EPISODE 1217

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

0:00:24
WS: Our guests are Ben Leybovich and Sam Grooms. Thanks for being on the show guys.

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Ben Leybovich (BL): Thanks for having us, Whitney.

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Sam Grooms (SG): Thanks for having us.

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WS: I'm excited to have you all and I know you are the guys making it happen.

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BL: We do a few things here and there.

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WS: These guys have been investing in multifamily for a long time. They're great syndicators, they're making it happen and we're looking forward to getting into this conversation. Ben and Sam, give us a little update on what you're working on and maybe briefly tell us what you've done up to this point in the syndication business, and then let's dive right in.

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SG: In the last few months, we bought 215 units between two properties. It's about an $11 million purchase price. We raised about $8 million for those two deals.

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BL: The purchase price is about $20 million. One of them was $11 million. We raised $4.5 million or $3.5 million on the other one. Good deals.

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WS: What is your model, the structure of your partnership between Ben and Sam? What are your roles?

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SG: We both underwrite. We get a deal from brokers. We both handle most of the underwriting. We sit down with brokers of the property together and then at that point is where we diverge in our roles. It happened gradually between the first and the second deal. I'll handle mostly the debt and Ben will handle the equity. We both manage the property pretty equally, meet with other contractor appointments and deal with the renovation.

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BL: Reporting and things like that. I've been buying multifamily since 2006. This partnership is fairly new. I've been doing this for a long time.

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WS: How did the partnership change from when you first started to now?

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BL: I don't think it has. We like each other. We trust each other. Our areas of expertise are complementary in the way we look at things and with the way we process things. It fell in good and there hasn't been a need to change.

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SG: At the beginning, we are both trying to do everything and we naturally stepped on the areas we were strongest at. We did our segregation of duties organically over the last few months.

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WS: How did you all determine who would be paid what? At the beginning of your partnership, I've heard people ask, "We're looking at partnering. How do we structure that? What should that look like? How do we do that?"

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BL: I'll give you a simple answer. If people are concerned out of the gate about who's going to get paid for what, they're not looking at the right thing. What they should be doing is figuring out how to underwrite deals, how to get taken seriously by brokers, how to get some deal flow,

and how to raise some money. Sam and I never even had a conversation about who gets paid for what and why. It makes sense. Once things make sense, they make sense. They don't require a conversation. I don't know, Sam, if you disagree with me or what but we never ever talk. I want a great deal. He wants a great deal. That's where our focus is to find a great deal. Everything else is going to fall in place if we have a great deal. All of this other nonsense is nonsense. If you're going to focus on how much you get paid, how does that help you get a deal?

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SG: To be more specific, we split everything 50/50. There wasn't much discussion early on about how we were going to structure it. We started looking for the deal before we were worried about anything else. If we don't have a deal, what does it matter?

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WS: I appreciate both answers. I'll get that question out and I've heard it myself since you all are in this partnership.

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BL: That's a silly question. The reason most people don't make the money we make and don't buy the apartments we buy is that that's the kind of thing they focus on. That's exactly the wrong thing to be focused on if you want to be a player. That's what we're trying to tell you. Yes, you hear this question a lot. Guess what? Only a few of the people you talk to are actually doing deals. How do those two things line up? The people doing deals aren't worried about stuff like that.

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WS: If you both have that relationship that you're going to partner with, then it's not a big concern anyway. You know it's going to work out. You can focus more on defining the deal and underwriting.

Tell us a little bit about a deal that you have closed on. Tell us why you bought the property. What looked good about it? Did it meet your buying criteria or not?

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SG: We bought it a few months ago. It was 98 units. We purchased it for $8.2 million, raised about $3.6 million of equity. The rents were $600 unblended.

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BL: Not quite.

0:06:20
SG: A little under $600. We're spending about $12,000 per unit to fix up the property and $7,300 of that is on interiors but that's giving us a $340 rent bump per unit. We're getting rents up to over $900. That's what you have to see in the Phoenix area is about a $300 increase.

