EPISODE 1149

[INTRODUCTION]

[0:00:01.6] 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 (WS): This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. We hear the term all the time in our industry, value-add, value-add real estate, a value-add projects. And that term is turn around a lot, but there are many different parts of a value-add business plan then we need to know about especially if you are a passive investor or if you're an operator. You need to think about is this a deep value-add? Is this a light value-add? How do we express that? How do we know what to do when we're talking about a value-add-type project? Well, I hope today you learn a lot from the Highlights from these shows and these operators talking about value-add projects. Have a blessed day.

[INTERVIEW 1]

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WS: Thanks for being on the show, Sarah.

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Sarah May (SM): Happy to be here. Thanks, Whitney.

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WS: So why syndication and why not stick with flipping or small rentals?

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SM: Scalability was what first got me interested in it, was being able to buy one property that has a good cash flow, good appreciation potential, and go beyond my personal savings account. But then there are actually so many more benefits that I discovered along the way where I can hire these much more qualified and professional property managers, much more professional contractors have the benefit of only having one set of books that I have to review every month, as opposed to having 100 houses, for instance, where you're looking at so many

financial statements and it's easy for things to go through the cracks so lots of benefits that I discovered.

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WS: Tell us about your company right now and what your all focus is?

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SM: Sure. So my company, Regency Investment Group, we're focused on apartment buildings. So we look for apartment deals in Colorado on the different range, in Denver, Colorado Springs, and we're value-adders. So we like properties that were built in the 70s, maybe the 80s, that are running well, they're occupied, but they can just be taken to the next level. So we like to go in, renovate the interiors, add some new modern-looking signs, repaint the building. And by doing that, we're providing the residents a better place to live and over time we can raise the rent and increase the value of the property.

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WS: Incredible. What are some specific things in a property and a value-add property that your company is gonna look for?

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SM: I think the one everybody thinks about is the interior renovation. So something that's dated, you can proceed and people wanna live there, they're willing to pay a little more for a nice place to live. But an apartment, there's so many other creative things that you can do that usually aren't thought about. So you can add things like a carport, you get a little bump. You can charge pet rent for people who have pets, and then charge back utilities. In Denver where I am, all the properties are already charging residents for their portion of utilities. But in some markets, they may not be doing that, and that could add 50 to $100,000 in extra income for these properties without having to spend a dime, really it's just the management's responsibility to get that implemented.

So those are some ideas on the income side, but on expenses, sometimes you'll see these properties that are just self-managed by an owner that hasn't really paid a lot of attention to where the money is going, and you bring in a new professional management company, had expenses 30%. And by doing that, you increase the value by 30%. So there are all kinds of things we can do, get creative, and that's what makes this business go on.

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WS: Can you give us a brief overview of, say, the most recent deal you all syndicated?

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SM: Sure. So that 100 unit deal, we talked about for Colorado. A little over a year ago now, and kinda had everything we were looking for, I wish we could find those more properties just like it, but I had some light value-add the interiors weren't updated yet, have some old signs in an old office that we were able to screw that. And now I'm on the expense side, ashore running it pretty well, so we're able to keep expenses low and just follow our business plan renovating three or four units a month, then burn off the last hole as well. That property, another thing is, which is really easy is when you talk about the rent, you can just raise them up to market rent and don't necessarily have to do the work. And the property we bought had some three and four-bedroom units, which there are very rare in the summer but in very high demand. And so we were able to determine that those were about 250 below market at the time we purchased the property. It was really easy to just go in and start bumping up those rents as well as when people moved out, we could renovate them, and rent them for even a higher market rate.

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WS: Why wouldn't that seller do these things, or why wouldn't they have raised the rent $200 instead of selling?

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SM: I don't think they knew. There were no comps in the market. But my husband, we have some other smaller rentals in the nearby area less than a mile away that has three or four bedrooms and we were getting $700 a month, and because we're all multifamily deals. So we knew that the 12, 50 that was currently being charged was our below market and could raise quite a bit.

[INTERVIEW 2]

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WS: Our guest is Andrew Cushman. Thanks for being on the show, Andrew.

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Andrew Cushman (AC): Glad to be here.

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WS: How did you raise money for that deal?

