

EPISODE 879

[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 Jim Monk, thanks for being on the show Jim.

[0:00:32.2] JM: Glad to be here, thanks for having me on.

[0:00:34.1] WS: Jim is the president of CLOZZITS, a leading manufacturer and installer of closet systems for the multi-family industry. As president, Jim's goal is to differentiate between the normal amenities and tap into a new area of construction development, renovations and property management.

Jim is changing how investors, owners and managers look at closets, which can provide an immediate rent increase. Jim, it's just – creating an incredible business model here I think or just helping us think outside the box a little bit, it's not something that many of us have probably thought about, is that little space back in the bedroom that could be increasing our NOI and I'm looking forward to you helping us think through that a little bit.

I bet many listening have not thought about the value that could be created there. Get us started though with a little maybe, about your backstory and how CLOZZITS began and let's dive in.

[0:01:30.1] JM: I guess I'd start off with, I didn't start on this path, it's been a windy one as most of us, it works that way. For myself, as a passive investor in real estate, I was talking to a friend of mine that happened to be in the renovations industry for multi-family and like a lot of your listeners, Whitney it's always, "What can I do, what are you seeing out there, what can I do to move the needle?"

We had done already all the hard surfaces, the flooring, courts or granite and as a passive investor I was looking on what else is even left to do for some of these property sets? Stephen, my business partner today had done over a hundred thousand renovations in the multi-family space with a large company and he said, "Well, the only thing that's not been touched is the closet."

That led me on a path of about an 18-month journey to see if there was a business model that could be had that would allow for low cost, out of the pocket, with immediate impact and be able to it obviously affect the NOI and the asset value of the property. That was a number of years ago now.

[0:02:35.9] WS: Wow, let's just get right to that there. I mean, what have you seen as far as operators being able to achieve increasing the – just the return on that kind of investment?

[0:02:47.9] JM: The average – we work with and I'll just preface, we're just now moving into smaller group sets. We work with big companies right now, UDR, The Harbor Group, Knightvest, these are companies that have 70 to 150,000 doors so they're quite large. When I talk about this, the nice part is, these big guys are validating what we're doing. Our average client post-COVID, that's an important factor these days, is between a three to 5% rent increase, average ROI is 33% after about three years.

They're seeing a strong play there but more importantly it's the investment dollars average. A client will spend on average about 750 to – depending on the size of the closet, between 750 to a thousand dollars per unit just to kind of give you some numbers there. This is nationwide now, that's installed. That's installed Whitney. You can do the math real quick, our average client sees about a 35 to \$55 month rent increase as average.

[0:03:51.5] WS: That's some good numbers there. As the listener, they can really think about – obviously it wouldn't be maybe exact for their property, right? But it's some good numbers to be able to think through, is it worthwhile? Help us to think about who your –

You're talking about working with some smaller companies. Now I'm glad because we don't have 75,000 doors yet but tell us about that client though, that maybe they have 500 to a thousand doors, is that somebody you're working with now and is that an option for them?

[0:04:21.5] JM: Absolutely. One of the things we started doing was, we realized if we wanted to scale up as a business, being a manufacturer, which we are, that we needed scale and so some of our biggest clients have taken us within a year, one year.

What happens Whitney, is a lot of these guys will come in and say, "Let's test market." They'll test market with a couple of complexes and so forth. A number of our clients got us into 15 markets within one year.

What happened is they start working with us on their existing property set and then they start pulling us into their acquisitions and as you know right now, acquisition activity is really high. Literally, we're getting calls from our clients going, "Are you here, are you here?"

We really needed to be in some of those markets to get scale so for us, we're now able to go and service a lot of the smaller guys that may not have the volume play yet that the larger groups do.

It took about three years to get there but we're now in 20 something marketplaces and growing very rapidly on that.

[0:05:19.1] WS: Nice, well, let's dive in a little bit to the operations component and when does someone contact someone like yourself? How do we go through renovating closets and maybe we talk about how long that process takes?

