EPISODE 1280

[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]

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WS: Our guest is Zach Haptonstall. Thanks for being on the show, Zach.

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Zach Haptonstall (ZH): Thanks for having me. I appreciate it. I'm very grateful for this opportunity.

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WS: I'm looking forward to getting into Zach's story. Most of the readers are going to relate to him and you're going to aspire to want to do what he's done. He's a multifamily sponsor and syndicator based in Phoenix, Arizona. He's the Founder and President of ZH Multifamily. He's also the Founder and host of Phoenix Multifamily Meetup, a successful Meetup with experienced multifamily speakers each month. He's the Founder and teacher of 35 Below, a financial education class for young professionals through the Arizona Real Estate Investors Association. He closed his first multifamily deal in February of 2019, 36-unit for $3.4 million. He has $31 million of multifamily assets under contract, three properties, and 272 units in Phoenix and Scottsdale, Arizona. It's a combination of syndication and tenant in common deals. Zach, that's impressive what you've done. I'm looking forward to getting into your story. Give us a little more about your background and who you are, in case the audience hasn't heard of you.

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ZH: I was born and raised here in Phoenix. I lived here my entire life. I lived in Colorado for a bit. I had a football scholarship and I realized I wasn't going to make it to the NFL so I came back. I wanted to be a sports reporter. I got a Bachelor's degree in Journalism and Broadcasting from Arizona State University here. I was a live news anchor and sports reporter on Arizona PBS for about six months. I hosted a show on Fox Sports Network in Arizona. It was cool being on TV at first, but then you quickly realized you don't make any money doing that. You work crazy hours. It's very political. I was like, "I got this degree and I don't want to do this." I was very discouraged.

Prior to that, I was delivering medical equipment nights and weekends to pay for school. My boss was like, "You can make good money doing healthcare marketing." I got in this fancy expensive degree with student debt. I said, "I'm not going to do journalism." I've got a job as a hospice marketer. I don't know if you're familiar with hospice care but for the audience, it's like the end of life care, mobile nursing, and caregiving for people with terminal illnesses. My job was to wake up in the morning, drive all around Phoenix and walk-in cold to hospitals, doctors' offices and assisted living, and build relationships with physicians, social workers, nurses, etc. When they had a patient that needed hospice, they call me. I go meet with the family and patient and get them signed up for services.

It sounds weird but hospice is an extremely competitive and lucrative private business industry. There's a lot of money on it. Phoenix is the number one market in the country because it's sunny and a lot of them come here to retire. Long story short, I was very blessed to do very well with hospice marketing. I came from a lower-middle-class family. We never had money in our family or anything. I was quickly rising up in this company. I became the director of marketing and I became an owner of the company over about a four-and-a-half-year span. I got my MBA. I paid off all my school cash. I bought a house. I was very blessed at a young age in my early twenties making $200,000-plus a year. I'm doing well but I was getting burnt out. I was working 60-plus hours a week. I was on call seven days a week doing something I wasn't passionate about. I didn't even care about the money anymore. I was getting taxed heavily on commissions.

In January 2018 I said, "I don't want to do this anymore." I don't know what I want to do. I don't have any time to even figure it out. I knew I wanted to create passive income somehow and gain control back of my time. I said, "I'm done." I resigned and sold my equity in the company. I had no plan. I didn't know anybody in real estate. I'd gotten my real estate license two years prior but I'd never used it. It's a backup plan type of deal. I wake up in the morning like, "What do I do now?" I had enough savings. I'm going to live off my savings for the next twelve months. I'm going to figure out how to make passive income off of real estate somehow. I wasn't even thinking multifamily necessarily. I was thinking about passive income.

I read Rich Dad Poor Dad. I shifted my mindset. I started consuming as much real estate content as I could. I was reading all the books and all the podcasts. Three months into it, in March of 2018, I'm looking at mobile home parks. I cold-called over 90 mobile home park owners here in Phoenix. I was trying to buy and sell one. I found one that looks like a great deal but I was terrified. I had analysis paralysis. I waited four weeks until I finally called the broker.

He said, "We got that under contract yesterday." I got discouraged but I kept going. I learned about multifamily and syndication. Because a lot of my network is made up of physicians and healthcare business owners from my days in hospice, it seemed like a much more attractive asset class that they would get into as opposed to the mobile home parks. They all hate their lives too. They're working crazy hours. They have families to think about. I'm fortunate, Grace, my fiancé, we don't have kids but we plan to have several. I knew this was my shot. I was like, "Let's dive straight into multifamily." I decided I'm going to stay focused.

