

EPISODE 833

[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 Garrett Lynch. Thanks for being on the show again, Garrett.

[0:00:32.2] GL: I'm glad to be back. It's a great show.

[0:00:34.4] WS: I appreciate that. Garrett was a guest on show 808 and we talked about finding deals through better underwriting that came out earlier in the month. I encourage you to look that up so you can learn more about him and just his expertise in this business, how he got where he is now, just an amazing story.

Garrett, welcome back to the show, we'll give the listeners a little more about you, just in case they didn't hear that one. Garrett has been buying apartments for the last 10 years, starting with D-class properties in the south side of Chicago. His first company purchased and self-managed over 3,400 units in 10 markets.

After selling his shares in that company, he partnered up with Michael Blanc and Drew Kniffin to help expand Nighthawk Equity. Again, the listener. We elaborated on many of those things of how Garrett got to where he's at now in that last show and I would encourage you to go back. Garrett, welcome back to the show. I want to just jump right in to some of your expertise so we can maximize our time.

I know one place where you add a ton of value to the Nighthawk Equity team is the operational value-add, just that side of the business, which is so important, right? Everybody talks about the value-add business plan.

That's what everybody is doing, value-add. Some people say they're value-add, some people say they're not, but would love to just jump in there and talk about how you all have added so much value to some specific properties in that process.

[0:01:56.6] GL: Yeah, we're typically looking for is, you know, what's left on the property to really add value. If you're looking at it in a very simplistic term, what we're really doing is, if you think about – we're kind of doing like five-year flips for the most part.

If you think about how you flip a house, like find a junkie house that's not too junkie where you're going to lose money, and then renovate it and then it's worth more in a very simplistic way. We're kind of doing that over five to seven year period for the most part, most people are doing that.

What we're looking for are assets that are anywhere – you know, even in the late 60s, ideally, the 80s, you know, built in the 80s up to the 2000s, and there's either an exterior and interior value-add component. We've got, you know, classic exteriors or we've got classic interiors or combination of both.

This last deal, we just purchase two deals back-to-back in Atlanta, a 130-unit and a 150-unit. Both had kind of different needs, but there was a lot of value to add to both in their own way. The first one was complete exterior and interior renovation, we're going and replacing roofs, we're adding siding on, repainting, fixing all the wood on the outside of the building.

This particular building had an interesting architecture where it had these massive 30-foot gables on there, so we had to figure out how to modernize that. We ended up talking to a designer, getting her involved, having her help us come up with a strategy around that, so we're putting windows in all those gables, we're going to take the railings and turn them horizontal, so we're going to put some cedar wood across the railings, to give it more of a modern look

[0:03:39.4] WS: That changes the look so much, doesn't it?

[0:03:41.4] GL: Yeah, that's something that we're doing there, we're also – I like to take spaces that have not been used, like a tennis court or something that's older on the property and an area that's unused, and we'll turn it into a combination of a dog park with turf, a grill station, so people can hang out and they grill out and stuff like that with seating, and then gaming. We're putting in a bocce area and then a corn hole, stuff like that, all in this one section so it's a really cool value-add that you can put any kind of sport you want into it. We just did that on our last deal and it's been a big hit.

We're kind of taking that, piecing it into future properties. Other things you can do, hammock park, it's like hammocks, and that's a really simple and cheap way to add value that not a lot of people are doing.

[0:04:35.2] WS: What is that? Explain that a little bit?

[0:04:37.0] GL: The hammock parks, you just get some colored hammocks and you hang them around in an area and people can go and lounge around and hang out. It is something different, it doesn't cost that much to implement, but if you have like a bunch of open space, you can go out there and just throw a bunch of hammocks up and you got a hammock park. That's kind of a cool little value add that we're doing.

I'm a big fan of resurfacing the pools and adding new furniture in those. It's not the cheapest all the time. Pools are one expensive CapEx item that you got to look out for and you've got to budget properly. If you never done a pool before, it costs a lot, but it's worth it if it's a major amenity on site.

Doing that, I think, has been a big one, I'm in the process of building a gym, which has been really cool. That's been – you get a fitness company that kind of specializes in that and they'll set up the layout, and then you just build the space out, and then you can put your gym equipment in there, so that's pretty nice.

Another one that a lot of people aren't doing that we're utilizing is adding package lockers or electronic package lockers that you can put on even, you know, mostly your B-class property's going to have a ton of value, even C-class you can use it.

It texts people when their packages are ready. The great thing about this is it keeps people out of the office. They don't have to go in, interact with your staff, bug them to get their package, whatever or lose their package, it's all – and then the vendors aren't coming in.