[0:05:33.1] JM: Really good question. There are a couple of different ways, I'd like to definitely expand this for some of the listeners because some of the ways are even driven to do this

decision to use a closet system is not what I originally came to the market. My immediate thought was, "Let's just get a rent increase, impact our NOI, get my asset value up and sell and move on."

For a lot of our clients, what they're doing today is they're either doing it on the make-readies, so they'll do it during a renovation project or something of that nature. They're bringing us in on the turns now which is really what our original target was, doing the installations on the turn. As the renter leaves, we come in, we do an installation, takes about two and a half hours, what you see behind me, to rip out, install and then they can see the immediate impact to the rent level.

It's a differentiator. For a lot of your syndication groups out there, the larger guys are leaning on this because it's a different chair as they walk through with a renter or potential resident, saying "Hey, this is something, it's an upgraded feature that we have now," but, some of the reasons why, from an operational point of view, that these guys are doing it, is on the acquisition, where they're figuring this into the value add front end now.

We do walks, I've probably done 30 walks this month. Actually as of last month, let me tell you about it, we're early this month. Last month about 30 walks with clients where they're looking at what the cost is and their value [inaudible 0:06:56] and then we'll talk a minute here about the drivers of it but some of the drivers are beyond just rent increases that are very interesting.

[0:07:06.4] WS: What about advertising this to tenants, how does that – when does that benefit? Is it, you know, I know you mentioned a little bit when you're doing rent turnovers, a lot of that was the initial plan of when to do this. Are there operators that are doing it even while tenants are still in their unit or is that potentially as units are turned but that's the – when potentially people are doing this, or operators are completing this project?

[0:07:32.1] JM: Good question. We've had both, what we found to be more successful is when they're doing the make-readies and the turns aspects so they can then justify it and then come right on in.

What a number of them are doing that's very clever is they're doing it at lease up's. Right now, they're finding it difficult, maybe to get or justify that rent increase. They'll say, "Hey, by the way,

instead of giving a concession or a month free rent or [inaudible 0:07:54] that out,” what they’re doing is saying, “Look, we’re going to upgrade your closet because it gives you more storage space, it’s a better looking product.”

A lot of them are looking for that, based on the demographics, that are looking for more storage space, are resort-type amenities and so, they’re doing it at lease up, which again, I find very clever and some of the motivators for retention as well.

Some of the others that your listeners should think about, we have a number of clients that use this as a way to defer profits for a year so they’ll come in and say, “We need to do a small project, we need a way to, we just don’t want to pay the tax man today, how can we defer?” So they’ll defer and then others are leveraging it as a way to do it as they’re getting ready to exit a property. Very cleverly, what they’ll do is they’ll come in and say, “Let us put it in five, 10 units, bet out the model,” and I know you know where I’m going with this and they’ll say, “Hey, this is a new program that we’re getting ready to launch and when you buy the property, you can take advantage of this as a new feature set.”

[0:08:54.7] WS: Nice. Well, I wanted the listener to know too that Jim is sitting in a closet right now and it looks amazing, it looks perfect actually. It’s interesting, if you go to YouTube, you can watch this, you can see a little bit about where he’s sitting right now and part of their product anyway.

Anything else about closets specifically or just that process that you want the listener to know, I know there’s a few other things I wanted to ask you about, just about business and different things that you’ve been successful and even, just the real estate market but anything about closets specifically that could help the listener to better think through, just this opportunity really that most likely they’ve not even thought of?

[0:09:31.2] JM: I would say that to most of the listeners out there, when they hear about this, they go, “There’s no money in this. We’ve seen this and time and time again.” They’ll say, “Look, we have wire or we have MDF, it’s very utilitarian, it works.”

