EPISODE 1061

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:01.6] WS: This is your daily Real Estate Syndication Show. I am your host, Whitney Sewell. Today our guest is Chris Shepherd. I've been on Chris and AJ show, and it's been incredible to get to know those guys a little bit and just see what they've accomplished, but Chris is an experienced young entrepreneur in Portland, Oregon, and the co-owner of Uptown Properties with his brother AJ. He bought his first buying hold investment in 2006, aside from property management company, he's also into construction brokerage and syndication. It's incredible, we talk through the show a little bit about why they brought property management and construction in-house and how that's worked for them, even syndicating small units and why they have done that, they've syndicated an 8 unit... I think a nine unit may be a 12 and up to like a 40 unit, but numerous small multi-family projects that a lot of people give a lot of pushback against...

Right, it's worth doing that or whatever, and we go in-depth a little bit about why you should consider that... Right, or why I would consider it as well. But then he goes into some value-add tips that I feel are probably not utilized enough, and one way specifically, they've created a ton of value at one deal very quickly, even a couple other organizations that they're a part of, that's added a lot of value to them and is allowing them to add a lot of value to other people... I hope you enjoy the show.

[0:01:45.6] WS: Chris, welcome to the show. I know you and I've connected a couple of times in the past, and I think maybe I was on your show, but I know you have some expertise to everyone in this business, whether you are a passive investor, whether you're an operator, you need to know some of these things we're gonna talk about today, it's a good questions for your operator or just for the operator to be thinking through some of these ways that you all are maximizing adding value to these projects that you're working on for yourself and for others, but welcome to the show, give us a little bit about how you got into this business and let's jump in.

[0:02:11.5] CS: Whitney, thank you so much for having me. I love your show and I'm just so impressed how you podcast every day. It's incredible. Yeah, so a little bit about me. My brother and I, AJ, started investing in roughly 2006, our dad was a landlord and kind of showed us the business as we were growing up, we would be cool coding roofs down in Arizona if we ever got in trouble at school, but he would pay us... It was awesome, and I was just always so impressed how he never had to work... Not necessarily, never had to work, never had to go to work. So we took that mindset and I... Through his, I guess, not having to go to work, I started playing poker in college, and I really learned how to take a calculated risk, and that pretty much easily flowed into investing in real estate. And I bought my first house in 2006, not the best time to buy a house. I actually just listed that property a few months ago for slightly more than I bought it 15 years ago, but good thing that didn't stop us from buying our first deal, so AJ and I started investing in single family homes in 2009, and we bought around 30 homes since then, and in 2014, we bought our first four plex, we bought about 20 or 254 plexus since then, and then we jumped into a unit, 10 unit and larger properties, and we just started syndicating deals in 2019, and we did a nine-unit complex, and we've done a 12-unit complex, a 21 unit complex, and we just did a 48-unit portfolio back in June.

[0:03:56.3] CS: That's a little bit about us, and we also started our property management company and our construction company, and our main focus with our business is to invest locally where we're able to vertically integrate all of our services, so we provide property management and we'll implement the value-add plan through construction and...

[0:04:19.3] WS: That's awesome. It's neat how you all have integrated the property management and construction, I brought that in-house. And I wanna talk about that just a minute, but I first want to ask you, you mentioned you started playing poker and you learned how to take calculated risks, and I'm not a poker player, but I haven't thought about in poker, calculated risks. It seems like it's all a risk... It's all a gamble, right? Is there a calculated risk in poker.

[0:04:40.5] CS: When you're at the poker table, you're really learning where the good opportunities are, so you're sitting next to somebody who you know is a poker Pro, that might not be a great opportunity, that might be the really expensive retail property that has no upside, but then on the other side of the table, there might be someone who you know has never played and was asking the rules, and it's possible that that might be a ruse, but certainly something to find out more information on and maybe play a couple of hands against him or her, and see if there's an opportunity there.

[0:05:18.3] WS: Before you lay all your coins down, right, you better get some more information, etcetera, but... Alright, so I wanted to jump in just a little bit, 'cause you all syndicated a nine unit in a 12 unit and a 40 unit, and often times you will say, Oh, that's too small to the project to syndicate or the cost... to much on the legal side, to make it worthwhile, I just syndicate something like that... What's your take on that? After doing numerous syndication, have smaller multi-family like that.