If you really think about how much time that takes away from your staff on site, it adds up, and you're losing money because of that. We even go outside with it, there's a lot of them outside and you hit up Parcel Pending or Luxer or one of these companies, and you can buy them outright if you put them in your CapEx budget, and then it – literally, the package shows up, it texts the person, they come pick it up, 24 hours, great amenity.

All of these things that I'm talking about, they all add up to – why are these important? Because people may not even use these. The majority of the people may not even use a lot of these stuff that you're adding in but it's for when you bring people to the property and you want to lease it at the higher rents. Your leasing agent, if they're good, they're going to take them through all the amenities and say, "Hey, this is all the extra stuff, the bells and whistles that we have. This is why our rent is this," and people are going to have an easier time saying yes to that higher rent because they're like, "I would use that, yeah, I'm going to use the gym, yeah, I'm going to use the pool," and all these things.

Whether they do or not, it doesn't really matter as much. It's all about that leasing presentation and what you're able to provide to them in that moment to get them to sign on the dotted line, or even throw it on the Internet and attract people in. If you have things that stand out that other people don't have, you're going to win those higher rents and you can lead the market in rents.

It's a challenge. I talk to multiple people about them, how do we really monetize it down to the dollar? It's tough. It's really hard to even do that so you want to be so conservative on your underwriting but, man, if you hit it right, that thing – we did just that kind of stuff, just that exterior stuff at a deal that we own in Huntsville, a 276-unit. We were blowing past our target rents by \$60, just on the exterior.

Now, we had plans to do both the inside and the outside. Now add the inside and now we're elevating it even further.

[0:07:49.9] WS: Yeah. I mean, right there, you provided a list of things that each of us, as operators, we should be looking at. Will these things add value? How much value? What should we expect? What do the neighboring properties have? Like many things out there, one thing about the package lockers too, we've added that at a few properties, and I know a lot of other operators are doing it.

You talked about just the operational component there of taking that labor off of your staff there. I mean, you can imagine if you got 150 units, all the packages. I mean, the way people order now online, managing all those packages is a nightmare. The risk of losing something or, you know, who's at fault, all these things, you know? Just having that place where even that delivery person knows exactly where to go. I mean, it's just so much more efficient and secure. That's a big value, I know, to a lot of our tenants as well.

I wanted to mention, what about you mentioned building gyms right now. Are you still looking at building gyms even during the COVID mess and everything that's happening right now?

[0:08:45.7] GL: Yeah, I mean, we're talking about it. Again, it's more for the shows. Even if people can't use the gym necessarily off the gate or it shuts on and off, I can use it as a sales tool. I can take people, "Hey, look at this awesome gym we just built. Yeah, okay, maybe it's down for a few weeks because of COVID, maybe not, but it's going to be up. You're going to be able to use it."

I'm not only just adding a gym but I want to use the most modern pieces to the gym. I'm adding Peloton's in mine. People love that so right away, "They got Peloton's here?" Instead of just a stair-stepper machine or an elliptical or something, you add in more modernized stuff, maybe that mirror thing that people are doing. Add that in instead, where people are really excited to use the equipment that you have.

Because you'll likely have a smaller space, you want to really pick the pieces that are going to allow people to do a lot of stuff. You can talk with whoever you're building that with but cables are good, I think having the dumbbells and stuff like that, that's always really helpful in having a decent size, it goes up, there's a lot of range with that.

Put a cool mural in your gym if you can. That's a really cool thing to do. Carpet squares that kind of offset each other, you can go with that route if you like, or the padded foam. You can be real creative with it and do whatever you can to make that gym look really cool but, again, yeah, it's just a selling tool. Then, there's one other one I forgot to mention that I think is awesome. If you can pull it off, your property allows it, have a mechanical gate that secures it so you make it a gated community because, you do that, you lower your cost in security by quite a bit.

That adds a lot of security, a layer of security, if your property has had issues with that in the past or possibly has had issues. It keeps all the riff-raff out for the most part and it makes people feel safer. You can get higher quality staff, higher quality tenants. It's had a profound effect on our deal in Huntsville just making it a gated community. It's like a fortress now and it's awesome.

[0:10:48.2] WS: Nice. I agree completely, we've done that as well. A gate makes a big difference, just people pulling in, seeing that security, and just the component of the ownership group or the management caring enough too to put those things in place, even like the nicer equipment.

What about ways you all are adding value even post close? I think a lot of times when people get started in this business, they think about, well, you know, that value-add starts after we close but I would disagree. We've done many of the same things and you know, ways to add value. That property's worth more the day we close and it wasn't put under contract. How have you all done that?

[0:11:20.1] GL: Yeah, we really pride ourselves on speed. Having a plan going in, during the due diligence process, is when we're really looking for all the things that we can do right away, post-close. I have all my contractors coming up with plans and we have most of our vendors selected and, luckily, we've built this kind of team of people that we work with consistently, and it's similar.

