

EPISODE 932

[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 Whitney Sewell: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Daniel Farber. Thanks for being on the show, Daniel.

0:00:32.2 Daniel Farber: Thank you very much for having me. Great to be here today.

0:00:34.9 WS: Yeah, honored to have you on the show. Daniel is CEO of HLC Equity, where he is responsible for leading the executive management teams on strategy and execution of growth for HLC's equity investment portfolio and leading the groups operating businesses and brands. HLC Equity is a multi-generational real estate investment firm that has acquired, managed, developed and repositioned real estate and over 25 states throughout the US, having owned and managed over 7 million gross square feet of commercial residential and development land.

Daniel, welcome to the show. It's always a pleasure to have someone who is very experienced in the space on the show and hear your... Just your outlook too, in the market right now, different things I know we're gonna talk about, but especially just multi-generational and investing in, looking forward to... I'll talk about that, but why don't you give the listeners a little more about that, about your multi-generational business... And let's dive in a little bit.

0:01:29.5 DF: Sure, 100% with pleasure. So HLC equity, as you mentioned, it's a multi-generational real estate investment company, we used to go... It's been around for over 70 years, so obviously there's been several different iterations, different asset classes, starting with about land development deals and places like the outskirts of Scottsdale, Arizona, eventually going into this previous generations going into neighborhood shopping centers, and over the last not a like 20 years, there was a heavy focus on some neighborhood shopping centers, but a lot of retail kinda like net these assets.

For those who don't know what that means, it's primarily the idea that, you know, we have a credit-worthy tenant who gets us on the... We get them on a long-term lease, they pay... It's a great cash flow. It's a steady... But as the retail market started shifting in it and seeing all kinds of different dynamics in the market, we really kinda transitioned our portfolio away from actively purchasing new retail properties for the most part, and towards multi-family and really building out our multi-family both on an operational and an ownership standpoint.

So that's really what brought us to today, and we started looking at specific markets, so while we do maintain a kind of a legacy portfolio in retail, our main focus right now is acquiring multi-family deals in locations like Dallas, Denver... there's some actual new markets that we're looking at just giving dynamics that are in the market right now. Pittsburg, we used to do a lot of deals in Brooklyn, but that became a challenging market to work in, so we're really like in different locations and just very excited about the multi-family market in general.

0:03:02.7 WS: No, that's right. I was gonna ask you, obviously, what's changed or shifted over time, it's neat when somebody's business has been around that long and investing that long, and is there anything else that you would share with the listener that they need to know... Right, like over this period of time, we've learned these things and this is a big thing, and this is how we've shifted or because of this...

0:03:22.3 DF: Yeah, it's interesting because my grandfather, who really was to drive in force in our company, he... Yeah, I remember him telling me a long time ago, real estate is a 10%

business, so it's like we want 10% on whatever we're doing, and that makes sense in the business, but that was going back when the interest rates were in a totally different place, the market was in tolerate, the market wasn't nearly as kinda flooded and so many people having deal flow and access and so forth.

So a lot of dynamics have changed, and we can go back and forth of whether it's for the better or the worse, but there's just been some fundamental shifts in the market, so from the retail sign, that's obviously changed in a big way, but it's changing daily, so if you just take it on a year by year... So in 2016, we were buying in Denver, so you'll appreciate this. Given your activity in Colorado, we were buying a multi-family deal for a six-cap, and people thought we were crazy.

A six Caplan for a multi-family, and that's in 2016 and so now, and it was in a great location, and there was a lot of reasons why we did it, and thankfully, we actually exited that deal and we did really well for ourselves and our investors but the point is, is like, who knows how our overall outlook is that... We don't know what the future is gonna hold. We protect our downside and just hopefully, we buy well over the long term.

So we're not looking at these kind of two to three-year deals that we have had two to three-year deals pan out really well, but we just know that that's a function of the market and where things have come out in over the last 10 years, the market is just at all in all done really great. So people have done really well, not because anybody's smarter than the other, but just because they... It just kind of held on, but the way we look at it is right now, we're going into deals and we are purchasing assets and what we think is a conservative price to go in over the long term, because you have to have a long-term outlook right now. Just given where interest rates are in the economy.

