EPISODE 1074

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[INTRODUCTION]

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And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.2] WS: This is your daily real estate syndication show. I am your host, Whitney Sewell. It's that time of week again, where my business partner, Sam Rust takes over the show and interviews our guest. I hope you enjoy the show.

[0:00:36.0] WS: Welcome to your Daily Real Estate Syndication Show. I'm your host, Sam Rust. Joining me today is Dave Sherbal. Dave, is a long-time veteran in the real estate marketplace, 30 years experience, currently oversees over 5000 units with an emphasis on asset management through C2G, his own asset management company that he's found it dives out of four. Lauder Florida. Dave, thanks for joining us today. Dave. You've been in the real estate business a lot longer than I've been, you've seen many different crises in your time, so if we're going back 30 years, you're dealing with some of the ramifications of the savings and loan crisis, the 90s into the 2000s, you've seen euphoria, but what got you into real estate to begin with?

[0:01:20.0] DS: I kind of fell into it. I was in public accounting, I'm a CPA by the background though, I was an auditor and I work for National Firm, and the RTC and other bank failures were happening and they did a joint venture, and none of the accountants wanted to help this gentleman out, 'cause none of them swore as a career growth to partnership, guy was a CPA by background, so one background from the Northeast, I started doing work for him, and then I left the public accounting firm to go work for him, and I did it for five years, and I just kind of fell in to real estate and were Allington thing, never took a college course on it, it just fell into it in backend portfolio was one of everything, whether it was out of arena, actually back then it was very few part of plot to retail office Resort Golf Courses, so I kinda cut my teeth as a word out a guy as a generalist in that for five years, and when that was winding down and joined in significant Al begin South Carolina,

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[0:02:29.5] DS: So through syndicates on the tax for changed, so we were the largest owner in complexes in the country with about 300000, and my portfolio, again, had a town loves of his retail, mobile home parks, a lot of parks across the country, and the baton, Andrea, I said, We're gonna start buying the LD units. May value for us can't get it any worse, make value and do whatever you have to do to create the cash flow.

[0:03:00.5] DS: Yeah, so you've done a little bit of everything, it sounds like, and in that, something that I've learned in my short career in real estate is that foundational principles that apply really almost any business, not just real estate, and it really comes down to how well you execute and really, that's where asset management comes into play is we're still cutting our teeth in many ways as syndicators, and so there's so many people that have flooded into the commercial real estate space in the last five years that are maybe more classified as retail investors, and we're focused on building platforms and getting the word out there and exposing potential investors to these opportunities, and then finding those opportunities, then we get something under contract, and that's when the starting line is reached, and a lot of groups maybe don't realize that until they get to that point, the goal is to find that deal and then you find like, Well, how do I squeeze the juice out of this? What's some of your tried and true methods that you bring to bear in asset management, you said you haven't known anything, you've really focused on that one thing, why asset management and what gaps do you feel for your clients?

[0:04:00.6] DS: So why asset management, I probably don't have the patience to be in property management, even though I know it not to be dangerous, and then some...I have run management companies of 15000, unit 15 Asset Management back in the early 2000s to us as far as Asset Management and kind of track recites workout person. I started in a down market, so in down market, you have to be creative to keep the lights on here in good markets or votes rise with the tide and everyone looks good, it's to... To start in the band market, 'cause you appreciate when times get good, the problem that a lot of people have is they get early in the cycle, the way it goes up, they do great, and they start believing the pressings, IEEE, smart person. And real estate, those are the people that are... They really get hit hard. And when the market goes out because they only live through the good times, and then one will run through cycles, you just appreciate the up-market versus the downtime. I find that being a CPA, and a lot of people just look at the financials, I'm looking at the source documents, so I'm seeing what the vendors are charging, how they're charging, I'm seeing the efficiencies that property management company may be doing or not doing, so that I can then work on the expenses and say, Hey, I can bulk out this service, why are we paying for ceilings on every turn or you don't have to...

