

EPISODE 897

[INTRODUCTION]

[00:01] 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]

[00:24] Whitney Sewell

This is your daily real estate syndication Show. I'm your host Whitney Sewell Today our guest. He's a repeat guest from show Believe it or not, ws 002, which is Michael Becker. Thanks for being on the show. Again, Michael wouldn't appreciate me back on can't believe it's been almost 900 episodes and between then and now. It has it's hard to believe that we've produced that many shows and interviews and been that long since you've been on the show and so grateful for your time Michael has such an extreme background in multifamily and in this business and very successful a little about him in case you don't know of him. He is a principal at SBI advisory LLC and heads SPS Dallas, Texas office. Under Michael's leadership over the past eight plus years SP Advisory has acquired approximately 10,000 units in Dallas, Fort Worth and Austin markets. Prior to forming the SP advisory Michael was a 15 year veteran commercial real estate banker and has originated and manage numerous portfolios of permanent and bridge loans in all major asset classes. So Michael and I was also talking before the show, he's got this amazing map behind him that shows that you know where his property is located in this market to Austin and Dallas Fort Worth. It's incredible. It looks amazing. If someone how much he uses that I can see the value in there, you need to look and see where your properties are and learn a lot from that over time for sure. Michael, welcome to the show. Grateful to have you back and any updates you want to provide as far as what's happening right now with SBI.

[01:47] Michael Becker

And let's jump in and appreciate the opportunity to come back on it's been a busy I don't know probably two or three years since episode do so it's been a busy three years, but it's been you know, buy and sell and had I pandemic in the middle started a new show the multifamily investing show Michael Becker, so that's on YouTube or iTunes or probably anywhere hear my voice or our websites www dot multifamily investing show.com. So that's been taking a lot of time, as you know to do one of these shows can't just snap your fingers. There's a lot of effort that goes into it. So it's been a pretty cool run. I've been real excited about where we sit as we're kind of first quarter 2021 as we record it, it's been interesting last, and you know, 12 or 15 months and glad to see things are starting to kind of get back a little bit more normal.

[02:28] Whitney Sewell

Yeah, no, I'm grateful again for your time and just sharing your experience on the show. I thought you know, if you're I mean, just even looking at that map behind you. And just your experience and knowledge base of Dallas and Austin, that market probably could speak to that a little bit before we dive into a few other things. But as far as taxes, I thought you could speak to what's happening there right now what you see as far as property values are things that you all are looking at, you know, as you're assessing new deals. And maybe we even talked a little bit about the all the mess that's happening right now with everything that's frozen over, right. How that is affected your properties or as well or has it but can I guess give us a little Texas update?

[03:05] Michael Becker

Yeah, kind of second part first, Texas always has crazy weather, like today's going to be 80 degrees. And you know, a few days ago, it was negative 2 a we have some extremes here. But I guess when it's flat and goes on forever, you kind of get some awesome extremes that's kind of the greater plains but we had our state electrical grid, like it's a lot of people didn't know this, that there's three electrical grids, the East Coast, the west part of the country and Texas. And so our grid was a very well prepared and wasn't made at winterize lot of equipment of the plant. So not only do we have the coldest snap and modern record and also had rolling blackouts of power. So it's been a challenging week. Last week was very, very challenging having to go through we have 6000 Barbie units, and a lot of them are newer vintage deals that have fire sprinkler systems at them as well. So we were really prepared to go in into a Whitney and then they shut the power off and then as the girl heck broke loose and so we had like 300 units affected by water penetration at almost 6000 units that we own today. So it's been kind of like playing whack a mole You know, every time we get one down, the next one pops up and starting on last weekend, started thawing out or mostly back to normal will still have quite a bit of cleanup to do with replacing sheet rock and but it's really just kind of management by crisis, you just kind of jump in. And now why unfortunately wasn't just us. It was everyone in the entire state. And you know, many of the surrounding states I'm sure had issues to certain extents whether it was a fire sprinklers or just kind of regular supply line. So it was a challenging test to kind of say the least. But I'll take a little bit of water issues here and there versus some of the other stuff these other states have to deal with like California or New York, come to your first part. I grew up here my entire life. I grew up in Dallas, Texas and suburban Dallas. And you know, the markets that we really focus on are Dallas and Austin and we're about 6000 units currently between those two markets and it's a completely different environment than what it was when I grew up on 42. So you know, it's kind of a slow, sleepy town for most of my life. Then about a decade or so ago, kind of coming out of the Great Recession, everything is started just really changing. You know, it's always been a relatively high growth market, both of them. And Dallas and Austin are very different, a lot of respects. But they both have quite a bit of growth. And Dallas is really the been the magnet for many, many years for these large corporate relocations, some of the recent headlines were, you know, like Toyota relocated here and Charles Schwab relocated here. So it's a pretty big corporate relocations, with you know, 1000s of 1000s of jobs. So it's really kind of fueled the population. And then Austin's been a little bit more trendy, a little bit more hip, it's a lot smaller, you know, Dallas Fort Worth about 7.67 point 7 million people in the metropolitan area. Austin's crossed over 2 billion people in 2015, I think is about 2.3 million roughly today. So it's about a third as big compared to Dallas Fort Worth, but the growth on a percentage basis is probably even greater in