I started consuming all that. I started cold calling property managers, brokers, lenders, and attorneys, everything, and trying to build a team. I started learning the process that way. Six, seven months go by at this point and I've made no money. I'm burning through my savings. I've lost all the confidence I had before. I've had an identity crisis. I wake up every morning like, "How can I move forward? What do I do to be productive to move the needle?" I go to a conference in Dallas. I joined a mentorship program. It's a very valuable network of people. I spent a ton of money. I'm like, "Now I have resources of people who I can partner with and raise capital from to do a deal." That was July of 2018. Three more months passed by and I didn't find a deal. I'm even more discouraged. I'm like, "I blew all this money."

Fortunately, I met a guy in the group. He's got a high net worth, high liquidity, which I don't. I needed that to sign on loan. We decided to partner up and he's local here in Phoenix as well. We find a 36-unit deal in Phoenix that fortunately penciled and we were shocked. We put in an offer and then the offer gets accepted. I'm like, "What do we do now?" We were terrified because we don't know what to do in the next step. We get it under contract. We're like, "We have this deal on a contract now. It's a $3.4 million deal here in Phoenix. We needed to raise about $1.4 million." We were going to do small syndication. We're 30 days into it. We're past the inspection period. We're talking about raising money.

I got a call from a lady, her name is Alisa. She lives in Seattle. We had several phone calls since then, but we had never met in person. She's also part of this network. She's like, "I heard you have this deal under contract." I said, "How did you hear about that?" She's like, "Through the grapevine." I said, "Do you want to help us raise money?" She's like, "I could." She looked at the deal and she underwrote it. She thought it was a good deal. She's like, "How about instead, I'm selling a twelve-unit deal in Seattle and it's closing two weeks prior to your deal. Why don't I 1031 Exchange my twelve-unit into your 36-unit and we can do a Tenant In Common, a TIC structure?" I said, "That sounds great, but what is a TIC structure?" We figured out what a TIC structure is and she brings up a big chunk of equity. Long story short, we closed on that deal earlier in February 2019. We are very blessed to have done that.

Fortunately, I was the point person for all the communication with the broker, the lender, and the attorney. I learned a lot about that process. What everybody says about doing the first deal is true. It's like you're in the club. For me, it was like getting a monkey off my back. You spend a year making no money and going to all these Meetups, listening to podcasts, and reading the books. You feel like you're a real estate investor, but until you have a deal, you're not a real estate investor. Since then, we've been super fortunate. We started pounding the pavement and we found a portfolio that was on our market deal. That one was penciled as well. We got that under contract. It's two properties, 76-unit, which we are doing traditional syndication, then a 59-unit in Scottsdale, which we're doing another Tenant In Common, a TIC structure. We're all done with our equity raising. We're waiting to close on that one. We got 137-units, a $17.5 million deal under contract here in Phoenix. We're doing our webinar and we've been cranking. We've been very fortunate to catch that momentum and ride that wave since we bought that first deal.

0:09:05
WS: There are many things I want to ask you about but I want to go back to you about quitting your job. You didn't have a mentor or a coach at that time. You left your $200,000 a year salary and said, "I'm going to quit. I'm going to make it happen." Walk me through that a little bit. I know some readers are struggling with the same decision. How were you so confident that, "I'm going to make this happen and I've got a year to do it?"

0:09:35
ZH: The thing is I wasn't that confident. Every day, there was a lot of indecision. I was learning as I went along. I had been unhappy for almost two years in that job. I had a very large six-figure salary and I was chasing commissions all the time but it was empty. It was very transactional. Once I started learning about passive income and how to offset taxes and things like that, I knew that this was my long-term play. It's a mind shift because it's nice getting those fat checks every two weeks and saving them and stacking them up. All of a sudden, I'm the opposite. It's burning through and it's a mind shift. You have to think, "This is for the long-term." Every day I would wake up and I was trying to be somehow productive, whether it was reading, listening to a podcast like yours, cold-calling people, or meeting with them. That was how I progressed.

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WS: You mentioned staying focused on multifamily. I know you had mentioned mobile home parks. Why multifamily? Why did you say, "I'm going to focus on multifamily?"

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ZH: I got to the point where I was reading about single-family homes and I was like, "I don't want to do that." I do like mobile home parks and I still want to get into that space, but once I learned about syndication, that's when the lights went on. I never thought I could take down a big building and I was very intimidated by the multimillion-dollar size. The more I read and the

more podcasts I listened to, it gave me confidence because you hear people talking about they can do it. They come from backgrounds where they had no idea about it.