Well, today's rent class is looking for resort-type amenities and I would say this really plays well in the B to A market. B, we put a lot in where they're trying to increase it but A, it's almost a no-brainer. What happens is that that rent class is looking for resort-type amenities. They're seeing the Kardashians out there with their closets and all this other stuff and you know, it's a way to break out of that conditioning, differentiate yourself, rip out the wire racking that we typically do. We're doing it on new construction now, Whitney.

We'll literally have groups that come and say, "We saw this a mile down the road that you installed for our client, we just built it six months ago, we need to rip our wire racking and put this in." It's because they said, "Look, people are shopping and they need to look at what's at the marketplace."

We feel that this is the next amenity set that's going to be taken up like the granite, like the stainless steel and so forth. From a process point of view, if the clients reach out to us, or perspective clients reach out to us, the very first thing we're going to ask for is, "Give us floor plans, let us design it out at no cost and let us, in some cases, test drive with you and beta test and walk with you on this so that you feel comfortable and are able to get those rent increases you're looking for."

We really do try to look at it from a business point of view than just saying, "Here's an amenity." I'm a numbers guy so I'm going to go on how much are we going to move that needle and make you and how much does it impact your NOI and ultimately the asset value on your property set and so we have a number of case studies we've done where clients spend a couple hundred thousand dollars and they see a 3.2-million-dollar rate of return on our amenity set just based off of rents.

[0:11:17.2] WS: Yeah, well, I mean, wow, I mean, just right there, this should pique your interest as an operator in a big way to at least call you or figure out, connect with you all to figure out if that is something. Are you all nationwide with that?

[0:11:27.9] JM: We are actually. We have many installers but I'll say this too, one thing that we went to market on is a little different, we don't just install, we can sell the product to clients who are doing self-fulfillment themselves. We work with a lot of clients to say, "Look, we just want the product, we have a better labor market or we have a GC we're working with or trim carpenter."

So we design and then we'll ship them to product, we do that literally every day. We'll ship product out to clients all over the country where they can do the installations themselves, they call us up and work through that and that way, again, we're meeting them where they need us best and we're a manufacturer ultimately.

[0:12:06.2] WS: Nice. You have grown companies, you've sold companies and I know you are good at some growth hacks and strategies to scale a company. I know that so many of the listeners would love to hear some of that, I wanted to provide an opportunity for us to talk about some of that as well because I think we can benefit greatly but let's dive into that just a little bit.

Like I said, you've grown some companies, sold them, been successful with that and just some growth hack strategies, let's talk about that but get us started at some things that have helped you to be just ultra-successful in that way?

[0:12:37.6] JM: I underestimated the power of the Internet at the early stages of my career and very quickly, as I brought a VP of marketing, I found out that it converge and exponentially grow like podcasts and things of that nature. Been very fortunate there but some of those growth hacks that I would say are very unique that you should consider is there are definitely some very interestingly— I'll give them one that we like recently that we're working with, I don't mind sharing this one.

It's a company called Cleverly. Cleverly is a way to engage LinkedIn audiences and expand your LinkedIn audiences at a very nominal cost without you having to do it. It personalizes messages and connects in very quickly. It's a company that most people haven't heard about but a lot of the hacks that we're doing is through automation, as much as we can, through scale. And so one of the things I always tell people is create the process and drive the process, not the people and that's one way to scale things.

I would also say that for a lot of folks out there, some of the – one of the best books I recently read is called *Blitzscaling* by Reid Hoffman.

[0:13:47.1] WS: Book scaling?

[0:13:49.0] JM: *Blitzscaling.*

[0:13:50.4] WS: *Blitzscaling.*

[0:13:51.7] JM: By Reid Hoffman and Reid Hoffman is, if you don't know who he is, he's the founder, co-founder of LinkedIn. It's all about scaling companies and processes and people and so I know it's not giving away too many of the hacks but I would definitely say that that's one.

And then depending on your audience, looking at associations. I think we, a lot of the times, forget about associations and networking within the association to see what's going on within that industry, the one we're in now. But there are definitely ways of leveraging that more to gain instant access so I don't know if that really helps but those are some of the things that we use internally here even to grow our audience base and scale up.