Austin. So it's been good environment and multifamily has been absolutely on fire for the last decade, basically my entire professional career, especially in ownership, you know, going out so do real estate about a decade a little bit over a decade ago, and started doing multifamily a little bit over eight years ago. And it's been an absolute rocket ship and deals that we were by at the beginning, you'd buy for, you know, high 20s a door, maybe 30,000 a door, and we sold them for high 40 to 50 a door and then they sold again for you know, 7580 a door and now they're worth 100 and something a door, it's absolutely nuts and the cap rates, you know, compressed dramatically. And it's a completely different market. Very, very competitive right now. And I serve many parts of the country are but you know, the two markets I play and I can't imagine there's many more markets that are much more competitive than where I sit right now.

[06:41] Whitney Sewell

No doubt about it. I hear so many operators talk about Dallas Fort Worth and how competitive is so many people want to come there, right? I mean, because of the last 10 years and what so many, like yourself have been able to create, they're just the business and the success that's happened there because of what you talked about buying them one time for 40,000 or less per unit. Now they're selling for 100 plus per unit easy. And so I wanted to back up just a little bit. I know you talked about 6000 units, 300 units affected by the freezing weather or frozen pipes, things like that, could you just give us a couple tips there that have helped you to manage that. I mean, that is, you know, it's not like 300 units were affected over two years, right? I mean, this is, you know, within a week or something a few days, how do you get to those tenants? Obviously, you're trying to help those people. But how do you do that?

[07:26] Michael Becker

Yeah, I mean, it was just really kind of all hands on deck. And so the maintenance guy, I mean, plumbers are just really hard to read. So unfortunately, we have a little bit of scale in the marketplace. So you know, being bigger is better in this business. And most respects and kind of your relationships with a lot of the vendors certainly help. So if you're kind of a one off operator, good luck out there, you know, trying to get someone's attention. So we had some help from the plumbers. And you know, Monday when kind of really got cold Sunday. And then Monday, we talked about it preemptively. But we didn't do it, we actually a lot of the fire suppression systems or sprinkler systems, we ended up turning off draining the lines, we had a handful of breaks and then going on with the call Fire watch. So you have to pay someone to like watch your buildings case to catch on fire. So that's what the fire marshals make you do. But it was better because these pipes were up in the attic, even with the power being cut off, it was going to be impossible to you know, not have just a tremendous amount of breaks. So that really helped mitigate some of this issue. And then we just started just kind of going as we'd go and kind of unit by unit use go address it, you don't try that kind of management by crisis. Unfortunately, a lot of the buildings have the water shut off for a handful of days, because you have so many leaks, you just have to get a whole team out there and the maintenance guys and turn the water on and you fix the section of these units, you turn it off, you fix the sections, you turn it back on and you go down the line, there's the next two or three weeks, little by little just kind of go through and address it and do your best to kind of mitigate that the water damage. But I'm sure you saw some photos and videos, some crazy icicles hanging out of these buildings and water just gushing out of some of these downtown high rise buildings. I mean, it was relatively challenging to be honest with you. So I feel good

that we're mostly on the backside of that, hopefully, we never have to go through something like that again. But now every time you think you see something that's business, there's always a little curveball thrown at you. And I think it's just about being responsive, you know, communicating to the residents. Obviously, a lot of residents were impacted. But I think when everyone kind of takes a step back, most people are going to realize this wasn't something that we did it was literally everybody had the same issue all at the same time. And if they didn't cut the power off, we probably would have had 1/10 of the issues that we did is really that power being cut off really exacerbated a lot of issues,

