EPISODE 1258

[INTRODUCTION]

0:00:00.0 Kip Sowden We're really focused on efforts on providing housing and vacations for middle America, and we established ourselves in the secondary and tertiary markets or, it was the "it" place to be if you will. We really pursued opportunistic buys on the multifamily side.

[INTERVIEW]

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Whitney Sewell: This is your real estate syndication show. I'm your host, Whitney Sewell. Our guest today works from 100 million in assets under management to over 3.5 billion in five years and we're going to learn how he did that. So many details.

Kip Sowden is the chairman and CEO of RREAF Holdings, Inc. He's over 34 years of experience in commercial real estate with a strong background in real estate brokerage, mortgage banking, acquisitions development, and asset management. He has been active in sales of more the 12 million sq. ft of commercial real estate and over 36,000 apartment units throughout the United States. Kip has built an amazing team and has grown very fast in the last few years. It's been incredible. I think he said he had like 15 employees five years ago, and now many hundreds. I mean, they have grown very fast, vertically integrated. He is in different types of properties as well. He's going to talk about that and how they have grown. He encourages me to think about, you know, what more can be done in five years, but to just even have a vision for that as well. I hope that squashes some limiting beliefs for you as our listener as it does for me, and you're going to learn a lot from Kip today.

Kip, I am excited to have you on the show There's... I tell you we've done almost 1,400 interviews in the last three years and there are not too many operators we've had on who have, you know, the scale that you do. I want to give the listeners just a little... draw them in a little bit here. I mean, you... you all invest over what? 1.3-4,000,000,000 is that what you said last year or maybe I have that in assets just purchased last year? I know you're gonna clarify that at the moment but it's an impressive background that you all have and just a scale that you have at your company over 36,000 apartment units and 12,000,000 square feet of commercial real estate, it's quite impressive. Kip, give the listeners a little more clarity there on, just your scale, your business, how you all done this to some extent and we're going to dive in.

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Kip Sowden: Oh, Whitney, thank you, and it's a pleasure to be here. I appreciate you having us in your program. Let me start by correcting a couple of things. Why, yes, we have seen just incredible growth over the last five years and we did close, had our largest, biggest year was 2021 amongst our five different platforms which I talked to you about. We closed a tunnel of 1.34 billion in transactions, and as a company, we are currently around 3.5 billion in AUM, assets under management amongst our five main platforms.

Those five platforms are multifamily platforms that are acquiring existing multifamily assets and secondary and tertiary markets throughout the south and southeastern part of the United States, and it is our largest of the five. Then we have robust beachfront hospitality, a resort platform that is acquiring hospitality assets and iconic locations on beaches. Currently, in that division we own two properties on Panama City Beach, one on Pensacola Beach, we're building a high rise on Pensacola beach now, we bought a property on Cocoa Beach, we bought the Sea Palms resort on St. Simon Island, and just in the last 90 days closed two additional hotels, one on Surfside, South Carolina, another in Hutchinson Island, Florida. We currently have two more hotels on the contract in that division on Amelia Island, so very, very, very busy.

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WS: Nice.

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KS: Ground-up development is the third division, a platform within the RREAF companies and it, too, is very, very active today. We have seven apartment projects under construction, primarily Texas and Tennessee, and we have two large resort hospitality projects, one on

Galveston Island and another on Myrtle Beach that we will be starting this year. Then we have RREAF communities. RREAF communities are set up to buy large tracks of land in high-growth areas that are in big demand for residential housing, and when I say large, I mean very large. First, take down was 3,300 acres in Midlothian where we've designed, you know, hiking, biking trails, 8,500 single-family lots, probably 3,000 multifamily units, another 2,000 BTR, build to rent, town centers, schools, police, fire... you know, complete cities. We've got another 3,000 acres in that same division under contract just outside of Austin to do a very similar project that we expect to close at the end of this month, March 28th, I believe, is that close. And then, our fifth article or division is our extended state hospitality, where we're building, round up extended-stay hospitality all over the country with the ESA, Extended Stay America, and Wood Springs, which is a choice brand. We recently completed one in Missoula, Montana. We've got three that we're breaking ground in Salt Lake City, one in Athens, Georgia, one in Smarter, Tennessee, one in Carville, one in Gallatin, Tennessee, so very, very active.
Today we're about 400 employees. When you look back five years ago, we were 15 and had a 100,000,000 in AUM and today we're over 3.5 billion. Really, really growing.