And then the last one is process. For us, we have to have a large infrastructure, a lot of installers and the same way with all the other things that ran, it's all about processes.

[0:14:40.0] WS: How do you document your processes? How do you do that so it's easy to understand, the whole team can understand and follow through?

[0:14:46.2] JM: Great question, so for us, especially being a manufacturer as well we have processes on the internal side for just that but for us, what we start with is a base flowchart like a decision-making tree. For us, it's, if you're a client I'd go, "Okay, what information do we need? What are we trying to achieve here in this set of the process?" We document that out and the easiest way to do it is literally a piece of paper in a box and say, "If you say yes to this and no to this, where do we go?"

You document that all out and you break it into phases and then what we do is we do internal documentation. We standardize our format, our nomenclature and we'll say, "This is how we do this," and so it's almost like a – and another great book is *E-Myth Revisited* it is the McDonald's approach. I want a burger to be a burger every time and so if we're looking for that outcome, we document that way.

Then for us, we break it down. We share within Dropbox within each of the departments, so depending on the flow of what it is, if it's sales or marketing or HR, we document and break that out and then we have our leadership of each of those groups manage that and keep it as a living document.

[0:15:54.9] WS: What's the tech behind that to make that happen? I know you mentioned Box but what do you all use to just the tech side?

[0:16:01.7] JM: If you're talking about – so a couple of things that we use, for us being a manufacturer we use a big ERP based system, probably not what most of your listeners are going to use, to track over inventory and everything else.

[0:16:12.1] WS: Right.

[0:16:12.8] JM: The big tech or the simple tech that we started with this as a startup anytime was Word and Excel and then we use Box or Dropbox and we break it out that way and then the most important thing is that you're getting adoption by your people to use it. It is one thing to make that product or make those plans, if they are not leveraging that or using that Whitney, then it's pointless.

[0:16:36.6] WS: Right. Any kind of task management software like Asana or Trello or Monday or anything like that?

[0:16:42.4] JM: We use Trello. Well, we tried Monday. Monday is good but Trello we use as well from that perspective and then from a project management point of view is what I would say we use that for, for task management on a daily basis.

And then we leverage again, I'll go back to we leverage our ERP for a lot of our scheduling and processing. That's a resource planning system like for us, it's a NetSuite product or Oracle or something like that.

[0:17:06.7] WS: Nice.

[0:17:07.6] JM: There is going to be probably overkill for what your group needs but when you're invoicing out thousands of – well, I mean actually your groups do probably. Thousands of invoices out for each unit set, you have to keep track of that and everything else.

[0:17:20.1] WS: I want to shift again a little bit because you have a hand in a lot of properties, right? All over the country and, you know, I just wonder too, where do you see just the market going in multi-family?

[0:17:31.5] JM: Yep, so a couple different trends that we see at least happening right now. We're launching a self-finance program for this. We are literally getting ready to launch a program that's an unsecured loan to our product in the industry. We've been working on that, I've got a meeting today with Goldman Sachs and these big tier groups to make sure that's compliant with the first position mortgage or lien holder and so we're getting ready to launch that program.

What I see happening is, through talking with a lot of these groups, a lot of bridge financing going on right now, a lot of the acquisition activity, really heating up. There is a lot of money on the sidelines that is coming back into the marketplace. When I look at the markets that we are heavily involved in, Dallas, Phoenix, Florida in your southeast areas, Seattle, what I see happening there is I see the new construction slowing down. I see, at least from my perspective, syndication and so forth are moving up the class rank. At least from what I can tell, into B's and A's and are in a longer hold pattern just based on the cost of ownership today. It's just I'm in here in Dallas and you know, per door for a C-class property is just I mean I never thought it would get that high. I just didn't think it would get to 60, \$70,000.

[0:18:50.5] WS: That's cheap compared to some.