[0:05:34.6] S2: They're actually tramping is from more square footage to care for playing vinyl guy that we have, that's my avoiding background that I can go from the source and work and see where there's inefficiencies that we work on the revenue side of the equation. So having that background allows me to be different than a lot of asset managers because they just read the financials, but they don't understand how things get there, so when due diligence, we always look for where the E was line on the P and L in keeping it off the financial records, those are the ways that we kind of get real numbers from the data... That was the skill set I started on when I started getting into real estate. Into good situations when cash out is more than cash in, that you run into problems, so I'm not a rocket scientist…

[0:06:44.7] SR: You hit on something a minute or so back, Dave, that I've just heard so many things about, which is property managers. And there's so many good stories about them, and then there's a lot of bad stories about property managers that are skimming off the top or taking security deposits. I'm curious, with your background in auditing and then your career in asset management, where do you see the most ripe opportunities for fraud in those situations, what's a common scenario or a property manager is maybe skimming a little bit more than they should.

[0:07:03.7] DS: I like to use the word shrewd, but I think over time, a lot of the big management companies that have got a little bit aggressive on what they build back for and how they profit on stuff, where they don't tell the client that the third party vendor that they're utilizing... Is giving them dollars back. So you pay a lot for the accounting function, but when you offer property management services, the county financial statements are part of the package, so why should you be paying for all of the bill back, having a payroll, why should you be paying rent today? Come across my desk, 3% of the total payroll, payrolls cost me 100 bucks on pay, check, why should you be paying 300, 400? And why do some company use let you be on their property insurance plan? Well, it's a big private renters insurance, there are some management companies that keep it and don't tell their clients about it, sometimes the construction company or one of the vendors is owned by the management company, I'm not saying every company

[0:08:05.8] DS: Nobody does it, and by there is... As long as I Martineau disclose it, or instead of saying, Yeah, we can manage it for 2% and then build up all that nonsense what you need? I need for more in different decision that the part, I hate having to chase the management company to find where they're hiding and making... 'cause you talk to owners of multi-family, they say they're only making a 15-20% cost profit, they make more, or everyone wouldn't be in the management business is all the stuff is they're going back for the stuff that you don't know about, that they're getting back from the third party vendor. And those management companies know who they are, and I know who they are, and I currently have 10 management companies that my clients work with, and the ones that play some games, they don't get assigned with me.

[0:09:01.8] SR: So conversely, we've talked about some of the downsides and how you have to manage property management, and a lot of it comes down just paying attention whether that's hiring a group like C2G or doing that in-house, but just making sure that you're aware of where the dollars are flowing. But on the positive side, I think it's really important to have a positive working relationship, if possible, with excellent property management, it really is a team sport. How do you work alongside or with those third party managers to execute on your mutual client's behalf?

[0:09:30.8] DS: Whatever represents the owner, and they get responsibility number one, and for letting the manager come up with a game plan is not the best way to go about it, it's the ownership that comes up with the end result, we're looking for the business plan, and we let management come figure out how to go from point A to be those goals, and how our job is to keep them between the white lines and make sure we get that result that we're looking for... I find that when I visit properties that are not performing well, it's 'cause the ownership, doesn't go out to the asset, if management knows they're not a big client and the owner is not going out and out of weekly calls and not paying attention. The manager doesn't pay attention, it's the owners that are into their deals working with management daily, weekly, monthly. They are the ones that get better results on the ones they just handed off to a management company and hold the results there at the end of the year, so with managers I work with I hold them accountable in a nice guy, if I treat them well, but if they don't perform in something personal, we will go to another management company. We'll deal with the headache, but we will go find one that our client is comfortable going with. I don't have a management company, I don't get kickbacks from a management company, I see that with my clients and we interview management companies and they were all good when they come to pitch do more due diligence on the management company, then they know... We want the regionals on the interview process, we wanna meet the managers, we go shop that original properties to see if those properties are clean and people are from... We call all their clients, so over the years, I used to be real tough of management companies, but now that I'm less, I understand what they do. But again, they need to be managed. If we don’t manage them, they're not gonna manage themselves, and what they care about is occupancy, now I've got an economic occupancy, not about how much is coming into the end of the day to the owner, so you just gotta kind of understand how they think and operate.

