

EPISODE 1356

[INTRODUCTION]

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Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Our guest today is going to help you, if you're a developer or you're in real estate business, he's going to help you think through some of the qualities that you need to be successful. And one of those I'm going to give you a little hint is reimagining what something could be; what a piece of property could be. He's gonna walk through that process even working with the city and a few things you need to know to be successful at that, right? There are some things you need to know even some metrics that he uses before you go into a city or county or place that you are thinking about developing a project.

Our guest today is Ari Rastegar, leveraging his 10-plus years of institutional real estate investing already founded Rastegar Property Company with a single mission to make it simple to access high-quality, recession-resilient, income-producing real estate investments. He specializes in working with high-net-worth individuals and institutional partners to build real estate portfolios in fast growing markets designed to reduce risk and provide strong returns. Forbes recently labeled him, "The Oracle of Austin."

You're gonna hear a lot today about how he has grown quickly in Texas. He's doing some big stuff. And he's gonna lay out some things for you today. So you can do the same thing in your community. Alright, welcome to the show, honored to have you on. I know you've done some big things in this space. And even talking to you a little bit before the show, I'm excited about learning about this reimagining the best uses for these projects. And you've kind of coined that to some degree and have done so well at it, but tell the listeners a little more about who you are, and let's dive into what that means.

[INTERVIEW]

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Ari Rastegar (AR): Well, first of all, you know, thanks for having me today. Really appreciate it. This is exciting. I really liked a lot of the content and the things you've done over these past couple of years. So, this is definitely going to be fun. You know a little bit about me: you know, I flipped burgers through high school, delivered pizzas through college. I don't think they were gonna let me into college; I had to go to two community colleges before getting

into Texas A&M and use my scholarship money and a \$3,000 loan to start my company. And now, we've invested and exited successfully in 38 cities, 12 states, seven different asset classes. And we're one of the most prolific buyers and owners in the Austin MSA, which happens to be my hometown. That's kind of what I do, and kind of who I am, is, I'm a dad, I'm a husband, CEO, I'm brother and those roles of a friend. And those are the roles that I guess define who I am, but also the work that I do is truly ingrained into what I was meant to be doing.

So, I feel very fortunate that I found what my job is here on this planet. And I see that as really community enhancement, more than anything, like looking at a community, looking maybe at an old building or a piece of land, and as you said reimagining what it could be to better serve the future of what that community is. Like, we always kind of say internally, we honor the past as we build the future, and it's something we enjoy. I'm being an attorney by trade, you know, I really enjoy the game of going there and speaking to city and speaking to staff and working with the local permitting authorities to rezone properties to think of them differently, understand where the cities or the talents are going and seeing how we can help, how we can be, you know, a part of of that growth, but doing it in a prudent way. I've used the term and heard the term a lot, "conscious capitalism," like there's a way that you can create alpha for your investors, at the same time creating a great user experience for your tenants, as well. And that's what we've, you know, definitely endeavored to do and I think we've achieved it certainly in a few instances.

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WS: Nice. I appreciate you just elaborating on who you are a little bit. Most people don't go from flipping burgers to an attorney to where you're at today. Right? I mean, and I know, that didn't come easy, no doubt.

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AR: Well, they told me I was ADD and some sort of deficit. And I heard you know, I've heard someone call it ADA one day, which was Attention Deficit Advantage. And so ever since then, I've kind of embraced the thought.

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WS: I love that, yeah, it's so much about your mindset, right? Around what that means.

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AR: All you got is to have that happen between these few inches between these two ears.

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WS: So you mentioned reimagining what a property could be. You talked about, you know, seeing what the future of the community could be, but then also you said this kind of in passing, you said, you enjoy this you enjoy, you know, going to the city and seeing how you can help. And I think that's crucial, just even that thought process of enjoying it for one, but two, you know, with the mindset of how can I help, right? Okay, how can I help? Well, obviously that changes their mindset on helping you or probably help them. Right? But I want you to be able to elaborate a little bit on what does that mean to reimagine what it could be and even seeing the future for the community? What does that look like? And walk us through that process a little bit? Because that's crucial for a real estate developer as you're growing in the community, like you're in.