[0:05:43.7] CS: We found great deals, and we've purchased so many small deals for ourselves, we know that there's tons of upside on those deals, like the nine unit we bought was nine, three bedroom, two and a half bath town houses for 12 million, so it's like 130k a door, and now those are worth 230 a door and we can raise that much money, and so yeah, the legal costs were expensive, but that was us getting our foot in the door, learning how to do the project, like learning how to do the syndication, and we just knew that there was gonna be a significant upside for our clients, and that's a worthwhile deal for us to do, so we knew that it was gonna be a good one for our clients, and we got the property management revenue and the construction revenue. So

[0:06:33.1] WS: I get that question often, or I hear that pushback against syndicating smaller projects like that, and I just always say to, Hey, there's no room or no expense to high, to operate in the gray, to operate unethically or not legally. Any of those things, right? And so if you can still make it to work and it's a nine unit and it costs however much in legal expense, Hey, let's do it, right, but if it means trying to wiggle around some regulations or whatever to get a good deal done, it's not a good deal is what I would say.

[0:07:05.1] CS: I completely agree with that, but just the added revenue, since we're receiving revenue from property management and we’re the general contractor too, I think that that made the difference for us on those smaller deals.

[0:07:18.6] WS: Yeah, no, that's awesome. Well, I wanna jump into property management and construction in-house, right. Did that come after you all started doing deals, clarified that timeline a little bit, and was that just by necessity, or what was the order of doing real estate and then having your own private management construction business

[0:07:36.3] CS: In 2009, I was ripping out floors on our first deal and I was doing labor, and so as we started hiring handyman and skilled laborers, carpenters, electricians, plumbers, it kinda grew out of that. We were finding the properties and the deals, and we would just get more and more work, and so as the work got more complex, we needed to improve our systems, improve our contracts, comply with state regulations, so that's kind of where the construction company grew, and then the property management company grew, I guess, a little bit out of the financing side of real estate, so financing is so essential to be able to grow as a real estate investor, when we started, we didn't have the cash to purchase all of these properties... I did have a little nesting from poker money that I had one in college, but essentially, after our first couple of deals that my name was locked up and we needed to figure out how to access our equity, and so we were able to get a couple of re-finances done. But then once we moved full-time into real estate, we lost our income streams and we couldn't get a loan, we couldn't get a residential mortgage, and so on those smaller deals, the ones in the forest, we had to open up a property management company, and that was like a dark time for four or five years, because that's how long it took for us to build up that business to get us...

[0:09:12.4] CS: To be able to qualify for a loan. So we got really creative with doing partnerships with friends, and we have a ton of joint ventures from that period because we just couldn't get a loan.

[0:09:33.4] WS: Yeah, that is so important in building wealth and real estate and just getting a deal done typically so important. Tell me any more depth you can provide around why property management is so tied to getting debt...

[0:09:38.2] CS: Well, we started the property management business and needed that income stream, so the beautiful thing about property management is you have a steady flow of income every month, whether it's $50 a door or $100 a door. We manage about 700 units, and it's a steady stream in 2011 when up in the company, if we managed about nine homes that we owned, but when we offered our services to third party clients, it took a while to build it up, but now growing that business has been extremely challenging, but also very fun and just meeting so many amazing people along the way. It's really worthwhile.

[0:10:20.6] WS: What about bringing the construction in-house, I mean, you said you were doing a lot of that labor. Is that just something that just kinda grew as you all grow your portfolio grew, or has that been something that you've seen just worthwhile.

[0:10:32.8] CS: So it just has kind of grown as our portfolio has grown, and that's also a little bit of a focus of our company right now, is building out of the asset management and construction side, but back in 2011, we got licensed, I got my brokerage license and AJ got his CCB license and we opened up our property management company at that point in time.

[0:10:56.7] WS: Nice. I hear people often talk about should they start their own management company, and some will say with their own construction company and whatnot, or that's just the only way to go, 'cause it's the only way you can have the most control and all that. And I would say that's almost market-specific or depending on your relationship with your property manager, and some are amazing, I mean, some that we work with are just incredible, and I wouldn't imagine trying to take that over right now, however, if they were bad enough and we couldn't find him, I guess what... We're gonna jump right in there and we'll have to do it right, and we're gonna get it done, but just the whole point is, man, we have management companies who are really good, but if you're gonna have to assess that yourself and know that relationship, but you all have become very good at just this value-add component, which everybody hears about everybody here about value add, but what does that really mean to you all? And let's dive into a few examples of how you all have just created a ton of value on some different projects.

[0:11:49.9] CS: Yeah, absolutely, Whitney. First of all, value add, you could only add value when there is room to add value, and so finding the right deal is essential if you're wanting to start a value-add project.

[0:12:03.5] WS: How do you know there's room...