[0:11:48.1] SR: You gotta inspect what you expect. So, C2G cradle-to-grave. There's a lot within the asset management umbrella, and you and I were talking offline before this episode about how you really come in as a fixer and help ownership groups that maybe didn't know what they were getting into when they bought a property. They had a great business plan, they put it together, well, they raised a bunch of money, and now they're floundering a little bit, what's a common thread that you see in those projects that maybe didn't get off to the best start, where is the miss between the plan and the execution?

[0:12:17.8] DS: Due diligence, taking brokers thoughts on with the CAPEX, the Endor and the price point on what those needs are. Brokers are smart, they're gonna tell a story in the best way, they just need one buyer to buy it on that story, and I... Possessing contract. But the day before you have to go hard, and we use construction managers, I'm used for 30 years, we get it is for everything, we confirm everything before you go hard to make sure that... That deal still makes sense. And the biggest one is unit upgrades are always missed, some of the revenue-generating amenities, but the broker puts out may not be realistic, the 95 percent occupancy may not be realistic, it's just doing the homework and not relying on the broker's numbers or taking...

[0:13:15.1] DS: Or the management companies, construction numbers by day, it is made for companies and management copies when they try to start doing construction management, it may not really be the skill set, they wanna do it because they wanna offer their clients everything. All the services that are out there, I find that that's kind of when some of them lack... I have some great construction managers and some of my management companies, and I got some that are not the greatest, the good ones are the ones that you keep on new deals and bad ones are the ones that can case you more headaches. And so I find that once you're behind the ball on CAPEX, it's tough for some of my clients to go back and they just syndicate the deal and to raise more money for it, so things get value engineered out, and that's a problem. Management attention to the deal again, if you're not on your asset and he could be on your asset, so I find that an issue operating budgets, the ones that the clients put in their underwriting model, the one that management given after the closing or before the closing, sometimes they just...

[0:14:19.8] DS: But not in the same budget, there's a disconnect there. So second, you sign the contract, have your management company lined up and make sure you meet the regional, you meet the manager candidates, and you get everyone on board before you close. So you can be ready to go on day one.

[0:14:37.8] SR: There's a lot of folks who bought assets two to four years ago, and basically, if you bought anything, we'll say five years ago, we'll draw a line there, if you bought anything in the lower 48 five years ago and multi-family, you're probably doing pretty well. It's important to not assign, as you said earlier, too many gold stars to yourself, because it was a rising tide that lifted all these boats, but there's a lot of groups that now find themselves ready to exit deals, and I think in our little ecosystem, that's one of the least talked about aspects of a syndication, you've raised the money, you find the deal, you close that you do the due diligence, you execute the business plan, now it comes time for the disposition, where do people fall down most commonly, in your opinion, on disposition, where do you guys bring value through C2G, look, you have to work the right roles so that the story plays out there, you have to make sure that when the buyers coming on, he's buying a rental, the leases are expiring properly, the rents are increasing.

[0:15:38.7] DS: You make sure that through your credit background checks, it's better to keep the unit emptying clean and let somebody in that's a risk that will trash you to not pay the rent, so you're building up your rattle, the demographics, did you let the right people... Are our rents going up, are your renewals going up at a nice clip, so you're building that so the next guy feels comfortable buying that, Have you fixed things properly that I've broken during your time, are you just putting a band-aid on it? Or your financials, telling the story that you wanna tell, or the proper... You have so much where the expenses are a low because the bills don't get into the system on a timely basis, do you have a bad day? Have you been allowing for it and being realistic about it, or a you just dumping it on the balance sheet and you gotta build up your financial statement so that it makes it easier for someone to wanna buy… if you’re playing games with it makes it harder to buy. I don't trust the numbers, so once you know that you're taking it to market, a two to three month window is when you want the property, you wanna take it out on, it's most beneficial.