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AC: This is another lesson, and that's at your investors, so we had been doing single family flipping for is four or five years before that, and so we had some people that funded those, and we went and did the apartment complex, that was the first group we sat down with and say, “Hey, this is what we're doing. This is why we think it's a great opportunity, etcetera.” And a lot

of them are like, “Hey, we're in.” And two of them, you've said they're gonna be in for $400,000 apiece right off the bat, and they're like, “Wow, this is awesome and we only have to raise $400,000,” which we can do that easily, and we could. But the problem was shortly before closing, we found out that one of those guys, we hadn't asked all the right questions, and it turned out he wanted to be a controlling partner, not just an investor, and that wasn't what we were intending to do. The other guy never actually had the money and he filed bankruptcy a few years later. And so all of a sudden we were close to closing and we were $800,000 short, so we just, word of mouth, just reset. Absolutely, everybody, we could think of. Everyone that we knew. We asked them to, “Hey, who do you know that might be interested?” And so we got the first group of people that we knew and then the second level of connection there, what is it that book, we probably get pretty close to the Six Degrees to getting to Kevin Bacon. We were reaching out. And relationship to relationship to relationship. But we got there.

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WS: Nice. So you're persistent. Right?

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AC: Yeah, that's the only reason I'm still here. I'm not necessarily that, at least in the beginning, but I'm not necessarily naturally good at any of this. When we were doing single-family, we started out trying to buy three foreclosures, which involves cold calling people who had notices of default, and it took me 4,576 phone calls to get our first deal. But it didn't take anywhere near that to get the second one, the third one, the fourth one, or the fifth one then. So similar, that.

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WS: Nice. So what about managing this property from so far away? What did that look like?

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AC: I definitely would not recommend trying to self-manage from that far away. We brought in a third-party property management company that has a good amount of experience with that type of property and just closely worked with them and that basically what that makes you as a sponsor syndicator in that situation is you become an asset manager. So they're doing property management and then you become the asset manager and you're managing the managers. And that can be the actual property manager, and in this case, it was had a lot of work then to be done, you're managing rehab coordinators and managers.

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WS: So with the property being mostly vacant, tell us about some issues that would bring up with it being vacant?

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AC: There are quite a few. That property had been neglected for about 15 years, and any time you buy something that's in that state, one of the things we learned is dramatically increasing your renovation budget beyond what you actually think it's gonna be, 'cause it's like a rotten union, every time you pull off a layer, you're like, “Oh geez, what's underneath this things just keep adding up and adding up.” The other thing you get when you buy something that's completely faking like this, typically, you don't find highly vacant buildings and really good areas, if you do, that might be a great opportunity, but this one wasn't. It was in a tougher economic area and vandalism becomes a problem because you have all these vacant units. And so there's one time where we had over $50,000 worth of damage because someone went in and ripped $300 worth of copper piping out of all the walls without even bothering to turn off the water and destroyed the walls, the flooring, the units, and that ended up about $50,000 worth of damage. So high vacancy definitely can cause issues. And then also you get a certain type of tenant. Not many people wanna move in, even if you fixed it up nice, not too many people wanna move into a place that's mostly vacant, they assume something is wrong or in that case, they would have been right, 'cause it was very poorly managed before we had gotten there.

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AC: What about the type of debt that you had on that property with it being mostly vacant?

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AC: We didn't have any. We just basically raised all the cash and then also is during due diligence, we started seeing, “Wow, this thing does need a lot at work.” So we went back to the seller and said, “Hey, this needs a little bit more work than we thought. We're not gonna re-trade on the price, but we want you to carry a note for us.” And they agreed to carry a portion of it. And I think it was like after two years, something like that, we refinance with the actual bank, 'cause by that time we had a nicely stabilized and we just left the flowing on there until we sold it.

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WS: Nice. So what was the key in buying this property and selling it many more times for what you pay for it?

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AC: Well, one, persistence. Two, there's a tremendous amount of value-add there, and we also bought it in a distressed part of the market, it was back in 2011. And managing the renovations, they don't go over budget, which is really critical on something that needs that much heavy lifting. And then providing good servers to the residents, and then partnering with the community. When we first walked into the police chief and said what we're gonna do, he literally looked at us and said, “yeah, right. Good luck.” And six months later, he had a different attitude and they were really happy to work with us. We had city council members that we were talking to and we're trying to get city funds to clean up with the neighborhood and all that.

And so we partnered with the city, we actually won the award for the George Apartment Association, it is called the Star Award, the most improved property in 2013 or 12 or something like that. So we try to bring the community in, and then it really just emphasize that “hey, this is a clean, safe, quiet place to live,” and we made sure it was. And that made the difference.

So yeah, by the time we sold it, it was still a lower-income area, but the revenue is like five times what it was when we took it over.

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WS: Wow, so what gave you the confidence that you can make this deal happen with all these things that were against you. I wouldn't hear most people that are doing their first syndication find a property that's all the way across the country, that's mostly vacant, that you have to raise capital for all of it. All these things. What gave you that confidence and said “Okay, I'm gonna do this.”