[0:18:52.5] JM: It is, that is and then lumber prices are really driving the cost of build. We have clients right now, they are over-budget two, three, \$4 million because of wood prices.

[0:19:04.4] WS: Just the unknown of where the price may go, you mean?

[0:19:07.2] JM: Correct and so I think you'll see build go down and you're going to see the existing just get more in demand and, you know, activity for those groups and so again, just like you said, a little bit longer hold pattern just base on the cost and getting the ROI up.

[0:19:22.1] WS: Any big concerns right now in multifamily?

[0:19:25.2] JM: I think I was originally concerned. I think a lot of us were on where we were on the capturing of rents and so forth. For some of these groups and depending on where you're at in the United States demographically, it has been impactful. We have clients that it's really hindered their abilities. Some are very much on a lockdown pattern right now based on their rent class and what they're able to get in.

I'm hearing out there at least in what I see is confidence in the marketplace, that it's getting better, that we're through the election now, so there's that uncertainty, now there's certainty. Whether or not you agree or not, there is certainty there and I think you see the numbers playing out that way. I think your lower level income households, they're struggling still and I think that's going to be impactful to the property set that they typically would play in or live in.

That is what I see, so nothing major. I mean the stimulus package is coming out and it is impacting the economy as well in a positive manner.

[0:20:24.3] WS: What about you just being successful in numerous businesses that you have. I love asking as you know, I guess I love that you're a listener as well but any daily habits that you're disciplined about that have helped you achieve success?

[0:20:37.0] JM: Absolutely, so one of the very first ones that I do every day is I give myself a one through ten ranking scale of how I am both personally and professionally, so I know how I'm going to impact my group.

Every day when I walk in, we have a standup meeting at 8:00 every day. It's been with every company and it's with my executive team or if it's, if you're a small company, it's with everybody. We literally go around the room, I did it this morning and I say, "Tell me from a scale of one to ten where you're at?" Typically, they don't elaborate unless, my rule is once you go below a six,

then we're going to ask, "What's going on personally and professionally?" Because I want my team to be engaged and we spend more waking hours with these folks that are in our lives on the business side than most of our family time.

[0:21:21.4] WS: That's a good point, yeah. I would imagine that helps some morale and team building as well.

[0:21:27.0] JM: Absolutely and it allows us to get our day started off and then the next thing we're hitting is, "What are our big rocks? What are the top four things I'm trying to get accomplished today?" And we go around the room on that front as well and then it's, "Can we help in that, can we not help in that?" And then we have our small tasks. The small fire drills and everything that we're doing and dealing with on a daily basis.

The most important thing I always tell my folks at the end of it is, "Let's get amongst everybody. Let's make it happen but let's not make crazy our crazy." Let's keep it very – let's try to control that. That's one of the daily habits that I definitely have and I'd say one of the other ones to get my day started off right, podcasts. I'm a huge listener to podcasts, business podcasts, ones like this here and it just gets my day started and juices flowing on that.

[0:22:16.4] WS: Awesome. Well, what about the best way you're finding new clients or investors?

[0:22:21.0] JM: You know, it's odd but because it is such a unique play, reaching out through LinkedIn, reaching out via phone still, the traditional phone set, where we're finding those clients at. Referrals obviously play a role for us. One of the very interesting parts is that our business is growing based on. what happens is, as we see our clients start acquiring, immediately we get engaged with the new or the sellers and so forth, we get engaged so we're almost brought into other portfolio sets that we weren't really thinking of and so kind of spiders out and so that is a positive.

And then clients that are getting shopped by competitors. That's another one where they'll call us up and say, "Hey, we saw your product in there. Can you tell us a little bit more? Because we were down the street at this property set and we see things happening." It's a combination of

things. I'd say for the most part, it's been our clients who push us out there. Or people leaving their companies and they are going to a new company. They say, "Hey, I'm over here now. I was over here. I want to work with you."