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WS: I want to dive into that a little bit. I mean, a 100,000,000 to 5,000,000,000 in five years, I mean that's so impressive and it's, you know, most people dream of getting to a 100,000,000. I was just at a conference of about a 1,000 people this past week in real estate conference, I mean, just dreaming about, you know, 20,000,000 that much less, you know, have even the vision for you know, 5,000,000,000 in five years.

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KS: 3.5 billion is where we are today.

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WS: 3.5 billion.

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KS: Right, across the five platforms.

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WS: Right, that's so impressive. You know, would you just speak to when did that vision happen for you? Or, you know, like early on, you know, if we went back five years, did you foresee, like we're going to have these five divisions and we're gonna be able to pursue, you know, have 3.5 billion in assets? You know, what did that look like then? And maybe we could talk about a few of the things that help make that a reality.

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KS: We have been, we have really focused our efforts on providing housing and vacations for middle America, and we established ourselves in the secondary and tertiary markets before it was the "it" place to be if you will. We really pursued opportunistic buys on the multifamily side. Typically we would come in and buy an asset, call it a C+ or a B-asset, and then renovate it, move it up to, you know, a C+ to a B or B+, a B to a B+ or an A, and so on. And over time, you know, when we started developing a reputation of always transacting more quickly than some other of our competition would, we were seeing more and more deals, and it just... it fed upon itself. We have a very loyal retail investor following, probably 1,600 investors in total. I've invested in multiple deals and it's just kind of continued to grow. Friends tell their friends and it's, it's, it's been a great evolution for us.

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WS: Yeah, no doubt about it.

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KS: Same thing with the beachfront hospitality platform in that we're really catering to middle America, in the majority of the population. We're not trying to be the rich Carleton but we're providing these beautiful beach water experiences for the average American.

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WS: You know, speak to some of the steps that were taken early on to be able to, you know, be experts in five different divisions like that, right? I mean, I think about that in bringing expertise on our team like I can't be the expert, and probably five different asset classes. I mean how have you done that? What does that look like? You know, and even early on to scale, you know, as you have?

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KS: Fair enough. You know, having been in this business for 35 plus years, we have learned quite a bit and have transacted in about every kind of asset class you can imagine, and made a lot of mistakes along the way. But I think what we do best is we don't make the same mistakes twice, and we try to move in a direction in real estate that is more recession-resilient. I don't believe there's anything that's recession-proof, but I do think there are certain areas of commercial real estate that you can protect your downside and, I think over the years we've learned to do that, and it's really not five different classes of real estate.

I think that you've got to understand the common denominator is really focusing on value-add hospitality in living for the majority of the population. In our markets that we concentrate, we're in, I think 15 states today but they're all the south, southeast state. The common denominator on where we transact is that it's where the majority of the population is moving. We're seeing great, great migration from the west coast, northeast, to Texas, the Sun belt, and the southeast. Business-friendly climates, lower cost of living, and it's really worked very well for us. We do focus on what we think we know well, continue to expand upon that.

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WS: You know, speak to how you're, maybe your team started to grow, or you say at what? Twelve or fifteen people, you know, five years ago and, you know, now, you know, hundreds, what was maybe some of those hires there that were crucial to scale as well as you have?

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KS: We are a completely, vertically integrated company. So we control all aspects of a real estate transaction. And you know, I think that that helps us. better analyze and do due diligence, and you know, if something does not work out the way we want it to work out, there's nobody to blame but us. We have a robust, you know, acquisitions group, and they are charged with finding product in the markets in which we transact directly. We really don't buy anything that's listed for sale. If it's listed for sale and listed in the multifamily space with a CBRE or Jones Laing, or Marcus & Millichap or an ARE or, Holliday Fenoglio, or any of the brokerage houses, we don't even attempt to buy it today, there is just so much competition. We're not that buyer. We're not gonna be the last end, so we find and source these deals directly and that comes with a strong acquisitions group. We have in-house due diligence, in-house underwriting, we have in-house asset management, in-house property management, we have in-house legal in accounting, we have RREAF development services, and RREAF construction services. So, as a result of being vertically integrated, controlling all aspects of a transaction, we're going to hire the best in class and the best people that are students for each of those disciplines.