[09:33] Whitney Sewell

Any changes or the way you operate moving forward because of this. I know this is something that doesn't happen very often in Texas, but you know, anything that's come from that that said, You know what, we're going to start doing this from now on if we see that the

[09:45] Michael Becker

Forecast is to have you know, three days of single digit temperatures in a row, we might consider to be preemptively with the fire suppression system, and maybe drained the lines of going on fire watch a little bit earlier. I think that'd be something and then maybe take the time and The summer to maybe do a little better job of inspecting the attics, seeing if there's any plumbing lines in there and maybe insulating them a little bit better. That might be something that I don't think anyone's ever really paid attention to too much around. Like you said, this doesn't happen very often, even if we had this weather, if they didn't cut the power would that is bad, then at my house, we were lucky, we don't have any major issues, but I'm going to go get a backup generator that's natural gas supplied. And I'm going to do that probably this summer, or in the fall when the pricing comes down a little bit, because I think you get a pretty good generator for like five or six grand. So I never thought about that until this moment. And then I'm going to go ahead and take care of that.

[10:34] Whitney Sewell

Yeah, probably want to invest in those generators, right. So I wanted to pivot just a little bit and talk about instead of just the last week or so, but really over the last year, and just things that maybe you've learned things you've had to implement just through the pandemic, and you know, what that's done to your business, your property specifically? And then we'll talk about obviously, how that changed your mindset moving forward when looking at deals. But can you elaborate on any part of the pandemic over the last year and what that do to your properties specifically,

[11:02] Michael Becker

You know, we've been fortunate we haven't had too material of impact. I mean, certainly the delinquencies up. And we have, you know, a handful of people that just aren't paying that have been any units at this point for, you know, many, many months in some cases. But you know, for the most part, the residents have been pretty good about it, if there's capacity to pay, they've been willing and able, and they actually have paid for the most part, there's a handful of bad apples in the mix. But I feel pretty fortunate that multifamily has been proven to be pretty resilient. And, you know, get I talked to you from my office in Dallas, Texas, where as a person with a bunch of properties in Texas, by out of us property in downtown San Francisco or Manhattan Island, maybe my opinion might be a little bit different than what I experienced. But I think that's most of the Sunbelt and kind of Midwest probably

felt like this was similar to what I did. So obviously, you know, we're elevating delinquency, but you know, we went from like, less than 1%, probably, you know, four to 5%, probably at the peak. And actually, as we turned into 2021, that's the kind of has come in a little bit. So we actually kind of turn the corner even without the big tool of eviction with the CDC declarations and taxes, you actually still candidate up until the point where they it resident files, a CBC declaration, you got to kind of stop and suspend it, but you can actually file evictions go to court, and most jurisdictions and police in Dallas Fort Worth, awesome, they do have a moratorium, so you can't even file in Austin and Travis County and the two surrounding counties. So it's a little bit more challenging down there than it is up in Dallas Fort Worth. But I think that couple takeaways really prove their business model out quite a bit to the extent we own anywhere from workforce housing, you know, stuff built in the 60s or 70s, we don't have much left. But that's kind of where we started the way to brand new class a and, a whole bunch of stuff kind of in between. And where we did see delinquencies, it was kind of concentrated a little bit more in the workforce housing versus kind of some of the newer stuff which makes sense because those residents tend to be people that have to physically go somewhere to have a job.

[12:53] Whitney Sewell

Michael Becker is such a powerhouse in our industry. It's been incredible to hear how he has handled the pipes bursting in Texas, too many other things that are happening right now in our industry. And so I hope you've enjoyed this portion of the show. Unfortunately, I had some computer issues, and we split the show up and we are continuing the conversation into tomorrow. So thank you for listening today and follow up tomorrow for the rest of the show with Michael, where we just talk about being prepared for the worst and many other things in our industry. Thank you again, have a blessed day.

[OUTRO]

[13:27] ANNOUNCER

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