For me, my background is in sales and marketing and I feel like I can build strong relationships. If I can find good assets and be a steward of other people's money to help them and bring these deals together, that seemed very exciting. It got to the point when I was three or four months into it, I was like, "I have nothing to lose at this point. I've burned my ship," as Napoleon Hill would say in Think and Grow Rich. I'm not going to turn back so I might as well go big and see what happens. This whole process was a mind shift. This was growth and we went through a lot of personal adversity. That's how that process went.

[INTERVIEW 2]

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WS: Our guest is Jered Sturm. Thanks for being on the show, Jered.

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Jered Sturm (JS): Thank you for having me. I appreciate you having me as well as all the work that you and your team put forth to allow people like myself to share our stories.

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WS: So give us a few more details about how you went from that maintenance technician. What changed? When did that change? You're a maintenance technician and then all of a sudden you see an opportunity to own real estate.

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JS: Yeah. I think I was always very driven. But when I was a maintenance technician just early on, so I was younger. It was just a stepping stone in the progression, but I always had a natural skill set of working with my hands. The high school, I went to have a woodshop and I spent the majority of my time and that woodshop, not in academics. So I had a natural skill set of that and then found something that would pay me to use that skill set now as being a maintenance tech.

As I was a maintenance tech, I had friends and family members reach out and say, "I know you're fixing this, can you come to fix my whatever." That turned into, "Can you renovate my bathroom? Can you renovate my kitchen?" So and my brother who today is still my business partner started taking on bigger projects, higher-end bathrooms, kitchens, additions. So it grew into somewhat of a construction company. So I would say there was a progression of maintenance tech to a construction company.

Then in 2008, when we saw the real estate market tanking, we kind of looked around and said, “Why are we fixing up other people's houses. Let’s go ahead and fix up some that we own.” So our first property purchase was in 2008, and all we did was buy the most distressed house and use our lack of capital at that time. We substituted for our work ethic and skill set and construction. So then that grew, and the portfolio continued to scale with our own capital and eventually made the decision to switch over to the syndication model to grow at an even faster pace.

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WS: How fast was that progress? I know you got up to 200. How long did it take to get to 200 units using your own capital?

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JS: About seven years. So they bought the property, renovate it, pull the equity out one way or the other, sale or refinance. Move on to the next property, do the same thing. So it’s a slow-growth process of redeploying, delayed gratification. Just take the time, reinvest it back in, learn the process, and get comfortable with how to operate these properties for those seven years.

0:14:07
WS: You mentioned delayed gratification. That’s hard. You want to see results right now, but your prime example of reaping rewards. You’re not 30 yet. But I mean, you got $30 million now in multifamily assets under control. I mean, it’s a pretty amazing story that you’re willing to have that delayed gratification. Just keep pushing through. Keep pushing through. I know that’s not easy every day, right?

0:14:31
JS: Yes.

0:14:32
WS: It’s not easy to keep that going. But now, look at what you’ve built. Tell us though from the 200 units like moving into your first syndicated deal. What was that deal? How did you move from the 200 units? Give us some of that story.

0:14:45
JS: Yes. So I guess in the beginning or through those seven years, I did have people reach out and express interest and say, “I see the success you’re having. You’re investing this capital and it’s coming right back out within a short timeframe, and I’d be interested in deploying some of mine.” Honestly, at that time, I didn’t think we were going to do it. So I didn’t want the responsibility of raising capital. Even to this day, the way I saw it was people traded small

portions of their life to earn that money. If I'm going to take it, I'm essentially playing with little portions of people's lives, and I didn't want that responsibility. It wasn't until we had a mindset shift of I didn't want the responsibility to till I saw we can give people this benefit.

So we had the successes we are having, and I think what prompted that was my dad who is like the most financially disciplined person, I should say my parents most financially disciplined people, and they were going through retirement planning. We are sitting down to help them with the numbers, and I realized their 401(k) that they followed the textbook way of retirement. Work in the job for 30 years. Put it in the 401(k). While they're doing fine and they're well-off, it was less than they expected with following all the rules. So we actually helped them buy small multifamily and partnered with them using some of those retirement funds, and it worked out so well. We looked around and said, "We can help other people do this as well."

Now, I'm interested in having that responsibility rather than getting away from it, and we saw that it could do for other people. So that's when it shifted and said, "Let's take on this responsibility, let's help others, let's grow their capital, and let's make what happened there for my parents for other people." So I think that was the shift that really prompted it.