[0:12:04.5] CS: I like to look at unit per door and just knowing what a retail unit per door is going for, and then making sure that you're picking a property that's gonna have some room for that unit per door. So in Portland, you can get maybe 175-80K per unit per door on a sale, so unless you've got significant amounts in square footage, you're needing to buy at 125, maybe 130 per door, so that you can re-model those units and you can increase and use all the tools in your toolbox to increase the net income... Let's talk about some of those tools. (Yeah, let's do that.) So when we purchase a property, the first thing we always do is we send out rubs notices, so that's ratio utility building system notices, and that's basically just for water, sewer and garbage, and in Oregon, we can build back as long as it's equal and it doesn't discriminate against any particular tenant. So we build back based on the square footage for each unit, and so we take that water bill, so for that nine-unit complex, I think the water bill is like 1000, and with each unit is roughly 1200 square feet, so they each get a ninth of it, and that's the first thing that we always do, and then we're also looking at the rent roll and we're figuring out which units are the farthest away from market rent, and with those, depending on an organ, we've got red control, so we've got a few hurdles to deal with...

[0:13:36.0] CS: But in Portland, you can send any tenant at any time once per year, one random cruise, so when... Well, combo that rubs. Notice with the people whose rent is the lowest, we'll come that with a rent increase as well, so that we can start getting some of the units available to turn over, and then those are kind of the low-hanging fruit just to kind of start working on the RET role and getting your ratio or utility billing going, but otherwise, looking at property, we try and get creative. The 21-unit deal that we recently did was this awesome garden-style apartment complex was on probably an acre and a half, and it was just this giant open area, and all of the tenants loved it because there's this tons of grass. But I look at it, I'm like, Oh my gosh, there's all of this unused space and there's 21 units, and you can run around the entire complex and look in people's back windows, and I'm like, Well, let's dust this off and let's... First of all, put in a really nice fence, so that curb appeal is increased and the overall desirability and the property goes way up, that'll boost rent a tiny bit, but then we're gonna provide a private backyard for each of the tenants, and we'll be able to charge more for pet rent, and we'll have less landscaping costs, 'cause currently the landscaping, it's like 1200 a month out there, but when we cut the area in half, I'm guessing we'll be able to get it down a little bit, working with landscaping contractors are always very difficult, but that is gonna be a very small investment for a lot of rent increase, and as those units turn over and probably the next two or three years, I wanna say that will increase the rent by roughly 100 per unit, which is huge.

[0:15:31.1] CS: When you're looking at a 2100 per month rent increase, that's roughly 25000, and looking at cap rates in Portland, they're roughly 4 and a half to 5%, and so 25000 jumps up to about 500 grand, 600 grand, and so that is a great little value add

[0:15:57.0] WS: That is a great value-add. A couple of things there, I've heard over the last couple of years from different people that have started doing that, and I love that idea, and I'm sure you and I were briefly talking about before we got recording, I was just like, if I was a tenant, I would love to have my own little space in the yard, especially if I have a pet and I can just let them outside and... I don't have to worry about him running off. They're inside the fence. That's incredible. That would be very valuable to me, even if you have a small child and they can go out there and play, you can hear them, you can even be sitting right there inside the room, you're looking where you can still see them, but they can have a little space to play and use some toys outside, very valuable to me. And I'm just thinking, if I was renting, I would be willing to pay 100 more dollars for that. However, you mentioned something else that I do not believe I've heard before on the show is reducing the landscaping costs because of this...

[0:16:46.1] WS: I've not heard of that. Nobody's mentioned that before, I don't think. But one thing that made me think about, well, if the landscaping crew is not maintaining that yard, then is a tenant required to maintain the space... I guess they are, but they're required to maintain those space inside the fence...

[0:17:01.0] CS: Oh, absolutely, so any space that the tenant has control over, they're required to take care of, and that's just part of every lease, and that's also another small little value add that our property management company does on day one of acquisition is that we're sending out our leases to the tenants, and we call it a change in rules, and in Oregon, you can change the rules as long as it's not substantial, and so just switching to a standardized state, multi-family lease, it's great because we know all of those rules, and it's also just... All confirmed to be legal every year by our multi-family association, multi-family Northwest. And so we're sending out those forms every year to the tenants to our entire portfolio, just to make sure that we're up to-date on the current laws.

[0:17:59.3] WS: Now, that's incredible. I was just thinking too, you could even charge to mow that space for them. Oh yeah, even if it was 20 bucks a month or 25 month, they will mow it out if you have a gate ironed out you push me, we're in there and knock it out or whatever, or even the landscaping crew... the cost of that. Right, but anyway, it just took some new thoughts around that space and how that could add value, unfortunately, we're gonna have to move on working around that time, but I just like the listeners, anybody has a multi-family project or property, you should be thinking about something like that I just think it's a very creative way, man, you all added a million or so value right off the bat to this project, so it's incredible to make something like that happen. And what about, since you are managing so many different projects and just in the day-to-day operations of these deals, what about just preparing for a downturn and anything you see happening that may be concerned over the next six to 12 months and how you are prepared for them.