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AC: Well, I said it helps to be a bit naive, but no, a handful of things. Number one, I have hired a coach, if it was just my wife and my wife is my business partner. If it is just us, start reading a couple of books. No way. We had a coach. That was huge. The other thing is we realized that we didn't have to know it all or do it all if we brought in the right people to help us. So the right management company, the right GCs, the right rehab coordinators, if we worked with people, again, in the city that they could give us knowledge of what the issues were and what I need to be fixed. So it was really about commitment to learning as we go, having a coach, partnering with people who knew what they were doing. And then again, just giving back to that shared persistence, knowing that there was gonna be gaps in our knowledge, but that we would learn it and figure it out when we got there.

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WS: Nice. So let’s fast forward to the most recent deal. Tell us a little about it and kinda build us a little story so we can learn more about it.

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AC: Yeah, that was one we actually bought in 2014. A broker brought it to us and the 122 unit seller wanted was asking three, two and they had an offer at 2.8 to fill out. They got another offer, we offered 2.4, another buyer came in, 2.8 that fell out, finally, they came to us and said, “Look, if you can just close, we'll give it to you for 1.4.” So it's a great deal, done. And we

bought that, it was stable but it needed to be repositioned. They have basically kind of just filled the property of people who could warm the room, but that's about it. So we needed to change over the tenant base, put about a million dollars in there, renovating it just correcting deferred maintenance, but also upgrading the units, so we bought it for 2.4, put about a million into it, or total basis is about 3.4 for 3.5, and then we actually just sold it earlier this year for a little over 7.1, which needs to say I was a good home run for us and the investors, and I ended up being a great deal.

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WS: Wow, so there's gotta be a few details we didn't hear about it. So break that down a little bit, help us find a deal like that. What was it about that deal that said, "Okay, we need to pursue this one."

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AC: Candidly, until the market shifts, I wouldn't tell anyone to expect to find a deal that they can buy for 2.4 and go ahead and sell for 7, a couple of years later, that's just not likely to have. But how to find a deal like that now, would that say It's not impossible, we bought one actually, about two years ago that this year, praise for more than double. So you still as possible, but you're gonna be looking at, instead of 50 deals, you might be looking at 100, 200, 300 to find something like that.

We do B-class value-add, which fortunately has gotten really popular these days. But the key is not only just to find a good deal, but you really have to make a good deal. You have to figure out, okay, 'cause the odds of you buying something 20% below market or whatever is exceedingly low, so you're probably gonna need to find something at the market, but figure out, "Okay, well, if I spend 8,000 unit doing these upgrades, I can bump the rent to $130 or whatever, and I bring it in, professional management, I can improve the property's reputation, I can re-brand it. I can improve service to the residents. I can decrease the economic vacancy." And do all these things to increase the net operating income and then force the appreciation of the increase in value, and of course, it helps to buy in the right markets and by right markets. I mean markets where the median income easily supports the rents that you wanna get to your higher rents, meaning there are 20 people in the area who can pay them.

And then also markets where people are moving in, jobs are moving in, and ideally that those jobs are jobs that are recession-resistant. Right now they come, has been good for a long time, it still looks good, but at some software of some kind, and you wanna make sure that you can ride that out with that new problems.

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WS: What would be a recession-proof job or recession-resistant job, like you said?

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AC: Medical, medical is a big one. So we like properties or towns that are supported by large medical centers, especially with an aging population, they are not gonna go away. Another one is large universities. Now we don't do student housing, we try to be in areas and nothing wrong with student housing at all, it's just not our niche, but what we like is economies that have a lot of higher education, big universities. Because they actually tend to do well in a recession, people lose jobs a lot of times, well, I'm gonna go back to school. And so they tend to be significantly stabilizing factors.

Another one is the military. Again, completely independent of the recession, now there are other factors that go with the military, but it's not dependent on what the economy is doing. So for example, we recently purchased the property in a town for the top three economic drivers are medical, military, and a significant State University. And so we like that area because whenever recession comes, those three economic drivers aren't gonna really change.

[END OF INTERVIEW]

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Whitney Sewell: We hope that you enjoyed the Highlights show today. You can always listen to the full episodes that were featured today by clicking the links on the show notes page. and in the description box. Let us know what you've thought of this episode or you can go to lifebridgecapital.com/podcast and click the feedback button. Let us know how we can add more value to you. Thank you and talk to you tomorrow.

[OUTRO]

0:16:53.0 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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