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BL: Mathematically, let's back it up and explain to folks why you have to see what you have to see. Whitney, most of your value-add is a function of filling up vacancies. In most municipalities, you go to Houston, you go to Ohio, Columbus, you find a, "Mismanaged property," that's what we all want. What does it mean mismanaged? Mismanaged means you've got some vacancy because the owner doesn't want to deploy capital to bring units up to par. They're running at 78% occupancy, 73% occupancy, 84% whatever. When you take that over, the majority of your value-add is a function of going in, fixing what needs to be fixed, and filling up the vacancy, bringing it to 94% or 95% whatever the physical vacancy in the market. That's the majority of your value-add in most value-add plays, then you put some lipstick on the pig and raise the rent $50 or $60 and you call it a day. The problem in Phoenix that grows 1.5% in one year is that there's such a population explosion here and such a lack of inventory is $800 to $1,200-apartments that there's no vacancy.

Even the most horribly run property is generally speaking operating at market occupancy. What does that mean to buy a value ad in a place like Phoenix that's an extremely high growth market in a county that is the number one growth county in America? What does it look like? What it looks like is you have to do the value-add. You have to create additional revenue. There is no vacancy. When we took over Silver Tree, there were two vacant units out of 98. When we took over South Mountain, there was one vacant unit out of 117. There are no vacancies because there's a lot of demand because of population growth.

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SG: We can't underwrite any vacancy.

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BL: You need value-add to get the South Mountain that we closed. The entire submarket is annualizing at 2.6% vacancy. What do you do with that? You underwrite 5% or 6% vacancy because that's what is sustainable historically but then you need value-add to compensate for the difference between the 6% and the 2.4% in the marketplace which is not sustainable. You have to assume if that's all right. You need the value to compensate for that and break-even and then you need a bunch more value-add in order to make returns. What it looks like is $300 per door plus and that's the only thing that works in Phoenix because of the rebates.

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SG: I heard your reaction when I said $12,000 per unit and we're spending $7,500 on the interior and we're touching everything in the interior of the units. We have a completely new kitchen with cabinets, granite countertops, stainless steel appliances, plumbing fixtures, lighting fixtures, new flooring as well as bathrooms.

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WS: You get the $300 rent bump. Give me your timeline as far as how many units is it and getting it all renovated.

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BL: Let's talk about the Canyon, Sam.

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SG: We're on lease renewals. We are bumping rents quite significantly. With a $250 rent bump, that naturally gives you people who are going to move out and not renew them. We did that enough. We figured out how much we would get so we can get five to six units available per month that won't renew and then we go in and fix those up. That helped us where we had 39 lease renewals between those two months. 39 out of 98 units in two months. We heavily weighted on those two months. We couldn't renovate all of those units. We went in and increased rents. We turned it in at $50 and a lot of people were willing to accept that but we had five or six people say, "We're not going to accept that," and that was perfect. We got our hands on those units. We were able to renovate and then we still got a ton of lease that we captured on the classic renewals.

[INTERVIEW 2]

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WS: Our guest is Jeff Greenberg. Thanks for being on the show, Jeff.

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Jeff Greenberg (JG): Thank you, Whitney. I'm happy to be here.

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WS: Can you speak to how important it is to build relationships when you're getting started? How you did that and maybe how that's changed from how you were building relationships and nurturing the relationships from the beginning to the way you are now?

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JG: It is extremely important to build up relationships to find other people that you can help or they can help you or they know somebody that they can refer you to. The whole business of

real estate is helping each other and being of some service to each other. In the beginning, it was difficult. I was very quiet. I was introverted. As I opened myself up more and more, now I could go into these situations and talk to people and walk up to people and say, “What are you doing? What business you’re in?” If it’s a real estate meetup, “What are you doing in real estate? What have you done?” You never know who’s going to be able to refer you to someone or something. Maybe they’re going to invest with you or maybe they know somebody that’s selling a property that you may be interested in. It’s definitely a relationship business.

