

EPISODE 1104

[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.

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Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Steve Olson.

Steve has been in real estate since 2002 and has completed a wide range of real estate transactions including the sale of raw land, bought foreclosure packages, single family flips, single-family, and small multifamily rentals. Steve is currently the Director of Sales for the Fourplex Investment Group, also known as FIG which develops fourplex projects in Salt Lake City, Houston, Phoenix, and Boise metropolitan areas. The projects typically range between 200 and 350 units and are built as townhomes but are plotted as fourplexes.

So I hope you listen to that last part of that bio there because this business plan or business model I think is different from probably anyone we have had on the show. And so, Steve explains that business model and why they're so focused on the fourplex style communities. It gives them many different options, some you may know of, some you probably do not know that he's going to go into today, but we also discuss the lumber issues, the shortages, and the unknown prices. You know, how do you price the uncertainty, right, the cost for that developer if you're going to buy from the developer or maybe you are the developer, you know, how do you do that. He goes into details about that, I hope you enjoy the show.

[INTERVIEW]

Steve, welcome to the show. Just from what I've learned about you through your bio and speaking with you briefly I know you have an interesting business model that I don't believe we've talked about on the show before. I don't think we've heard anybody that's doing what you are doing and I think it's going to be encouraging to a lot of listeners as well, and even encourage them just like think outside the box a little bit, right, it doesn't have to be one way or the other because you're kind of touch a couple different spheres of real estate I don't say or industry but, give us a little more about who you are and let's jump into maybe your background real estate a little bit and let's move into this what you do right now in real estate in that model.

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Steve Olson: Yeah, absolutely. I'm glad to be on the show, thanks for having me. I'm coming to you from my home office which flooded. As I told you so, this picture you're seeing has been carefully curated anything, even a centimeter outside of the screen looks like a disaster, you're getting the best part of the base but right now but, I've been in real estate in one way or another going all the way back to 2002. It's been a crazy journey, I've done everything from single family flips, I own one of those franchises that bought old rundown houses, I've been in multifamily and in land, but my travels over the last, since about 2014 has had me here at the Fourplex Investment Group and it's an interesting niche where a couple of different worlds of real estate all meet together with our primary focus being on fourplexes, so I know your audience and your listeners are really heavily focused on syndications, and sometimes that applies in our world, sometimes it doesn't.

Many people buy fourplexes because of the attractive financing they get, they can take the title for a fee simply which means they own the fourplex, it's theirs. It's not like in a syndication where you rely on the general partner to operate and liquidate, which there's pros and cons to that of course, right, but you get great financing on a fourplex that through 30-year fixed rate low debt, fully amortizing over the 30 years not 20 or 25 instead, but you get multiple tenants. And that's attractive in a lot of ways and that's been really manifest during the pandemic. But, you know, we have a lot of investors too because what we focus on, Whitney, are not just fourplexes but we do them in master planned communities. So, if you drive through one of the communities you think "I'm around a bunch of townhouses," that's what you see but it's really planted as fourplexes. So some people have syndicated what we do, they've come in and with

a few partners and raised some money and bought 10 fourplexes or so within a project before, so it can kind of split a couple of different ways because it's on that cusp of that multifamily world.

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WS: I think it's neat that you call it a master planned fourplex community. I mean, even the name of the company is the Fourplex Investment Group, like you are niche down, right, I mean this is what we specialize in, this is what we do. And I think it's a neat model because like you said, you might build these at you know what 200 to 350 units at a time so this is a large construction piece of construction, it's not like you're building one fourplex and selling it at a time, but however, you could sell it one at a time. That's kind of part of the plan, right?

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SO: It is. It is in...it gets a little bit more specific even beyond that, because anybody listening to the show right now that's trying to find the multifamily deal knows that it's hard, right, everybody's trying to do it. I don't know if saturated or compressed cap rates are, you know, there's a lot of ways to say it. And so if you're going to make a deal work, I heard somebody say a couple of months ago "Great deals aren't found, they're created," right you have to engineer that deal yet to make it a great deal.

And so, our typical client is a busy professional, right, that wants to own a fourplex, so the way we make this a great deal is we offer the client the opportunity to take some risk and that is, you're going to get a construction loan, you're going to go through the construction process which takes a year or more, as well as the stabilization and lease up process, but if you do that and you're willing to bite off that chunk of risk, it takes a lot away from us, right, that's less money we have to go raise for vertical financing and going through that whole process. So, of course the reward is to sell it at a better price.