0:05:11.1 WS: No that's incredible. You knew I was gonna ask about your outlook... Right. And already told us you don't. You don't know right now. It's good, it's really good. But you mentioned protecting for the downside, and we talk about that a lot on the show, always asking How do you prepare for a downturn, and I love hearing what different operators,

especially as the experiences you are... How do you answer that question? I get asked that from ambushes often, right? But how do you all prepare for a downturn or protect against that downside?

0:05:37.0 DF: Right. Major factor is the idea that debt can be as addictive as drugs, so to the extent that in a market where you can just get money and it seems free, it's very challenging to make sure that you properly capitalize your deals in a way that... When the market does go down, which eventually it always goes down, but you're well protected in that you're in an asset class, like multi-family that is relatively resilient.

I don't like it when everybody says it's the best asset class, and then somebody always needs to live somewhere, because while it's true, I just kinda cringe at that because I'm always thinking, okay, something like if it's not a pandemic, can be something else that's gonna come at you from somewhere, so never be so confident in what you're investing in, but at the same time, you just gotta prepare and we can just do what the best as we can, so I think the way you do that is capitalizing your deals while buying them well, and then having a long-term outlet.

Not saying, Oh, I'm gonna buy this and I'm gonna flip it in a year, because I know exactly where the market is gonna be, 'cause nobody does it. It could happen, and it has happened to lots of us, but it doesn't mean that it's... What the future is gonna hold.

0:06:38.6 WS: Could you shed any light on the capitalizing well, is there a way that you think about that when you're acquiring a new project?

0:06:46.0 DF: Sure, obviously, right now, there's a lot of bridges that are being used, and that's how one way that people bridge that meeting like a variable rate that's ranging between what you buy it at and what you can eventually put fixed debt on. I think that while we do look at potentially doing that in some scenarios where we feel like we have enough room, I think that you're just adding on risk, and I think you just need to kinda recognize that risk, so in most scenarios are not interested in doing a lot of bridge rate debt.

We're interested more in fixing long-term cheap financing right now, so you know that at least your day is at a healthy place, and then there's all of the other tests surrounded, like your debt service coverage ratio, what your exact leverage point is... And then how much occupancy, if there is your doomsday scenario, which we plan for, how much vacancy can you actually afford at your property.

0:07:36.1 WS: Some great things to think through, and I wanted to... I know you have this thing called layers, layers program, I wanted us to have a few minutes to talk about that and what you have created there, I think that would be helpful for some of the listeners... So what is that?

0:07:49.3 DF: Yeah, so as we started buying these properties, these garden style 100 to 300 unit properties, multi-family properties in Dallas, we started managing the properties, and I come from a little bit of a technology strategic consulting and technology background, and so we were always kinda thinking, what can we do better, and there's so much tech in the world, and how can we implement something and operate it better and get higher returns, increase our revenue, and also the idea that community is so important today in this day of isolation, and I'm talking pre-pandemic, right.

It was important back then. So all the more so now, so what could we do to enhance these communities, 'cause it's really interesting, when you buy these communities, you actually are buying the community and then your only job is how do you make the community better, whereas everybody else is trying to say I wanna build a community, but here you actually have a community, so we started working on a model, and I brought on and was lucky enough to team up with some of the best people in corporate housing, community development and hospitality.

And we really created a hybrid approach to how we operate our properties, where we're able to offer service departments and conventional apartments, and with that though, we also have tech tools and community that really brings it under one cohesive system, and we have a loyalty program, so people who come in... It's called layers unlimited, and so basically we have a whole loyalty program around that, so we launched the layers brand of the lawyers operating

model.

And interestingly on the service department side, when we were first analyzing and I brought in some people from the corporate housing world and they told me, these are the premiums you could get if we ran our service department program in your account class B garden style apartments, and when they told me the premiums, which are between... Back then, it was 150 to 180% premium on rent. Now we're getting even more than that, but I didn't believe that. I was like, You guys are nuts.

There's no way, and they're like, Let me prove you wrong, and luckily, I let them... And they prove me wrong. And so now we're getting these premiums on our service department side, but the idea is as a consumer, 'cause our brand layers is very consumer-centric, is able to come into one of our properties and they're able to say, I want either a service apartment, or I just want a conventional apartment from an investment standpoint, it's great because we are able to get to premiums on the service department, and then we also have...