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WS: Okay. So you saw opportunities. I mean, you're able to help them, and it's like, "Oh, wait a minute. This wasn't as bad as maybe your first thought." But you also see an opportunity to help lots of people and to grow your business as well. So tell us about moving from there. What type of deal was that? But then how did you move into the first syndication?

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JS: So that was just a smaller 16-unit multifamily. It was directly adjacent to one of our bigger properties. So our cash was tied up at that time. We were just having this discussion with our parents. So ultimately, there was a partnership struck there and I guess the start of the syndication. Our next one was a 93-unit deal. This is completely off-market. I put it under contract. I put together the marketing package to send out to investors, and I send it to one investor who was a good friend of ours and said, "Can you give me some feedback before I send this out? This my first go at it." He said, "If you take half of it, I'll take the other half."

So the syndication raising kind of went easier than normal on that one. So that's the way we handled it we split the equity raise 50/50, and syndicated it. So there's only one investor on that one, but gave us the confidence to go into the next few. We didn't take that same route. We have limited the investments going in on the next one so that we can build the investor pool.

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WS: Okay. So you limited the amount somebody can invest, so more people could invest, right?

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JS: Yeah. So I plan to be doing this for another 20, 30 years since I realized part of my job in growing this company is to build out an investor pool. Right now, capital is abundant and the bottleneck in the company is not raising money. It's finding quality deals. But at some point in time, that will shift. So raising money will become hard, and quality deals will be more available. So I have to prepare our company for that. To do it, I need to build relationships and performance-based relationships with lots of investors. So we're doing that by allowing more people to participate where that first one was just one, which is really good because it helped us test the waters and understand it with only one investor on board. Again, organic growth is a kind of test for water growth. Build on that, try again, build on that.

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WS: So how did you meet that one investor?

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JS: I'll try to condense the story. So when we made the decision to go into the syndication model, we reached out to the people who had expressed interest in investing. I would say that was probably like 50 to 80 people, and about half of them said, "I'm looking for cash flow." The other half said, "Give me a market where there's appreciation, growth, and wealth preservation." Since that is the market that I'm working in Cincinnati, Ohio, it's a really, really good cash flow market.

But I would say it doesn't have huge swings like the coastal market or the southeast. So we looked out at other markets. Ultimately, we made the decision to pursue Atlanta. The only way I know how to open up a market is the way I did it before. So I moved down to Atlanta for two years. I don't want to go too in-depth, but ultimately that wasn't a success. So we tried to buy for two years and didn't find any success there. Just we had no competitive advantage.

But in that process, I met a lot of good people. One of them was this investor. So he holds a high corporate level in the MBA, specifically with the Hawks down there. I had started a real estate meet-up group when I moved to Atlanta just to break the ice and meet people. He had sat in the back of the room for several meetings and then asked me out for coffee, and we had a discussion and started a friendship. Then that grew from there to a partnership.

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WS: Okay. So from a meet-up, you met this guy. So what about that 50 to 80 though? How did all those people know you? How did they already connect with you and want to invest, or at

least reach out, they were at least interested, right? How did you connect for the most part with all of them?

0:20:26
JS: I get that question a lot. So my friends and family network had come from a lower-middle-class upbringing. So that wasn't a network I was using to build investor relationships, because we're working with accredited investors. My friends and family network doesn't meet those requirements for the most part. So what helped to build that 50 to 80 potential investor number was I had been writing for years for BiggerPockets, a website that puts out articles. So I would write there with the intention of just helping people, and I would have people reach out and say, "Your investment philosophy, your experience, everything aligns. If you're ever looking to gain investors, let me know."

While our intention wasn't to do that at the time, I was savvy enough to keep track of them. So I knew potentially this could be a good resource. Something may arise where I need this. So I use a CRM to keep track of these people and really kept a good relationship with all of them. So I'd reach back out. If they were investing in syndications that have nothing to do with me, they would bounce ideas off of me out. What does this underwriting look like? Does this make sense? They knew I wasn't a professional money raiser. I was a professional operator.

So I knew what to underwrite things out, where potential problems would be. So they would start asking me questions about other deals that we're going into. I would be giving feedback on what they were looking at, and I think they really appreciated that. So then when it came time for us to actually market a deal, they already had a relationship with us and a feeling for how we underwrite, how we look at investments, and all of these things, which helped when we were raising to make that work seamlessly.

[END OF INTERVIEW]

[OUTRO]

0:20:06
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