So, generally we're selling at a point or sometimes even two points below whatever the market cap rate is, and that...it's kind of the same thing as a value at apartment complex right, you go by that apartment complex you got to take 70% of the units offline while you're moving people out and putting in granite going through the release, it's the same thing just more on a micro level.

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WS: Yeah, that makes a lot of sense and, believe it or not, we personally just did the same model but buying from a developer, but a whole community, right. We're a developer, we had a relationship with, and we bought a community that he had developed in the past and it's very similar. I mean, like we're coming in and buying but not typically we're not closing officially until it's completed, say a year later. And so, it helps in a big way, right, he's not having to come up with those funds, but it allows us to get a lot better deal and have a ton more equity as soon as we close on that project and it'd be brand new, and so that's interesting.

Any more reasons like why fourplexes instead of trying to do a larger apartment community or, strictly doing a townhome-type community where maybe there's eightplexes or twelveplexes or anything like that? I mean, anything else other than financing around fourplex-style buildings that hey, you know what? We're going to niche down and this is what we're going to focus on.

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SO: Well you know, anytime you start a business there's that challenge of having too broad of a focus or too narrow of a focus, right and initially that was exclusively the focus is fourplexes and how do you get really good at that. And then once you are really running at a high level on that, do you expand? Do you broaden things without at the same time diluting them and sacrificing doing what you do really well? Right?

So, there's a couple of ways that we've been able to kind of veer off of that in some cases, but I would reiterate because you asked why fourplexes: they're great for a lot of people. Some people might need a different kind of a deal, but I told you about financing the 30-year fixed rate, you're going to come in and with the lowest possible down payment of 25%. I really love them and if I get into the weeds here, Whitney, let me know.

But, if you're a real estate professional and you need tax breaks, the cost segregation and bonus depreciation benefits are astronomical on a new build fourplex, right, so that's another huge reason to do it, is not only did you get a good cash flowing asset on the books at a good cap rate, you saved a bucket and income taxes. And that's most effective when you're a real estate professional but that's probably a deeper conversation for somebody who knows more

about accounting than I do.

Now you get the city, Whitney, that you say "Hey, we want to come in here. We want to put in 200 townhomes and plot them as fourplexes," and rarely does it say you say, "Okay, do whatever you want," they've always got their wish list and so, what we've noticed a lot is sometimes they'll say "Well, we'd like to see some apartment product in here, too, or some retail product in here, too."

So, we've got a number of projects where let's say three quarters of it is townhomes, but then maybe out on like some front edge or on a perimeter we've done some stack flat apartment-style units – 20 flexes or 12 plexes, it kind of depends on our density that we can get. So yes, that certainly is an option and many people have come in and we've helped them get a commercial construction loan for something like that and they've syndicated it, they bring in a couple of partners and now they own a 20-unit building together, and that's part of the overall community. And anytime you build a for-rent community that has multiple owners and multiple parcels, you're toast without an HOA. I know that an HOA is usually a dirty word in the world of investing, but in this case that's the uniform set of rules that make sure that your neighbor isn't going to paint his front door pink or this guy is going to let people park an old Trans Am on the lawn, right.

We have to have these rules, otherwise the community goes in the tank. So some people more recently have said "Well, that's great. I understand that. I just want a whole community for myself being one of them. I partnered up with a couple of my investors, and we did a smaller project: 32 doors in Phoenix, Arizona, closed on the land last month. Their grading right now I think will be coming out of the ground in the next six weeks." And so that's one where we've noticed a couple of parcels of land out there – 20 to 60, 70 units, the lot of the big institutional people are skipping over there ignoring and we've been able to grab them, and they were great for us, especially because the amount of capital you have into those you qualify for that Freddie Mac small balance program if you want to get one one blank alone over the whole deal. So I don't say why definitely do this or why definitely do that, I think every deal has a best way to approach it and all deals are unique.

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WS: Yeah, no, that's interesting, and are these communities laid out in a way like you might see a typical single family-type community versus an apartment complex?

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SO: Well, when they're townhouses, they're townhouses, right? So you'll see rows of four, six, or eight townhouses, right, and that's how it's laid out. The goal is to make it as livable as possible. I was down at the IMN conference, the build for rent single family conference in Vegas a couple of weeks ago and one of the panels had an interesting discussion about how do you work that balance between density, right, every developer wants density on the front end that's really high profit, but also not creating the future C class product, right? And so you have to watch that, so you say it is laid out like a single family subdivision to the extent that we can yes, it needs to be livable and breathable and something that can sustain over time.