[0:16:55.6] SR: Usually a free time, you get it off your plate summer time, you just wanna hit all the singers at the right time... Makes a ton of sense. I like asking guests generally, where are we headed in the market now, if we knew exactly, you wouldn't be talking to me, you'd be somewhere else on a beach in the Caribbean, maybe a little bit further south of where you are today, but what do you see as maybe the biggest upside in the next year to two years, and what's the biggest risk in your opinion, as you look at the macro level picture for commercial real estate?

[0:16:55.6] DS: I think there are so many people chasing deals, and the price points are just getting moved really high, and I think people's desperation to get feel is done, whether it's big funds that raise money and the guy placing somewhere, or it's new physiatrist, I wanna get their first deal, so they'll overpay for something. I just think there's just so much demand for products that I don't know how you make money, and three caps buying in the trees, they just don't get it because you don't really think taxes are going up, you know in terms cost and going up.

[0:18:03.6] DS: So even if revenue goes up, a nice quiet talk for the NWA to go up with your two biggest line items and your third one payroll is going up, those... Eat away the NOI. So the old days, just to get compression healthy, you have... Or back in the early days as a condo execution, you're not getting the compression... There's only so much I could go, so I just think it's hard to buy. And a lot of people don't want to sell because how do you trade it into something else that's gonna... You can place what you have with something similar, so I think it's just gonna get tougher for folks as time goes on, and you have to be a better operator if you're buying deals with less wiggle room on expenses until you're renting the property.

[0:18:54.5] SR: Yeah, a long time listeners of this podcast are gonna recognize this, but I really think the last 10 years were just about being in the game, and if you are in the game, you probably on... I think the next 10 years are really gonna come down to who can operate and asset manage the best...

[0:19:12.5] DS: Right, lot of Streamers, the newbies are buying, 70's product, 80's product... Now, when you're buying, seventy's product, what's on the ground, you don't get to really see it spin the wall electrical, you have to take those risks into account 'cause So is the underground plumbing in section, doesn't mean the next section after were you fix it doesn't break down, and that's the expensive where unless you know what you're getting into when you buy it, those are big ticket items. Probably is only be older, they don't get into work...

[0:19:40.5] SR: That is so true. What's your best advice to folks to be the best operators they can be?

[0:19:44.5] DS: Well, obviously, get your hands dirty. Don't rely on anybody. Rely on them to teach you. But if you're investing in your name on the top of the LON, make sure you know everything that everyone's doing on the property at the corporate office, so that you know when you're getting at your answer are getting a fluff answer 'cause you want something the same thing if you were giving them money.

[0:20:10.5] SR: I think that ownership piece is so important and as syndicators, it's even a bigger deal because we're stewarding other people's money. It's not just our family's money or a family office or PE equity from somewhere, it's friends and family, multiple and people from around the country that have trusted you to go invest money and bring it back with some friends.

[0:20:31.4] DS: And be transparent, look when times are tough let your investors know.
They have been getting distributions and times are tough as an investor, you may have to say, You know what, we're not getting distributions for the next few months, times are tough, but you know, this is our game plan to fix it, don't hide the truth from your investors, will be more of mis s, if they find you hiding it than us telling them the truth, you may not get money again, but at least your name will people think highly of you, at least raise the flag.

[0:21:03.5] SR: And doing the right thing is so important, and it also usually keeps you out of court rooms, so... That's a good combination. Well, Dave, we really appreciate the conversation today, where can people reach out to learn more about what you do at C2G and various other services you offer?

[0:20:31.4] DS: My email is Dave@c2gam.com, the number is 954-646-7382. My partner's Clint Miller, Clint@c2gam.com, he's out of Tampa. I'm that in for mobile, that portfolio is national we'll go anywhere, and then if you just have that questions, we don't charge for the questions, just email us, pick up the phone, we like to play forward for people.

[0:21:37.9] SR: Fantastic. Well, thank you, Dave, for joining us today. Thank you to our listeners for joining us on another episode of the Real Estate Syndication Show. Have a great rest of your day.

[0:21:48.2] 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.