That's only a small portion relative to the entire property to call it 20%, and we're not doing... Also, it's important to point out, we're not talking about short-term stays, like some of the other platforms we're talking about focused on longer term, I mean we have people who have stay with us for years, we actually have a year now because we launched in the midst of the pandemic last year, and we're able to grow the service department offering because we're really competing with extended stay hotels.

And during the pandemic, people have preferred to stay with us because we offer a better price, and during a pandemic, we also offer a nicer environment. I mean all around, but definitely when people are worried about cleanliness and not being in a hotel...

0:10:42.6 WS: Interesting. Is there a specific property or something where you could elaborate on just an example of how you've used that?

0:10:48.4 DF: Yeah, sure, so the original one that we've launched on, we basically designated

it's 190 units, we've designated call it 10 units, and we said We're gonna turn these into our service department units, and we took those and we were able within the matter of around five months to get full occupancy on that with the service department, this is in Dallas, and so we took that data and we're implementing it on other properties, and now our investment thesis as we go into deals.

And we go into deals that make sense on a regular multi-family basis, but when we're able to unintended layer on layers, it just increases our returns now much more, and so from an investment standpoint, it makes it that much more interesting, and then I should just point out, so we benefit as investors, investors who invest with us benefit and then we also have the sense we've witnessed the success with this program, we launched a product called layers light, and we're now serving other landlords.

So they can just plug and play layers into their building in order to benefit from what we've built, which is, you know, it's a lot more... It sounds very much like, oh, I'll just go and I'll buy some furniture on Craigslist or whatever. It's much more than that. We've created a whole streamlined system, we've created the marketing funnel that bring the business to the service departments, and we've created a whole operational excellence around it, and then we have the benefit of the layers brand and the technology, where we have a community app and we have layers unlimited and so forth. So it's really a system that we've built...

0:12:14.3 WS: That's incredible. No, I don't know, it's interesting, I just wanna go ahead and ask you, how do I learn more about this layers program, in case an operator listening that wants to think about utilizing that?

0:12:23.8 DF: 100%, so the easiest in terms of layers, like if there's an operator out there that's interested, they can reach out to... Lucas runs our layers brands, you can email Lucas@layerslife.com, and then another way is simply to go on to the HLCequity.com website, which is our parent investment company, if you enter the contact form, or you can reach out to the contact information there. We can direct it to the right address.

0:12:51.1 WS: Awesome. Well, a couple of questions specifically about the current market situation and what not, as far as the pandemic, I'd get passed off and how a pandemic affected your properties and those things from investors nearly every day on. What does that look like for you? And was there anything that you all had done, say, before the pandemic that did help you to be prepared for something like that?

0:13:11.6 DF: Yeah, sure. So I think that a lot of going back to when we have initial conversation of like, What can we do better, all of that... those conversations and our utilization of technology upfront helped us through the pandemic, so we had already had a community app, we already had the general tools to do virtual tours, even though we weren't... That wasn't our process, but it took us about a couple of days to shift over and to pivot to say now we offer virtual cores, whoever once come on board, where it's like a lot of other groups that weren't paying attention to the technology trends may have taken them a little bit longer.

So I think that those things helped us prepare, so we were used to doing community events at our properties is a big thing, obviously all of a sudden we weren't able to... We had all these events planned, so then it was like, okay, well, what do we do? And we were able to use our digital tools in our app and so forth to at least have some sort of engagement, and then the other thing is that it's really been great throughout the pandemic, because we have a personal connection now with all of our customers, all of our residents on our properties.

But then we also are able to get live feedback because a lot of people, they tell you what they think you think Google reviews or bad, wait until it's behind closed doors. So we're able to get good feedback and you have to be picky in terms of what you pay attention to because everybody has a game, it's great to get live feedback, and there were small things that we saw that were just great throughout the beginning of the pandemic especially when everybody was scared... Right?

There was a period when, no, but we still don't know what the world's gonna look like. But how many people are gonna be out of work and so forth? And we saw people started writing in, you know, if anybody needs help, we're here, I'm employed, so I can help you, and all kinds of

great community building stuff that you just wouldn't see if you didn't kinda have those tech tools in place already.

0:14:56.5 WS: Wow. No, that's incredible. I guess changing gears a little bit too, I was just thinking through to a multi-generational, you all been in business a long time, but what's the next big change for you all, anything else that you see coming up? It's like, You know what, we're in a process of pivoting again because of what we've learned over the last 70 years.

