiest when I am of service

[0:27:53.1] WS: Ira, I am grateful for your time today and just walking us through this value add type of process and thinking through, how prepared we should be before we ever start and just the relationship with their general contractor, the planning of that or even how you talked about the refresh versus the value add, and just the timeframe, the overall ROI, and even the changes that we could be thinking about post COVID versus pre-COVID. For in it right now, maybe there's some different places we should be putting our capital for the best return on that investment. So, IRA thank you again, give the listeners the best place to get in touch with you and learn more about you.

[0:28:30.9] IS: Whitney, thank you. A phone call or an email is free opportunity to share information. I can be reached at ira@mosaicconstruction.net, that's my email. You can go to our website, mosaicconstruction.net as well, which gives you a peek into all the various things that we do. I would be happy to speak with any of the listeners about things that they're juggling in their head about how to deploy capital and/or make their first investment. You need a trusted construction partner, I will tell you that we are working nationally in multifamily. Certainly, the project needs to be a good matchup. And so, coming to further conversation, so I can learn, so I can be of the most value, the earlier the better. Planning is, fail to plan, plan to fail. It's kind of like that old adage.

[0:29:29.9] WS: Awesome. Ira. That's a wrap. Thank you very much.

[0:29:33.6] IS: You are welcome. Have a great rest of your day. Thank you.

[END OF INTERVIEW]

[0:29:36.9] 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

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[OUTRO]

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