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WS: It's just a very unique business model, you have so many options when exiting as well. But, being a developer and doing something that scale, I mean to that large right, can you speak to just the current market conditions around lumber prices or shortages and what you all are dealing with or how you're hedging against? You know, I get questions all the time right.

I mean what happens if we can't get the materials or your investor has invested in and it's delayed this long, how do you all handle some of that?

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SO: Well that problem lands right in our backyard. Right, we definitely feel that one especially because, Whitney, we have a fixed bid contract with our investors. When they close on a construction loan, we've committed to deliver that fourplex at \$900,000, for example, so if lumber shoots up through the stratosphere like it did recently and it's backed off in some ways and other ways that hasn't, that's coming out of our end.

So, we have to be able to price it, you know, that uncertainty into the equation and sometimes that's easier than other times. You know, we were joking before we started recording that if my basement and flooded and I was complaining to you that I can't get baseboard, they're telling me sometime next year I'd even leveraged figs relationship, right, now I have a custom

baseboard I need to get, but we've been building some of these units, had to do a mix and match as long as we can keep the baseboard the same in one unit we did it but that's tough to get, the MDF product, right. For a while there it was OSB, right now trusses are pretty difficult. I had a good conversation with our construction supervisor yesterday.

And a lot of these building materials, Whitney, are sold on an allocation, so a big national supplier, this is hitting us hard in Idaho right now. A big national supplier plans for the next year and may say "Okay, how many trusses did we ship to Idaho last year?" Right? Okay, so we're going to allocate about that much this next year. Now, Idaho traditionally has been a smaller state, there hasn't been as much going on there but that market went completely out of its mind, everybody moving there, and so right now, the challenge we face in Idaho, along with every other builder is, we were given an allocation based on the past and that does not match at all with what the market needs.

Now there's some irony to that, some good irony, rents are coming in a couple hundred dollars more per door than we originally projected and the values are soaring, but getting that product finished up and out of the ground is difficult. So, one way we've gotten around that a little bit as somewhere other places where our allocation is better, like in Utah or Texas, we can get trusses, and we're putting them on trucks, and we're sending them Idaho, and it costs a lot of money and that comes out of our end but we have to deliver within a certain period on our contract or we've got late fees that we have to pay to our investors.

So, you just have to kind of navigate that day to day and, another hard spot that it's hitting is land sellers. Land sellers, and maybe they're entitled to do so, but they're totally unreasonable right now. They don't want to give you any contingency, they don't want to give you time to get entitlements. They say "It's land. You want it, I got it. It's valuable clothes, I'm sure you'll figure it out," but our product is so hyper specific that we can't close it, unless we know we're going to get our entitlements on the property. So I tell you if it's not one thing, it's another but I've learned that real estate's a good business to be in if you just stay in, solve the problems and...

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WS: Oh, that's right.

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SO: Some days it seems like you're not going to solve it, just stay and keep working at it.

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WS: Yeah, I hear that so often, so often especially on the show and other listeners hear that. It's like you have to be willing to just keep going. A guest not too long ago talked about things like "You're gonna have to keep getting knocked down for 50 years, like just get up one more time, and then get up one more time right after you've been knocked down a few times. It's not going to be forever, but man, you have to keep going."

I like how you talked about, I bet a lot of people didn't know that my developers are doing that and somebody like yourself that's a numerous cities, right? You have some different options, right, and that allows you to get stuff done and, you've been allotted this material even if it's somewhere else that you're still able to ship it and make things happen.

You talked about pricing the uncertainty into the cost, any tips around that? Or thinking through that, maybe somebody's thinking about developing a project right now or they're buying a project from a developer right now, how do you determine that cost? I mean because there's definitely things to weigh there, right?

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SO: Well you got to talk to your suppliers, ask them what they see, ask them what changes that they're being told about on the horizon. They know a lot about this stuff, there will be surprises, you can never plan around all the surprises. I think though that for every action there's, for the most part, an equal and opposite reaction, right?

I noticed when we were having a really difficult time getting trusses, all the sudden framers we're showing up at work because guess what, if you can't get trusses, farmers aren't swinging hammers, and they need a job. Right. So you have to be creative and know that these things aren't going to come in exactly where you think they are. Make that contingency thicker than you thought you needed it to be and give yourself more time. We usually do 12-month construction loans for our clients. We had a discussion just yesterday, we're going to 15, there's just the supply chain disruption that we've gone through is difficult. I was in Nampa,

Idaho at one of our projects the other day and I was looking at this row of townhouses and just across the street, they were finished and leasing, but 30 feet away, complete mess, right.