[0:18:53.4] CS: So keeping an eye on our debt, making sure that we're not trying to access too much capital and... And we're building up cash reserves, I don't really know what's gonna happen in the next three to five to 10 years, but at this point, AJ and I, my brother, business partner, we've reached a point in our career where we're not willing to risk as much and so our risk profile has changed from when we started, when we were very risky, trying to take on as much debt as possible, spending all of our cash reserves on the next deal, and we were very fortunate that it was on a big run-up from 2009 until now, but now, this strategy that we're employing and building up cash reserves, it's less related to what I think is happening in the economy, and more related to just where we're at in our real estate quarters.

[0:19:50.3] WS: Cash reserves are so crucial, we're so big about me and we're gonna have so much reserves, I've been scrutinized in the past about our reserve budgets for certain projects, and people say it hurts your returns, I'm like, Yeah, maybe a little bit, but you're gonna sleep a lot better and one specifically a week later is when covid hit. We close on a big project. I had a million a half dollars just in a reserve budget, people are like, That's crazy, and then they shut the country, then guess what, nobody saying the word about those reserves. Anyway, yeah, I just couldn't agree more about not being over-leveraged in having proper reserves, a... That's the only way you're gonna survive. Right, when times are not only just tough at me and things keep happening, it says I have the most cash you're gonna survive typically about... Changing gears a little bit, how about it? Any daily habits you have that you're disciplined about, that have helped you achieve success.

[0:20:35.9] CS: Daily planning... I'm not perfect about it, but I love brand and turners intention journal. And actually here at about 15 minutes, I have a small group of our team that I'll be coaching through just creating 90-day goals, so we do little sprints and then we come up with a weekly goal and then we create our minimum next step to getting closer to that weekly goal, and hopefully at the end of 90 days, we've made a bunch of little 1% games and have accomplished or 90-day goal.

[0:21:10.4] WS: That’s awesome. So I know, Brandon, I have worked together a little bit. Yeah, it's not consistency. Right, and I've talked about it a little bit, it's like me... Even if it's 1% every day, I think about that, what that does over a very short period of time, but what about if you to pick one thing, number one thing that contributed to your success?

[0:21:22.5] CS: Taking action, just willing to take that risk when it comes to playing poker, I really think that being able to go all in on a 60-40, that's almost a coin flip, but it's just being able to just believe in yourself and believe that you're gonna be successful, and you know what, if you do fail, you're gonna learn so much from that experience that taking that risk was worth it.

[0:21:53.3] WS: How do you like to give back...

[0:21:54.6] CS: We do a lot of coaching. So I'm involved in entrepreneurs organization, and I've got a team of young business owners that I'm coaching, and then my brother is involved with Narcom, and Narcom has a handful of charities, he's gonna be president here soon, and he'll make his charity, and they do a lot when it comes to the charity of the year.

[0:22:19.5] WS: Wow. EO, just to highlight a little bit what that is in case a listener time I heard of that

[0:22:24.1] CS: It's entrepreneurs organization, it's a group for business owners who want to learn more about growing their business, and there's kind of a young group called accelerators, and there's smaller businesses who want to grow into the larger businesses and get into the regular organization, it's a great group has really helped. AJ at time, and I owe a lot to... When we joined the people that we met, really to a lot of time out of their day to help us.

[0:22:56.9] WS: Yeah, I love hearing about different organizations like that, I've heard different groups or different people that are part of Entrepreneurs Organization, and it seems like a great thing, I've not been a part of it personally, it's incredible how you joined and different people were just feeding into you and helping you, and now you're able to coach some other people that are getting started as an entrepreneur, so I appreciate you all giving back in that way, and even just sharing that central opportunity for the listeners to think about their organization as well. Oh, Chris, been a pleasure to have you on the show. Just thinking through, you started with playing poker and learning how to take calculated risks, but now you all have done so well in real estate and growing your property management business and construction, bringing that stuff in-house, that's no small feeds right there, just congratulations to your all success, I know that came with a lot of long, long days, to say the least, but even there are some of the value-add things you talked about in fencing in the backyard and just the discussion around the operators that are listening...

[0:23:53.7] WS: We'll think about that. That's some great value add that I feel like most have not taken advantage of yet, but grateful for your time today. How can the listeners get in touch with you and learn more about you?

[0:24:03.5] CS: Thank you so much, Whitney, for having me and you guys... People can get in touch with me, we've got our podcasts that’s West Side Investors Network or just win, and then Uptown Properties UptownPM.com and... Come check out our podcast. Thank you.

[0:24:19.8] 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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