

EPISODE 1067**[INTRODUCTION]**

[0:00:0.0] 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]

[0:00:01.6] WS: This is your Daily Real Estate Syndication Show. I am your host, Whitney Sewell. It's that time of the week again where my business partner, Sam Rust, takes over the show and interviews our guest. I hope you enjoy the show.

[0:01:04.36] SR: This is your Daily Real Estate Syndication Show. I'm your host, Sam Rust and I'm happy to welcome to the show, Greg Scully. Greg is a full-time real estate investor living in and focusing on central and Eastern Tennessee. After 40 years in Alaska, came back to the States to the lower 48, hit the reset button to pursue entrepreneurship, and nearly 400 units later, his wife and partner are looking to scale their syndication business. Greg, welcome to the show, thanks for joining us today.

[0:01:04.0] GS: Thank you, Sam. I'm happy to be here. I appreciate the opportunity.

[0:01:08.3] SR: So I gotta ask, Alaska to Tennessee. That's not a transition that a lot of people make, what were the factors that played into that, and what led you and your wife to decide, We need to hit this reset button?

[0:01:20.0] GS: Tennessee specifically was an element of getting into this business, as we got started, investing from Alaska, proved to be very difficult in multiple market tours into Tucson and the span and a day no in had a lot of trouble actually getting started, I think in retrospect, due to lack of boots on the ground and just having that network through an education platform that I was involved with and still involved with, the first deal came about in Tennessee, which we decided to

invest in, and they're not... The second one came right behind that if most of the same group, so just as a function of getting involved in multifamily, the deals were in Tennessee, and I had traveled back and forth from Alaska, sometimes four or five weeks at a time for about a year, transitioning, my wife got down once, and we did a small tour driver around... This is nice down here. Let's go.

[0:02:18.5] SR: So that's interesting, a lot of folks, they might move locations for different reasons, but you had already decided that you were going to invest in real estate, that that was gonna be the next chapter of your career, and you move strategically to be close to where your investments are... I know there's a lot of folks that talk about investing remotely, why do you like to live near your real estate?

[0:02:39.5] GS: I really like the comfort level that comes with being in your market and being able to recognize opportunities very quickly, I'm not the type that has to go touch to property 'cause we invest it out of state with single-family rentals without ever having seen them. So my mindset is not that I have to physically see the product, but being able to put properties into the context of a town and the economy and what's going on, I find extremely valuable. I think it's a differentiator in the market against competitors to have the deep knowledge of a market to move faster, helps you make decisions faster, so yeah, I just... It was like when I had a job, after 20 years, I could basically do it in my sleep, there is a bit of a comfort level with that kind of acquired knowledge that we can do is you're not guessing, you're not making assumptions based on market reports of low or something.

[0:03:44.6] SR: I appreciate the market research that whether it's Marcus, a Millar, Jill or CBRE, they put out, and I think there's macro trends that we all should pay attention to as real estate investors, but as you and I were kinda chatting before we got this episode kicked off, real estate is ultimately hyper-local, and I think a lot of the benefit of you being on the ground, like you were just alluding to, is being able to scout the exact location, is this the block that you wanna invest in, is this the county that's gonna allow you to execute on whatever strategy you've picked for this specific building... All those things play a huge role. I know I'm pontificating a little bit here, but I think for those investors that see the siren song of high cap rates in another market that's 500-1000 miles away from their place of residents, I think you really have to evaluate your investment strategy. Can it be done? Yes. Is it often done? Well, I would say no, in my experience. I've seen a lot of people that try to invest remotely, and unless you're going with a true turnkey

and willing to accept significantly lower than returns...

[0:04:48.1] SR: It just is not the most optimal way to invest. I don't know. What are your thoughts? Broadly.

[0:04:53.4] GS: Yeah, I agree, just from the Costar or report thing, I've seen our own properties show up and a coast or report and that ever rent is wrong, so those things aren't perfect, they're good guidance, but having seen the property that I own show up in a CoStar reported with the wrong information, gives you some pause looking forward as to, you still have to verify that information... Yeah, to invest at a state and do it well would take an incredible team, you would directly... You're not gonna be property managing that from afar, or if you are, you might be better for a term party property manager, ultimately, you may be better off by partnering as an LP in a syndication with an operator that is doing extremely well and that market already rather than trying to go in there yourself and achieve the same kind of returns that hyper-local operators are able to get, because I think it may be a stretch, lots of tailwinds and a lot of markets that are covering up a lot of mistakes, so you can still do pretty well just by being in the right place at the right time with the right demographic metrics coming into your area, but to optimize, I think it's gotta be a little bit closer.