[0:23:25.9] WS: What's the number one thing that's contributed to your success?

[0:23:28.6] JM: My people. I got to tell you, in every one of the companies that I've ever been involved in, I've been extremely blessed to have – that is probably one of my strengths I would say is identifying really great talent that have a strong moral ethical compass and get shit done. They do, they get it done and I have a lot of trust in them and faith in them and so, my people, they're amazing even in this company and previous companies, I can never say enough about how good the people were.

[0:24:03.2] WS: A couple of tips on finding them, I know that's what the listener is wondering right now.

[0:24:06.9] JM: We use Indeed. We also use LinkedIn and then we do internal referrals as well. One of the things I would definitely tell you is it's about really having a defined process on interviewing them and making sure that they're a cultural fit. We actually have a cultural index assessment that we do on everybody and there's one called Cultural Index or cultural assessments. There's different ones out there but we do that.

We always leave the prospect, this is one of our things that we kind of quietly say, we make sure they have some sort of homework in the interview. We say, "Look, go check this out or go find a couple of competitors." Find out how much they're willing to push forward and think outside the box. For us, it's about making sure they have not only integrity and so forth, which takes time but that they have the drive and can think on their own feet. A lot of times, things are fluid, as you know so yeah, we have a pretty defined process on interviewing.

[0:25:06.2] WS: Awesome, I love that. You have to have a process and the listeners have heard me talk a lot recently about how we've started hiring and going through a book called *Topgrading* and some of that. I mean I would say we use 50% of that book but man, it helped us so much through the interview process. I mean just we use Indeed and LinkedIn and referrals. I

mean I don't know if there was, from my last VA hire, I don't know how many hundreds of applicants we – But doing some specific things kept us from having to look at every application, right? Helped us narrowed down really fast to like four interviews, so I cannot agree more to just having a very good process. How do you like to give back?

[0:25:46.7] JM: Actually in our offices here, myself and Stephen, we actually have three charities that we work through. One of them is an inner-city boxing ring for children that are at risk. That one is called Ring of Hope, so we do that one and then there is one called Living for Zachary, which is around cardiac arrest for teens and one called Six Stones that gives back to the elderly and stuff like that and helps them around the home when they can't get it fixed.

I'd say those are the top three and then there's a bunch of others that we belong to and then mentorship. I will tell you that people are, our age group, there's, even for myself, I never really had a mentor and so as I've gotten to be middle age, I look at them and then I go, "Boy, I wish there were more mentors out there, people sharing information," like we're doing right now and so that is one of the things that I talk about with millennials.

Look, if you need any advice or anything, let's talk. You know, we're not – you know, I am 44 so I am not too much older but most of the mentors out there today are in their 60s and they're great but they're a little bit disconnected on certain things too sometimes.

[0:26:59.8] WS: Awesome Jim, it's been a pleasure to get to know you a little bit and just really hear about this business of closets and how that can increase the value to so many operators, so many properties that they probably haven't thought of. I would imagine most at this point haven't thought about, you know, renovating closets and having that kind of return on their investment but just also you sharing just about your business background and how you can help.

You helped us through thinking through some growth hacks and the books and just documenting processes so the whole team is prepared and understands the process, even your stand-up meeting at 8 AM everyday. I think there's some great value in thinking through, are you meeting with your team often enough? Are you asking them how they're doing personally and professionally because if you're not, I mean you're probably missing out on many opportunities to help them personally but also grow your business professionally.

Jim, I appreciate your time. Tell the listeners how they can get in touch with you and learn more about you?

[0:27:57.7] JM: They can reach out to me at jmonk@clozzits.com. Through our website, clozzits.com or you can always find me on LinkedIn. I love LinkedIn.

[0:28:10.1] WS: Awesome, that's a wrap Jim. Thank you again very much.

[0:28:13.8] JM: I really appreciate it, very insightful.

[END OF INTERVIEW]

[0:28:16.6] 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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