0:15:12.5 DF: Yeah, I mean, that's a great question. We have those, it's a hard balance because you see things in the market, but you wanna push forward what you're working on, and you don't wanna get to go all over the place. So every day I come up with things that I tell my operations team like, hey, we should do this, we should do that, and they're like, That's a great idea, Keep on dreaming, because right now we're focused on executing that, what we need to do.

But I think that there's gonna be a lot of different new niche opportunities that come out of this new reality that we're in, obviously, and we actually just put out... We have a newsletter which is called HLC-equity insights, and everybody's welcome to join that, and through that, we put out some insights that we see live in the market. So a big thing that's happening right now is Hotel to multi-family conversions, which makes sense, people say, hey, that... Hotels are having a hard time.

Let's just switch them over to multi-family. It's a lot more complicated than that. We've looked at a lot of the deals, we put out what are some areas for anybody that is thinking about investing in that field, which is potentially lucrative, but there's a lot of challenges that people don't point out right away.

So we put out a list of things that investors should be wary of when they're investing in that type of thing, but I do think that that's something that at least people are gonna be pushing for, they're gonna see a lot of distress in the hotel sector. There's a lot of different funds that are being created to either try and buy hotels cheaper or else put debt to lend to these hotel

owners. I think that it's an interesting trend.

That's just one area I think there's gonna be a lot more. So you have industrial, you have the e-commerce boom, but a lot of times, you have to ask if, obviously, there's this dramatic shift to e-commerce, but is it as robust as it's been the last year, or is it just like... Is it kinda plateau over the next several years, so those are the types of questions we're asking with that sector, and I could go on sector by sector because I think that there's gonna be shifts in every sector. Definitely.

0:17:03.8 WS: Do you see, your all focus staying in multi-family, like a long-term now?

0:17:08.7 DF: Yeah. We don't have a mandate that we can do other stuff, so we actually... We bought a property that in the midst of the April May when there was a lot of fear in the market, we bought a retail property because it could potentially been repositioned and even be repositioned in the future to a develop a multifamily development site or it could stay a retail thing, so we're flexible in that.

We kind understand the different asset classes and we understand the value that's there, so we're not stuck on just doing multi-family, but definitely our main focus right now, just because we have all of this infrastructure that we've invested in our investment platform and also the layers brand, we're definitely have a whole side of our business that is focused in multi-family. Now where is a different story, where we had been focused in places like Dallas and Denver, which are getting very expensive.

We still like those markets a lot, we think that there is a big story to be told for the migration of these markets, we have some nice types of markets that we're looking at right now, and actually some that we're potentially gonna do a deal in that are kinda outside of the box.

0:18:13.3 WS: No, that's awesome. It's just neat to hear your outlook as well. And what you think about multi-family, all those things pivoting just a little bit, any daily habits that you have, that you're disciplined about, that have helped you achieve success...

0:18:23.5 DF: I mean, the ones that come to mind definitely have to be... Because of my tradition, I'm Jewish and the traditional type of thing that I do is in the morning, I pray every morning, and I definitely think that that helps balance, especially thankfully, I'm blessed with children. And so having a wild loud house and then having just a moment to reflect is really important before the work and the life day begins, that's really important, and the other thing is definitely exercise, which is key for sure.

0:18:51.6 WS: And I can definitely relate to that. Getting up before everyone else's day gets started, right. You're started... No doubt about that. What about your all's best source for meeting new investors right now?

0:19:01.6 DF: Sure, so we actually... It's interesting, we didn't go over like the capitalization of the company, but traditionally for a very long time, it was this traditional kind of like, private family business, and we might have done a partnership deal with another group that we were friends with or something like that, and over the last several years, as we shifted into multi-family started doing larger deals, we also said, hey, let's take our track record, let's take our ability to invest in to take out deals, and also our great management team.

And let's basically create an investment sponsorship platform. We will invest as a company and then we'll bring in other investors as well, and so that's really what we've been doing ever since, and so we have an investor base, it's very important for us to have a broad investor base, we have everything from high net worth individuals, lawyers, doctors, we have wealth management groups that we be invest with us, and then we also have private equity groups that we invest with as well.