It might take a little bit to work up to that if you're doing multiple deals, whatever. We'll have everything kind of ready to go on the hop, or most of it, and then, as soon as we close, you're starting with a budget, you're starting with the cash, or whatever you do to these projects, get on it the next day.

Like this deal we just bought, they already did the exterior of the property so we didn't have to worry about that, but 90% of the interiors were not done, and they were proving out \$300 rents on there. Well, during due diligence, you can scope all the lines and really get a good sense – or right after close. Scope a lot of it, ideally, during due diligence.

You scope all the lines, understand what's going on with the plumbing if it's one of the older property and the reason that's important is because, there could be a lot of work orders surrounding that plumbing stuff and plumbing issues. If you can go in and spend some CapEx on upgrading your plumbing or sewer lines underneath, it's going to stop a lot of the backups that are happening that are causing your maintenance people to go consistently to those units, causing people headaches when things flood, all of those issues, you can mitigate it.

What we found on this last deal is that there were bellies in the line problem, just over time, they had cast iron lines underneath. The bellies that go like this, they don't allow water to free flow out of the building and so we were getting a lot of backups. We're just going to replace the lines in the worst areas throughout the property and that should allow things to free up quite a bit.

In addition to other things we found on the plumbing were what's called the PRE valves, the pressure release valves, those are broken so some buildings were not getting enough water pressure to the buildings, and that actually costs you money on the water bill. We know we were going to go in and do the low flow toilets, we sort of talk about it in a bit, but we added the PRE valves in there, right away out the gate, so now we have pressure. Now we're working on the sewer lines, the sewer lines are going to be good, and then the last and final component of what we're doing is we're doing low flow toilets everywhere and aerators and shower heads.

We have those companies out there that we just third-party and it's the easiest, biggest ROI that you can do on any property, because they view it all and they're the pros. They send in a bunch

of licensed plumbers or people that just really are good at this, and they spend two to three weeks, and they replace all of your toilets to the 0.08 Niagara toilets typically. Now your water bill gets cut all the way down possibly up to 50%.

[0:14:12.4] WS: That's drastic and I mean 50% think about that.

[0:14:15.6] GL: It's insane on your ongoing expenses. We had a kicker on the one. This is part of our consistent value add strategy, because you'd be surprised how many people haven't done this or they've done the 1.6's, which were popular for a time. You can even pull a lot of value out of particular 1.6's down to 0.8s and it just really, I mean, it frees up so much extra cash and it doesn't cost that much. You might spend 350 a toilet or whatever to these guys to install it, but your ROI is made back in one year, which is so cool.

I love that. That strategy is something that has been so helpful in general to watch your water bill go from 20k a month down to seven, which is what we did out of our one property. This is funny too, we did it on this one property and I guess there was a leak. So, we did everything, did all the toilets, and our water bill was still went up. We were like, "What's going on with that?" and then it turns out, there was a huge burst somewhere in a random spot in the property and that was actually there.

Somehow it didn't get found during due diligence unfortunately because it was way far. We thought it was on someone else's property line. That was going on for like 18 months, so it didn't ship crew out on the T12 at all. Any of the T12, you just thought that was the water bill and then, lo and behold, we fixed that one leak and then, boom! Just dropped like the water like crazy amount. We probably made a million and a half dollars just on that one pipe, that one leaky pipe, so plumbing is an important part.

[0:15:44.8] WS: Wow. That's incredible just such ways that you can add value and even talking about hiring crews that are third party that can just come in and knock that out you said in three or four weeks or less. I agree completely. We've done some of that too and it's so much more efficient than, say, taking some of our crew out that are doing the models and things like that. They are not always great plumbers, right?

You know, it's going to take them away from adding value somewhere else where they are really good as well. Speak a little bit to the staffing component?

[0:16:12.0] GL: Yes. Staffing is the most important part, post-close, and it comes down to really your regional and your property manager [inaudible 0:16:23.4] so we're doing it now. We'll even mention a company we really liked that we're working out of Nashville, and their name is Elmington, I'll plug them. We're working with them but they have a regional we work really well with. We're doing great things on one property.

They have been kind enough to add her onto every property we acquire. They give it to her, they take her off another one. We're just kind of scaling with them and, you know, we trust her to hire people. We trust her judgment on a lot of stuff and she is just amazing. She works a ton of hours. Taking that component and then, now, she's in charge of the property manager, which is I say the second most important position.

I want to have that leader because that leader, what they do, is if you have a bad property manager or a bad regional, they hire all the wrong people underneath them and, if they're the right ones, then the opposite happens. If you have the wrong people on site, you can't get momentum. You can't take their vision and put it into effect, because these people just don't care or they're not competent enough. Whatever it is, you're not going to get the momentum that you need.