[0:06:13.6] SR: So they say half the struggle and winning the game is actually playing the game, and I think if you look at the last 10 years, maybe going back at least five years, if you had bought almost anywhere in the lower 48, you're probably doing okay in commercial real estate, multi-family real estate, which is what we both specialize in, but in the next 10 years, I think that's gonna be different. I don't think you can bank on the market, mailing you on, and I think a lot of it's gonna come down to asset management, I don't know, you're pretty heavily involved in asset management of your portfolio, which is around 400 doors, how are you guys preparing for that shift in the market where, as you just alluded to, we're not gonna get bailed out of stupid purchase decisions just because the market is rising at such a quick pace, that looks to be the case in 2021. I think it's gonna slow down, I would imagine. You do as well. How are you guys gonna take advantage of the new environment where asset management is maybe more of a key than before?

[0:07:11.3] GS: Partial integration bringing management in-house. That's what we're starting to do, some smaller properties here in Tennessee to cut our teeth, we have been using third party

management, generally speaking then... Okay, there's trade-offs. That is one definite benefit of third party mention if you're not in the area, you have that ability to continue to live in Detroit and known in Atlanta, but with you being compressed, you can save a 2 or 3% right off the top line by vertically integrating and bringing management in and I'll always be your top priority, which in any third-party management, that's not going to be the case. You are part of a larger ecosystem, and sometimes in that ecosystem, you just have to stay in your place in line until your number's called.

[0:08:01.9] SR: What's the average size of the buildings that you own? Now. 400 units, that's quite a bit. How is that distributed?

[0:08:06.0] GS: On them all, so that's kind of what we've been part of over years, the average size is 40 something, we're in that 30 to... Our largest property is 68 units right now, and that's actually in Wichita. So..

[0:08:25.0] SR: Great. What about that contradiction about not owning in your micro? We have partners that are in the area and fulfill that boots on the ground. Micromarket knowledge to a comfort level that we're happy with, so if that part of it is satisfied for me and I'm happy to invest in other places, I got myself on track, so yeah, 40, 50, we're trying to scale out of that because for scale reasons, seeing sometimes how much time it takes to manage a 49-year, manage 150 unit, now I realize would not be three times the amount of time, it might be 10% more time or something like that.

[0:09:10.0] SR: Definitely scale becomes an ever-increasing factor, especially as you're pursuing vertical integration, we found that the smaller, really sub-hundred units are just... They're trickier to manage, and I think there's a really good niche there, and you can do very well, it's not to scare people away from those, but just once you get into the business and you build up that reservoir of knowledge and experience, you start wanting to apply it at a larger scale, because as you alluded to, just not that much more effort

[0:09:38.0] GS: It can be done if you can get a 30 unit and then afford you and then another 30 and never than a 20 mile radius, you can achieve some scale doing it that way, the chances of it all happening in a single transaction, you're probably unlikely, so you can build in to scale reasonably enough, so I wouldn't ignore that as a potential business plan.

[0:09:59.4] SR: You mentioned in your bio, Greg, that you guys have pursued scale through partnerships, you have this partnership in Wichita, you have other partnerships that you're working with, some of those are traditional syndication, some of those are joint ventures, some of those are true partnerships, how do you pick which structure you're going to use and what's the specifically drilling down into syndication versus JV or joint venture, what are some of the advantages of each of those models.

[0:10:25.5] GS: The joint ventures, we've done typically on smaller projects where the financial matrix might not support the syndication and in a prep that would be easily communicated and basically sellable, so then we just refer back to a JV model and see how the returns are there, it gives you a lot more flexibility, I think, on what you can do with the business plan, and Sam and I partnered down and maybe one or two other people find a project, and if it was this syndication we might wanna raise the entire capital stack where we have in CAPEX, whereas with the joint Conger can look at that maybe a little bit more holistically and race less on the front end. I'll agree that no cash flow can be piled into the deal to fund some of the rehab and capex, some of those decisions are a little bit easier to make as a small group, the syndications from a GP or general partner perspective, they're more lucrative with less cash involved, typically can partners might be bringing 10% of the equity, but you might have 30% of the upside, and if it's strong enough deal and you're able to deliver on and your splits, everybody went...