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WS: Yeah, and I would imagine, you know, you can move much more efficiently, right? When you have all of those things in-house. I mean, I can just see that from us, working with our attorney to attorney that have to work with the seller, you know, whether it's due diligence, whatever may be, and getting all the contracts back and forth. Hey, you got it all right there in-house, you can make things move efficiently and quickly.

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KS: You're 100% right. Things happen in real-time here. I can walk down the hall or walk to the second floor and, you know, get with our legal department whenever there's an issue. I can go up to the fourth floor and visit with our property management or home third-floor asset management, or whatever the case is, and really we're able to get real-time decisions made and accurate information from each of the different discipline. We rely heavily on technology and everybody is communicating within the office in real-time, so when issues arise, which inevitably they will, we have solutions and answers to solve those problems very, very, very quickly.

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WS: When did you do decide to vertically integrate? And things like property management, oftentimes people will say, "Well, you can't make any money in proper management. You have at least 10,000 units," or you know maybe you speak to that, but also, you know, even bringing things as you know, in-house council as well.

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KS: Well again, I think it comes the for... it helps us execute not only more efficiently but better. I think that we deliver better results to our investors as a result of controlling all aspects of that particular transaction or, not relying on third parties, it's all done in-house. And I think that we get better service obviously, you know, that way, and I think that translates to better yields and lower risk to where it matters, which is the equity investors.

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WS: Would you speak to... on that note, I couldn't agree more. I mean, it just helps a communication piece drastically, right? You don't have to wait on other people, you can move things along, you're not getting things approved, you can just make things happen, and I think it affects your bottom line. Even if the PM, you know, that business is not extremely lucrative, and it's helping you be more lucrative, you know, in your in your real estate business or the performance of that project. What about just challenges maybe you all faced as a business during the pandemic, and just how you all managed and navigated those, you know, over the last year, two years?

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KS: Our thesis was always that the areas in which we focus are recession-resilient. We had a great test with COVID and the pandemic, and you know our thesis held true. In fact, 2021 on our beachfront hospitality platform, was the biggest year we had ever had in terms of revenue. ADR, average daily rent, occupancy, and consequently rep bar was higher than it had ever been. Same thing is true with our apartment portfolio, and I think that that goes back to strong asset management, strong property management, and being ahead of it and communicate. To me, there's nothing more important than communicating, and we do that with our guests, our tenants, and our investors. And we really did not miss a beat throughout COVID. Our office is, we did close work from home about 30 days in March of '20 or whenever it started, but we've been open and operating since. In fact, in the office people show up in the morning, we have food brought in so there are people interacting all day long and really not leaving, so I think that helps us in being able to transact more efficiently and better.

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WS: Yeah, that's incredible. What about just any challenges with, you know, scaling, you know. I mean from 100,000,000 to 3.5 billion, what are some... just some challenges maybe you faced with scaling a business and company like that?

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KS: Well, it's, you know, having good systems in place. Any new hires will go through RREAF Academy. It's a training process and we have detailed manuals that are living, breathing documents that, you know, actually change weekly as better ways are figured out of doing something or more efficiently. And so, everybody is really trained and trained up. We like hiring highly motivated young people and train them RREAF way. We do hire some real estate veterans, but oftentimes have to retrain and so, having the consistency within each of the departments within RREAF that follows a manual has really helped us scale effectively.

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WS: Having the process is documented, right? Like how you said, it's a living document, so that tells me like we're, is we're constantly improving it ourselves.

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KS: We are, Yes. And we're constantly relying on new technology. We, for the asset management and monitoring of the growth within RREAF, have software engineers on staff that is writing our own programs consistent with the way we want to see things done. And, you know, we bought all the software that's out there in the market and studied it, and learned the best of each of the different systems to create our own. And I think that that too has helped us, and certainly helps us in the hiring, in the consistency with the level of professionalism we like from our employees.

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WS: If you had to look back, you know, over the last number of years, so let's say, you know, 10 years since the big turn sounds like a growth happened, you know, five, six years ago, you know, what would you have done differently? Or is there anything?