I was asking why they aren't further along, and they had a hole cut out of the second floor, and it's "Why is there this hole?" I said we can't get bathtubs. But we had to go about finishing the rest of the interior but we got no way to get the bathtub in there so they're going to crane those bathtubs in, put some plywood over the top and then finish and then they can put the exterior on, but something as silly as a bathtub was holding back the whole show. So, logistically there's just things missing all the time.

So, I think a longer construction loan is one of the best things that you can do and most of the banks understand that.

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WS: I think it's such a great example and great advice right there as well. I'm thinking about a longer construction loan, I mean just that example if you can't get bathtubs, right and then obviously that's not something you can usually take through the front door, right?

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SO: Yup.

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WS: And so, they had to be creative. And wow, I mean, hands off to them for really making a way to still make it happen and keep the ship going forward, right, even though they have this massive thing they're waiting on, or issue that's holding them up. Well, anything else just in the current market that you can speak to?

Before we move to a few other types of questions, just being the developer that you are, any anything else that you could speak to as far as the listener who is getting into that space right now, or like I said that buyer who's buying, wanting to buy from somebody like yourself even before they're completed, anything else about this our current market and things they should be thinking about?

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SO: We've been doing some interesting things with smart home technology lately. That's something that for a couple thousand dollars for...well, usually less per door about a thousand dollars door, you can monetize and charge extra income for tenants who are willing to pay it. You'll notice it starting to get dropped into even older apartment complexes, but you have to be careful, we got burned by it in Texas. Texas has some laws about double deadbolts on the front door so we thought well cute going in there with a smart lock, it doesn't matter because by law you have to have that second deadbolt inside that the tenant locks, so what good does unlocking your main deadbolt from a smartphone do?

So, you have to know what the local laws are and how dense some of these communities were where we had doorbell cameras that when it was on, Whitney, if it was looking across the way and somebody else opened their front door you technically could see inside their unit with a camera. And that's a big problem. Right? That's a lot of legal issues so that's definitely an amenity that you can monetize but it's tricky, right?

You have to be aware of some of these local and federal laws. And you asked, I'm going to give you one out of the blue, right now I really hate dumpsters, so wherever possible we're trying to go to garbage cans on our built rent communities. And where do you put garbage cans, we've got some communities where we want to do it but there's nowhere to put them and so, now we're designing communities for the future where we've got places that garbage cans can be concealed because dumpsters come with a whole host of issues – they're unsightly and they diminish the value of your community, we've noticed that for sure so, I'm going all cans wherever possible. That's not a sexy tip right there but it matters.

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WS: No doubt. Dumpsters always have a challenge about them. For some reason, you know, it's like that bag of attractions that breathes on the ground when it could have just been picked up.

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SO: And I may or may not have put things in a dumpster in a community that I don't live in before, I can't confirm or deny that. It's human nature, people from the outside you're going to

come put stuff in dumpsters or not even put them but just toss on old mattresses there and now it's your problem.

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SO: Yeah. What about, Steve, we talk often on the show about preparing for a downturn and, obviously a lot of people expect something over the next six to 12 months, I'd love your opinion about that and anything we haven't already talked about around being prepared for the unknown, you've been in the business, I think you said since 2002 or so you've seen some downturns, what are you looking at now? And we're going into that new development project to ensure the other than longer types of debt, like we mentioned, are going to help you to hedge against some kind of massive market correction in the middle of that project.

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SO: So, I saw a really funny meme the other day and at the top of the meme, this picture, it had at the top of the meme, it said "Millennials waiting for the market to crash," and then under that it said "the market," and it had like 15 pictures of Tom Brady. And it just got better looking over time. Okay, that was the market. So we have to balance that rationale of "Oh, is the market ever gonna crash? I've heard that before" with "Always the Doomsday by golden bullets and hide," right. I'm of the opinion that you should keep investing, but I'm keeping a little bit more in cash reserves than I normally would because of that uncertainty that's there.

I think that you can't afford to not be investing in the market or maybe it just goes down a little, we don't know, right, you have to have that capital in the game and working, but you have to have the dry powder to make it through the tough times. I think beyond that, too, we're not building extravagant housing, right. I know that many of the apartment complexes that we compete with are A class institutional money dog groomers, right, and a beautiful Ritz Carlton-style swimming pool. That's not us, we're very basic because we know that in a downturn, the life blood is your tenants and their ability to pay.