So in terms of getting to know them, obviously the institutional investors that invest with us, it's a little bit different from a relationship building process. And the high net worth individuals. So we recently launched HLC Direct, which is our direct investment platform, where accredited investors can come right on to our platform, they can sign up and they can see our DFO as it becomes available, and that's been great just in terms of like somebody comes in, then we

have a conversation and we've been able to really foster good relationships that way.

0:20:23.0 WS: Nice. No, that's incredible. And what about the number one thing that's contributed to your success?

0:20:27.0 DF: I say it a lot, and I know a lot of people say it, but just the people that... That first of all, the people throughout my life, when I think about the people who really care, so not necessarily... I'm not saying like, oh, the most successful people or anything like that, but the people that actually really cared... First of all, I think that it's super important to always recognize that they got you to where you are, and then just try to surround yourself with the best people.

Both in terms of ethics and in terms of striving in life, for me, that's been a huge... My team, I think, is just an extremely impressive team, and so if there's one thing that I've done right, it's been able to get those people together and into one room, so to speak, and that's it, but I think that that's been like key... It's just bringing in the right people.

0:21:10.8 WS: And how do you like to give back?

0:21:13.2 DF: Well. On a charitable social action side, something that's very important to us is poverty and just dealing with the horrific poverty issues that are taking place today, so as a family on the side, like me personally and my family were involved in a couple organizations behind the scenes, that actually play into real estate, so interestingly, it's important for us to be involved in something where we feel we can add value, but it has to do with housing, providing housing for people who are less fortunate and who are going through a hard time.

0:21:43.8 WS: Nice. Well, grateful for you sharing that. Giving back in that way. I also wanted to ask you, you just said about bringing in good people, and I wanted to go back to that just for a second, and while we have just another minute and tips on bringing in good people, I've just in a series of shows on hiring class A talent and things like that, and how we've tried to do that, but I'd love any tips that you have and bringing in team members that are class A talent...

Talent.

0:22:07.0 DF: Yeah, 100%. So I think, first of all, there's a book that I recommend, it's called scaling up, a lot of people have heard of it, it's a great book and in there, there's one of the fundamentals... You have it right there. There you go. Yeah.

0:22:20.0 WS: I do have it, I do have it.

0:22:22.0 DF: Right. So it's a great book, and it's also... They've created the Scaling Up Network, which is a great network of people... Yeah. Then you got it there.

0:22:30.5 WS: Yeah. It's my business partner and I have gone through that. It's good.

0:22:33.5 DF: Great, yeah. So for me, they have a whole section in there on people, 'cause one of their theses is that people is one of the four fundamentals of creating a thriving business, so I think that there are great tips in there at pointers from a personal standpoint. I think it's just being genuine, I think it's okay to be vulnerable, and I just always... Whenever I am interviewing a potential teammate, I always think whatever the position is, I always try to think, Is this person better than me?

If I were to do that position, that automatically I'm attracted to, if somebody is doing something better, it has more skills to me that I'm attracted to, and then it's like, okay, well, now it's just... I gotta get them on board. I gotta... Whether it's selling them in a genuine way, and then if you have a vision and you create a vision, so our layers team is great and dedicated because we have a vision of what layers can become and same with the HLC equity team in terms of building out a larger portfolio to benefit investors and so forth.

So I think it's really important to have that vision, be genuine about the vision, and then you gotta let it flow down to everybody that you're around...

0:23:36.7 WS: No, that's wise words. Well, Daniel, it's been a pleasure to meet you, and I look

forward to get to know even better and your willingness to share multi-generational experience from your all's business and how you protect against the downside, the layers program, and even how you all utilize tech and how that helped prepare you for even the pandemic, and also bringing in good people as well, and how you've done that, so how can the listeners get in touch with you and learn more about you?

0:24:02.7 DF: Definitely, so with pleasure. So first of all, I'm on LinkedIn, Daniel N. Farber, and then you can just search Daniel Farber, HLC Equity or on our website. Again, if you go to HLCequity.com and you fill in the contact form, it will get forwarded to the right person, whether you're interested in investing. If you are interested in investing, you can go to the HLC direct page there, and there's a direct form to sign up, but anybody else can reach out and get directed whether it's to layers for investment, whatever it is, or just generally to talk or if there's any way we can help. We're always happy to try to help as well. So look forward to connecting.

[OUTRO]

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