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AR: Yeah, well I can give you a little case study place. So, if you look at Kyle, Texas as an example, and some of the listeners might not know where Kyle is, but it's about, I guess, they say the crow flies about 15 miles south of Austin, Texas. So, if you look at I-35, which is the main corridor that literally goes from Mexico-Texas border all the way to Chicago, and it connects via San Antonio, to Austin, to Dallas, and it's really the kind of the central vein of Texas. And if you look at where Austin is, you go a little bit south, you get to the city called Kyle. Well, Kyle last year was ranked the number one fastest growing city in the United States of America. And Hays County, where Kyle is located is the fastest growing county, but little trivia of Kyle is in 2009, they got their first stoplight.

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WS: Wow

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AR: Yeah. So, as Austin has begun to grow, when you see the announcements of headquarters, such as Tesla, where we own 50 acres next to them--we're building a 600,000-square foot industrial plant back to that point of how can you help, right? You talked about a growing city, while a growing city needs supply chain logistics help. A growing city that has transients or people that are moving, they're going to need, you know, apartments or build-to-rent housing, and it's really being responsive to what those needs are versus trying to push your agenda. And I found that it's kind of like surfing, you're not going to beat the ocean,

like, I'm not going to beat away. But if I can learn to ride the wave? I can learn to be a part of that ecosystem.

We find that it not only creates a higher probability of success, but it also creates an environment that has more enjoyment, has more fulfillment for the community, for the tenants, and all people involved. And, you know, with that same ethos, so we looked at Kyle, you know, there's this 200-acre parcel that has been a farm for 100 years, basically. And we were able to kind of look at that location and the adjacent 118 acres. So, it makes up about 318 acres--combine those two sites together. And by really analyzing the city and seeing the growth, we realized that there was really a need for an elementary school, the high school is you can almost throw a rock and you effectively hit it not not with this, not with this arm, but someone stronger arm and figuring out how can you create something in a post-COVID world that will make people feel safe, comfortable, and also at a price point, that's not cost-prohibitive?

So, we went to the city, spoke with unbelievable people on the council and staff. I mean, I give so much credit to, you know, to the mayor, certainly, and Kyle, the leadership that they brought, because when you look at a growing business or a growing city, not having much business is a big problem but also having too much business to quick is also a problem as well--a high quality problem, but a problem nonetheless. So, in looking there, we imagine this idea of a master plan community that would have, you know, maybe a cool brewery or like a barbecue.

Also having maybe a boutique grocery store, an elementary school pocket parks, a 60-acre green space that you could, you know, go hiking or go on walks or in essence, you know, for a growing family or for you know, for young adults looking to either rent or purchase an area where they wouldn't really have to leave their neighborhood if they didn't want to. They can get their coffee, they can grab a great barbecue, they can walk the kids to the school, they can walk to the high school, and we believe in this concept called "futuristic suburbanism" like this post-COVID world of like, what does that mean to live? What does it mean to kind of own homes?

And is there a way to create that at a price point that not only, you know, serves our investors, but serves that end-user tenant and creates an element of stickability. And I'll give you one example: when you look at the architecture and we do all of the you know, architectural design conceptualization all in house and then, you know, bring on some strategic partners for architects of record and, you know, some fantastic consultants but we do this imagination, for lack of a better explanation, in-house, and, you look at the typical nuclear family, call a track home and there was a dining room, there's a living room, there's a bedroom, there's the,

whatever, two and a half bath, however you look at it, and we kind of came to the belief that nobody uses a dining room.