[0:11:41.0] SR: Yeah, I think that flexibility and really tying the model to how you're originating the capital makes a lot of sense. I know there's some folks that will raise money within a JV-type structure is... It's kind of a hybrid of both syndication and a joint venture, but I like how you guys just look at what is this project require and come up with an individual plan for each property...

[0:12:02.1] GS: Yeah, and that's one advantage of the smaller unaccounted, not always equate to lower purchase prices in our markets, it typically does, so in a purchase price of 3 million, and you have to bring 25% down if your network and supported, you can probably find people that would be interested in that opportunity and have that more active participation as well, by being in a joint venture, you tend to be in it a lot more than a limited partner. That's the anticipation of it.

[0:12:34.4] SR: Do you have a deal that you could kind of sketch for us Greg where the outcome was maybe unexpected, it could be surprised, the upside could be a learning experience, but is there something over your career investing in real estate you could share with our audience?

[0:12:46.8] GS: We have a local deal that we just sold that we were totally prepared to take a loss on and ended up being a small profit, it was the first deal that brought us to Tennessee, I had... He left one, two, three. Things went sideways, I went 100%... We had a contractor problems, it was a huge pain in the robusta year-old, a listening, but I think he knew I wanted to go with that. And that's actually part of the reason why we land into Johnson City, 'cause their main partner was here driving from moral two or three days, we could try and keep this thing going, so we personally came down to help... So

[0:13:25.8] SR: How many units... Was this property 62?

[0:13:28.4] SR: Among the 62 what was one of your larger properties?

[0:13:33.4] GS: On paper, it was like a great mom and pop value ad plan, but one Tameside was, it was a bunch of holding cost, somehow we went from a bridge loan to a bridge loan, which apparently has never been done before, and it got it based, so we were happy to escape with the tremendous amount of knowledge we got out of it and a small profit. But that was extremely stressful. Often,

[0:14:00.4] SR: What was... A couple of the factors that caused it to go sideways, that were maybe unanticipated?

[0:14:04.4] GS: Doing units, 85% occupied, which is not a terrible number, who as we began to execute the business plan of vacating one building out of time, out of three... Obviously, the word got around that change was to come in, and the tenant was only interested in finding the next place that they could read for 400, and we just had a mass exodus, we could have probably anticipated that a little bit more, and once that happens, you're under-capitalized, there's just no getting around it and then... Yeah, we have a contractor problem, we could have done the job vetting them, maybe a Google search that went four pages deep, we have found the information that we needed that may not have had a sign on with this person to begin with, and so that created a huge time to lay for which holding costs just continue to...

[0:14:59.5] SR: Yeah, 0% occupancy, debt service becomes a little bit more challenging

[0:15:04.3] GS: In terms of capital allocation that we're supposed to go to rehab in CAPEX on cost, and then you're like, Okay, this is not fun. So

[0:15:13.0] SR: How have you guys shifted your strategy now, 'cause there's... Sometimes we're vacating entire buildings, make sense, there's enough work that needs to be done, you can scale the level of work and get people in and out more efficiently, but it also can have an impact on your occupancy, and if you're buying into workforce housing and it's a tenant base that just is looking for the bottom dollar on a per square foot or per unit basis, you can have that flight off property been while you're in the middle of your turn. What do you guys do differently? Now.

[0:15:43.1] GS: Generally, we don't look at projects like that anymore, but if there is some aspect of we expect some ten oft or we'll create vacancy, you just raise and raise for it. If you have too much money, you can always give it back, but they have to have capital calls, and so this is a joint venture. So fortunately, we're not the position that there were syndication involved, so it was maybe just slightly easier to manage from a project management point of view and then just making more Testa type assumptions on where occupancy might go to... And how long things are gonna take? 'cause that's the other thing is half of it was through pandemic, labor shortages, this and this like, Oh my goodness. So yeah, just being very honest with ourselves about budgets, time, downside scenarios, risk and is from a risk-adjusted point of view, is this even worth it?

[0:16:47.0] SR: I think that's the biggest question is the opportunity cost, we've had a couple of options here in the last six months or so to look at deals that would have been heavy value adds, not quite scrapes and rebuild, but nearly to that point where you're probably taking most of your units down to studs and the entire project needs, call it 30000 a door and investment, and the rates of return can look appealing when you're comparing it to a traditional value-add, but you have to dig a little bit deeper and think of the opportunity cost and what am I missing out on by taking on this Goliath that has so much risk to the downside, frankly, and how much time I'm gonna have to sink into that project and could I execute on two or three lighter value adds that while they might not individually equal the return cumulatively. You're much, much further ahead. That's something that we're balancing and I would encourage our audience to balance as well, just because you can get net the highest return, that's not the only piece of the puzzle you need to pay attention to.