And if you had proforma this thing and it doesn't work at anything less than \$25,000 a month in rent, that's the kind of property that will have a hard time during the downturn, and you're really going to get hit on those cash reserves. So we're trying to build something that we can see people want to live in now but they can still reasonably afford for the most part if things get a

little bit tougher.

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WS: What about a way you've recently improved your real estate or commercial real estate business that we can also apply to our business?

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SO: We are constantly looking at our floor plans and our finishes, and, sometimes you are solving a problem, Whitney, and your guy, here we are solving this problem again and you're in the weeds, and then you the light bulb goes on "Wait, why are we even dealing with this thing?" We can go away right now. We recently did that and we put almost all LBP flooring in our product, right, that makes all the sense in the world. We used to do some other finishes where we didn't have pantries, right. We found out that we save a little bit of money by not doing it but our vacancy and our maintenance suffers over time, right?

But I think the biggest one is that, let's go to 15-month construction loans. I can't tell you the anxiety that that took off of me. Just knowing we had that extra time to perform, because there's so many things that are outside of your control right now that the only way you can control it is more time.

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WS: Yeah, it's not just your competitor that you're working against now. There's so many outside sources that are battling for the things that you have to have. So many things that you've mentioned, yeah it's great advice. I appreciate that. What about your best source for meeting new investors right now?

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SO: My best source for meeting new investors is successful relationships with old ones.

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WS: Great answer. How do you leverage that?

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SO: Well, we try to communicate with our old ones. Relationships matter. Being transparent matters. I've had to give bad news before. I know that investors would much rather hear bad news than no news. They're very resilient, they understand things happen and, you'll notice that if you have to give some bad news, maybe you screwed up, I don't know about you, but I've screwed up before, I'm going to do it again. Probably soon, right? But when you own that, they might be irritated, they might even be furious, but for the most part they'll stick with you and when things turn around and they see how that turned out, the avalanche of referrals comes.

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WS: Yeah. That's awesome. Yeah, we're all going to mess up, right? I love just being humble about that or how you express that. What about any daily habits that you are disciplined about that have helped you achieve this success?

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SO: I started doing one of those habit journals but when I use it from Brendan Burchard and, I've liked it. It makes me think about the day and finish the day, focused on the most important things. I think if you look at your day from a high level, and the macro-side of where it's going, "How many days that are stacked up like this leads to months that are stacked up like that?" Right, and if you're purposeful in that, then over time you will be successful, you see those habits maturing because if you don't think about it strategically and take the time to do that, it will decide for you and you will spend your day chasing squirrels.

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WS: Yeah, love that. They will decide for you if you don't decide. What about the number one thing that's contributed to your success?

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SO: A positive mental attitude. And there's going to be days where you think you don't need it and there's gonna be days where you're glad you had it, and you just go "You know what? Tomorrow is a different day," right? I know I can be successful, I trust myself to perform over time, because we were kind of talking about earlier. The funny thing about real estate, Whitney, is that the next phone call can change everything for good or bad. You can get a call today that

ah. Now your day, your week, your month is shot because of that call, and the opposite is true, but you get enough phone calls that if you're positive over time the net result of all those calls is a good positive result. And so I think you need to keep that in mind that one really good thing that happened today or one really bad thing, that's not the whole show, its what you make of it over time.

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WS: How do you like to give back?

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SO: I've got a couple of charities that we like, that we're interested in, Operation Underground Railroad is probably our favorite.

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WS: Yeah, that's a great one. I've heard lots of great things about that organization. Well, Steve it has been incredible to get to meet you and I'm just grateful for your time sharing with us your business model. Really, I mean, we've done over 1,100 episodes and I've not heard anyone that has that focus on fourplexes but love that because I mean for all the reasons that you express there and just the ease of existing properties that all the options that it gives you are in different types of buyers that can come in and purchase projects from you. But appreciate your insight as well just on the lumber prices, shortages, and how you're prepared for some kind of downturn potentially, and what that looks like as a developer at your level so tell the listeners how they can get in touch with you and learn more about you.

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SO: Yeah, feel free to just check out our website, there's a ton of information there. It's fig, like the fruit, so fig.us.

[END OF INTERVIEW]

[OUTRO]

0:28:00.0 ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought

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