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KS: You know, I think that we have pride in many different areas of commercial real estate and have fine-tuned today what we do, to me was all an evolution. You know, even over that 35 years, you know, it's learning and figuring out how to do something better than everybody else is doing, how do we create outsized yield without increasing the risk to our investors and, as I said it's an evolution, and I think that, you know, over the last 10 years it's evolved to where we are today. The last five years where we've experienced all that growth-focused all our efforts on the workforce housing, middle America and drive to, and I guess key, drive to leisure and middle America hospitality and middle America multi-family.

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WS: You know, that said, like, do you have any prediction skip for the... just the real estate market the next six to 12 months?

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KS: I think that with inflation we're gonna see some interest rate increases in the multifamily space where we primarily focus the rental rate growth because of the demand exceeding the supply, is outpacing, you know, when we anticipate higher rental rates, and as a result of that, in the low cap rates of we're saying from buyers in the market, it's likely that we're going to end up being net sellers in 2022 versus net buyers. First-year ever will be net. In other words, we're not going to pay the prices to buy new assets that people are paying us for our assets, so we're really gearing up more on the ground-up development side and taking advantage of these, you know, prices that we're seeing in the market where, you know, buyers for first time in a long time for paying well in excess of a 100% of, you know, well you know, one and a half to two times construction costs. Not gonna buy existing assets, you know, that we know we can develop a lot less.

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WS: Yeah, it's just great to get your insight on that. I think it's... I've heard that a few times from people and just what's happening right now. Any daily habits that you have kept that have helped you just to achieve this level of success?

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KS: You know, I try to keep an open mind and realize that we're not all things to everybody in the course of the real estate arena. Let's focus on what we've learned, let's not be afraid to make mistakes, let's learn from those mistakes, and let's continue to learn every day because it is a fluid industry. Construction costs go up, you've got to have professionals in place that can move quickly and take advantage of disconnects as a present themselves. And I think that we do, do that, and we stay open-minded and no, we're not perfect.

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WS: What's next for RREAF? Like is there another goal, or let's say, another five years from now, or what are you all shooting towards?

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KS: Well, I think that we do have some very lofty goals. I'd like us to hit the 5,000,000,000 in AUM by the end of this year. That's going to be quite the challenge. That means that we'd have another year as we did in 2021 transacting over 1.5 billion in total deals, though I think that will end up being net sellers on the multifamily side. We are aggressively pursuing ground-up developments and additional beachfront hospitality assets to redevelop. And I think that our RREAF communities are going to explode, meaning the single-family residential area of the company, and that, as I said earlier, includes BTR, build to rent. I think we'll see that being a big push for us over the next two to three years.

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WS: If you had to pick one thing that's contributed to your success, what would that be?

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KS: Persistence, and you know, I keep going back to constantly learning and staying with. It's persistence, it's learning, it's continually educating yourself and figuring out, you know, who's doing things well, and where people make mistakes and continuing to grow.

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WS: Is there a way you like to educate yourself or that's works the best for you?

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KS: You know, it's lots of meetings with lots of peers, competitors, and constantly fine-tuning our market knowledge. As I said earlier, we're in 15 states and we will spend a lot of time in the cities in which we transact to really understand the pulse of the city, how it's growing, why it's growing, analyzing what's happened in the past and what's happening now, and what we foresee happening 12, 24, 36 months from now.

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WS: How do you like to give back?

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KS: Well, we get back in many ways. We do have a philanthropic part of RREAF holdings. We do... this past year, we've done, we (inaudible) a couple of golf tournaments, and we've done a number of church area donations and Christmas giving. We also like to give back by educating folks about what we do and what we found in real estate in helping where they might be best suited for their careers.

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WS: Kip, it's been a pleasure to meet you and have you on the show. You know, very few guests, you know, have had numerous billion you know, in assets under management, so it's incredible just to talk through that a little bit, right? And even encourage me and the listeners to shoot for a vision like that, that it is possible as well, so grateful to have you. How can the listeners learn more about RREAF and yourself?

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KS: People just go call us or go to our website. I'll take any call 24/7. You know, check out www.rreaf.com. You know, we're on social media as well. Come to our offices in Dallas, you don't need an appointment to show up. I'd recommend people show up during lunch because we usually have pretty good lunches catered in, and we'll sit down and talk to you.

[END OF INTERVIEW]

[OUTRO]

0:22:37.0 WHITNEY SEWELL Thank you for being a loyal listener of the real estate syndication show. Please subscribe and like the show, share it with your friends so we can help them as well. Don't forget, to go to lifebridgecapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

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