[0:17:50.0] GS: Yeah, absolutely, 'cause your debt is riskier. More expensive. It's usually

short-term. We have had opportunities that were similar in the sniff test, it's like, Oh yeah, we've seen something like this before, and we're just like, No, thank you. People do it all the time. Now there's a mention people that can do that kind of stuff, we don't have all the pieces in our immediate network to take that on, so we're just not gonna do it.

[0:18:20.5] SR: That makes a lot of sense. As we're getting close to wrapping up here, Greg, a question that I've been asking a lot of guests recently is Where are we headed, what is your investment thesis moving forward, there's a lot of interesting data out there that Federal Reserve has been very interventionist. To put it lightly into our monetary policy as a nation, real estate generally, right now is the sexy class to invest in, everybody wants to invest in real estate. I've heard a lot of people, and ensure you have as well, now is the best time to invest in multifamily, you and I, we both are investing in multifamily, but what do you see in the next 18 months? What keeps you up at night? What gets you excited? Everything in between.

[0:18:59.9] GS: I mean, I read a broad level type stuff because I want to stay informed, I don't think... A lot of it really affects our day-to-day of our business, you do have exposure to the credit markets, and we saw that in 2008 where it was largely centered around Phoenix and Miami and in a few other places, that took the brunt of what was going on back in Alaska, oil prices were tremendously I and we were fine, so that's just an example of how to market specific things are... We all had to do with changes to credit side of it, people were less likely to own things like that, you can't escape that from a national level, but ultimately we are just extremely focused on just running our business and seeing what's going on in our market, and demographics were in Tennessee through covid, we've had some nice demographic to instate, didn't have in our pro forma, and we're not geniuses, we're not gonna say We forecasted that because we did it, so it's just a matter of operating where you are to best of your ability and looking at her final... Your situation very holistically.

And keeping your options open. So I generally think about the family's going to do pretty well, and especially in the markets that we're focused on, so we're more trying to find that balance between giving the market the credit it deserves for the upside that we think is coming and still being defensible and conservative enough in our underwriting to account for any potential risk.

[0:20:43.7] SR: Number one thing that's contributed to your success, Greg, you guys have grown a business from nothing, moved down to Tennessee, you've overcome hurdles, a 62-unit deal that

sounds like it would have sunk a lot of other folks you guys demonstrate real resilience to pull that through, and you've got a pretty significant portfolio now... What do you attribute that to?

[0:21:03.7] GS: Just a lot of persistence. I think that's just sticking with... And they're penultimate, and it wasn't even that 62 unit. We were in another project that I've gone off to a rocky start, it's a fine project that is doing very well, but in the contract phase of it, there was a few difficult moments where you're like, we're so there's no way this is gonna end well, and you just keep plugging along and you find a solution, so we all have to recognize the challenge but not get consumed by it and get to the point where your defeated... Keep plugging away, keeping... This is a slow game, a lot of what we see on social media seems like there's a lot of overnight stars... I remember me Whitney conference three or four years ago, and he was just starting his name called the podcast, and now four or five years later, he's an overnight success. So you just gotta stick with it.

[0:21:56.7] SR: It's a lot like an iceberg. Everybody sees the top 10%, do they think it looks beautiful and amazing and... Oh wow, but they don't realize everything that's underneath the surface, everything that went into creating these businesses.

[0:22:08.3] GS: We know what we're doing every day.

[0:22:09.6] SR: There's no shortage of things to be done. Fantastic. Well, Greg, if folks in our audience wanna reach out... Connect with you, learn more about what you're doing in Eastern and Central Tennessee. How can they get ahold of you?

[0:22:25.0] GS: The best place is RealWealth.Solutions, which is our website or allthingsgregscully. Basically, what real well solutions is, we host a podcast as well, we're very active and more, these Tennessee have a meet up, which is in person and online, so you can kinda find everything about us at real wealth thought solutions, including contact arms, and we're happy to get on the phone and chat about Tennessee and see. Maybe there's something we can do together. Fantastic.

0:22:54.6 SR: Well, thanks for joining us, Greg, thank you to audience for joining us on another episode of the real estate syndication show. I'm your host, Sam Rust, signing off.

[0:23:25.6] 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.