The first two deals that I got were from some broker that I had met through LoopNet. He was born in California but he was living in Texas. We got that relationship because we have the California connection. Every time I was in that part of Texas, I stayed with him and his family and we became friends. We still text back and forth some and communicate some even though we don’t have a property involved anymore. It’s the relationships about getting the deals as well as the relationships with investors. On the deal that we just closed, part of the funds was raised by people that I had met in different situations and they were bringing in their network. By expanding to their network, I’m expanding my reach out. That’s important when you’re raising funds, when you’re looking for deals and when you’re formulating relationships.

I remember reading a blog or BiggerPockets where someone was talking about, “I’m very introverted and I’m afraid to talk to people.” I went into it and I said, “Get over it.” Do whatever you need to get past that. If you need to go to Toastmasters, if you need to push yourself in front of groups to talk to people, take a speech class at a college where you’re forced to give presentations in front of people, whatever it is, get past it. That’s very difficult unless you’re just wanting to be an underwriter or something and going to sit there and play with the spreadsheets and do some back-office type of stuff. If you’re going to be out there front-facing and running your business, you better be able to talk to people, talk to vendors, talk to property managers, property inspectors. You need to be able to do that without being in fear of talking to people.

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WS: What’s been the best place that you’ve found those key relationships that are helped move your business to the next level and people you can help as well?

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JG: A lot of it started out with the different meetups that I attend. In the beginning, it was great. I met a lot of people that were farther ahead than I was. I still go to some different boot camps where I meet up with some people that are at my level or above my level. The most influential one is a mastermind that we’ve been involved with. There are some extremely impressive people in that mastermind that are open to talking to anybody at whatever level. For the most part, they’ve been there and done that. To ask them, you say, “What do you think of how I

wrote my offering? Would you have changed anything? What about the structure of my deal? What do you think about that?" They can look things over in a snap and give you a comment on what their feelings are. Most of the time, it seems like on the local stuff, I may be the most experienced person in the room so I need to go places where I'm out of my comfort zone. I'm standing up in front of people with a lot more skill than I have and do a lot more than I am. In our group, we talk about what we can offer the group. That was one of the scarier things. You're like, "How do I offer anything to this group? This is a phenomenal group of people." To try to come up with what I could offer them is one of the more difficult things on how I can help them in their business. As you keep pushing yourself, you keep finding things that will improve you.

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WS: As you get out of your comfort zone, it causes you to grow and then you start to grow in other areas that you didn't even know where they are. Initially, maybe you were going to those local meetups and that causes you to grow and then all of a sudden you realize, "I've got to find some other meetups or other groups like that mastermind." That's caused you to grow even that much more and pushed you to another level.

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JG: You've got to be comfortable being uncomfortable.

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WS: We were talking about how you got started and how other people can get started and just the importance of being driven and being ready to dig in and make it happen. We talk about the importance of relationships. What would be the thing now that you're focused on? You're building these relationships, you're keeping those relationships going, you're continuing to do that. How do you manage to make time to continue nurturing all these important relationships?

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JG: With a lot of the different stuff that I'm doing, I have other people doing the things that don't need my attention. I have other people that are looking for deals for the most part and underwriting the deals. I have a team that's been going out and doing due diligence with. That's something that we've been delegating out to property management companies where we've been contracting with them to do some of that. That reduces the duties that I have. I have been working on getting my team to do more of the fundraising because that seems to be the one that a lot of people are more resistant to. They find it more difficult and more uncomfortable. I tried to offload as much as I can and teach the rest of the team to do it. It was Chris Clothier that I heard talk at Joe Fairless' conference. It was his first one. One of the things that Chris said was, "The CEO's responsibility is to train his employees to replace him." I thought, "That's right. I want to train them so they can do the jobs that I don't need to do. That

means I could be doing other things to develop the company and to reach out farther." It's training people and getting people that can replace the jobs that I'm doing. That's one of the things that I try to do. Right now it's mainly the fundraising aspect of it, but my team does most of the other stuff.

[END OF INTERVIEW]

[OUTRO]

0:19:02
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