As operators, focus first on those two positions. Just really be cautious about who you're putting in as your regional, as your property manager, and then I think the third most important position would be your maintenance supervisor and the lead maintenance tech. That person typically is pretty expensive and they're harder and harder to come by these days with what's just going on with the world and the way that it has shifted. Finding somebody really good that can do your maintenance and oversee all of that –

There's a ton of time and money spent on your repairs and maintenance throughout this property life, having a roster like that I think is super important to look out for when you are going into it and then don't be afraid to fire fast. If that somebody is not –

[0:18:10.0] WS: It's so important.

[0:18:11.0] GL: Get rid of them, just do it. Property management in general, I think, there's a lot of transients to it, a lot of turnover overall, but the good people that you have make sure you know, your PM company or whoever you're working with, they got the benefits in place. I like to use property management companies that are like heavy on the tech side. They know how to use technology and your staff should know how to use technology as well. I think that's a super important part because that's just the world. That's just how we work.

[0:18:38.3] WS: Is there a couple of pieces of technology that have transformed the way you all do business or a couple of things that are like, if you're not using this you're so far behind?

[0:18:46.4] GL: Personally – so, we run our business virtually pretty much and I'd say, up top, like on the high end, a really good training tool that we have been using has been Loom. That tool has transformed a lot of what we do because it allows us to – it is basically the screen share. You take a video in the cloud, instantly, you just hit a button or it's up on your bar on your browser, click it. You record your screen, "Hey, this is how you do this," and you send it over to someone, "This is how I want you to do this."

You could convey things very easily to people using that. The core ones that we use are like Loom, Zoom, and then Dropbox are kind of our main ones to note. Everything else exists on like a Google Drive, just like Google Sheets and Google Docs, stuff like that. We try not to do too many and on a site level software side, it is ideal to have a property management software that allows for API additions in there.

You can tie different softwares together, because the last thing you want us to have like some antiquated software that just doesn't work with anything else and now you got like, you know, 10 different softwares that people have to use on site to get your screening done, or to get your leases done, or whatever. That just makes it tougher in general to move around and to go along with that, one of the first things I do when I get into a property or even before is to make sure all of the computers are good.

Because you'll get into a property and like they're slow or whatever, you didn't replace them, and it just slows everything down. You got people working on there, trying to do stuff and if you don't pay attention to that or they get a virus or something stupid, and you're just letting that happen for months, people just – why? It's the silliest thing, it's an easy way to speed up your processes in general. So, that is some of the stuff that we use.

[0:20:33.1] WS: Nice. No, that's incredible, and I appreciate you also elaborating on the staffing, and the most important employees, and just the importance of replacing a computer, and what that can say to even that manager, that you care, and that we want to operate proficiently. It says so many things, right? It can help you be more productive also

Garrett, just amazing show, just about that operational value add, no doubt about it. I know the listeners can listen to many of the common questions I'll ask at the end of the show in the last one that we did but still, I wanted to ask you so you could tell them again, the number one thing that's contributed to your success?

[0:21:05.5] GL: The number one thing that's contributed to my success is realizing that the millions are made in the valley. What I mean by that is, if you're in a position or you're in a spot where you are having a really tough time, you're going through something very hard, that is typically where you make your millions, is getting your ass kicked in a way where you think there's no way out. That is where you're really made if you stay persistent after that and build yourself back up.

It is not made when things are going right. It's made when things are going wrong. That is where you're going to get the dividends later. If you haven't gone through that yet, you might, and if you do, just realize that it is just temporary. If you pull out of that, you are going to be in a much, much better spot.

[0:21:55.4] WS: Love that, millions are made in the valley. I'm definitely a testimony of that myself, so grateful for that comment for sure. Garrett, how do you like to give back?

[0:22:04.2] GL: Yes, so I love to share my time with other people that are maybe newer in the business, or they're motivated to make something out of themselves in the business. I just like

to provide insight to those people, either on a group setting, being on these podcasts or one on one. It brings all the value to me to hear people having success because it is something that I put them on or anything like that.

[0:22:28.2] WS: Nice. Well, Garrett, you definitely added a ton of value to us today and the listeners just talking about the operational value add and how you all have been successful at doing that. It is such a common business plan, right? For many of us in the business and knowing just some of these key things like you're talking about one of them added a million dollars of value, I think you said, one with your recent properties.

Grateful for your time today and being so transparent about those things. Tell the listeners how they can get in touch with you and learn more about you?

[0:22:53.2] GL: Yeah, you guys can reach out to me. My name, garrett@nighthawkequity.com, reach out at any time.

[0:23:08.3] WS: Awesome Garrett. Great show.

[0:23:10.7] GL: Thanks so much for having me on again man. It's been great.

[END OF INTERVIEW]

[0:23:13.4] 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]

[0:23:54.2] 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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