People congregate because of technology and because of the way, you know sociologically, we've evolved as people because the study of real estate is as much understanding psychology and sociology as it is mathematics. And so, marrying the human element with the mathematics we believe is pivotal to be able to create the right experience and ultimately create value. So, in this particular instance, we went to the city where we were able to rezone and re-entitle property to build over a thousand houses, 1,400 multifamily units, 200,000 square feet of office, 50,000 square feet of commercial, 60 acres of green space, and an elementary school for the city. And when you look at the way that built into the fabric of Kyle, it's allowed a couple steps up for what a typical master planned community would be or is bringing, I should say, as we put shovels in the ground come August, a new identity to Kyle, that isn't Austin per se isn't, you know, San Antonio per se, is something that staff of the mayor and the city have really envisioned. And we saw an opportunity to really aid in that process.

So, we had a plan of what we thought would work by talking with them, and being responsive, and in listening, and not for any reason of self interest but truly listening. And I think that listening is kind of a lost art or a lost virtue. And it's amazing what happens when you close your mouth, you know, for a couple of minutes -- certainly someone like me, that doesn't close their mouth, often. We were able to collaborate and create this concept. And we talk about creating value for investors. One of the most strategic ways to do that is by understanding entitlements, and, for example, taking a farm and turning into a master plan community, you know, there's instant value creation and risk mitigation, before putting shovels in the ground. Right? And so that's, that's always the key.

So, the difference [between] being a gambler and an investor is how you manage downside risks, and so it is a way by doing this entitlement process that you can create value and derisk some of the inherent risks that come into development. And risks to me isn't a bad word per se. Everything has risks, right? People say, Oh, this is guaranteed, and which is just asinine, because I mean, there could be lead in the water, you can, God forbid, get hit by a car, I mean, it risks everything.

So, our ethos has always been capital preservation and risk mitigation. And in the way that we have found to do that is to reimagine what these properties could be to serve a growing community and do it at a price point where you're delivering alpha, but not being a pig. Like there's that old saying, on Wall Street, "Bulls make money, bears make money, pigs get slaughtered."

So, when I look at, you know, a deal, we do our stress tests, we run the math, like, and maybe this is counterintuitive, I shouldn't say this, but we're not looking to squeeze every single penny out of the deal. We're looking to go into it, do what's right for the community, make a healthy return, make sure the end user is happy they have something or have the proverbial meat kind of left on the bone. So everybody walks away, feeling like they really gotta win. And it's amazing how that attitude and that mentality can lead to really special things that you might not have predicted.

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WS: Yeah, I was thinking about so many things you said there we could talk about. But when we think about Kyle, specifically, you talked about the size of college, just got their first stoplight [in] 2009. I grew up in a town that had one stoplight, and so I can relate somewhat maybe to you know, what Kyle was,.

And even the community I grew up in is experiencing quite a bit of growth, but still the changes that start to take place, right? And I can imagine, though, as understanding that community and some of the ways they think and whatnot, especially the families mean, they've been there a long time, right? And that change is difficult for many of them.

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AR: It is.

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WS: So you are going to the city and I love how you focused on listening, right? It's so important. I was working with my oldest brother, he loves to talk a lot and and I was like, man, you know when you can learn to listen—

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AR: I got three, but trust me I get it.

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WS: Yeah. And so when you go to them though, and I'm thinking about working with that city in the small town -- the small town mindset mentality, all those things, how do you know your developer coming in with all this experience? You can imagine these things right and see this growth potential. And what's happening? Are they able to do that? Or were they able?

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Absolutely. I think I'm so glad you brought that up. Because a lot of times, you know, some of these, you know, small, small towns, you know, that becomes like this generalization where they're small town means small-minded. My father was an Iranian immigrant, my mother is German. And I'm kind of a tornado and a volcano, I think, mixed together in some regard. But I heard this gentleman say the other day, speaking in English, and he had an accent and looked at my talk with an accent, but I don't think with an accent. That makes sense.

So, the folks in Kyle, we're not only unbelievably sophisticated, unbelievably just open-minded and caring and come to find that the smaller towns, believe it or not, counterintuitively, I have found have more heart value. They have their hand like the beating pulse of what the city is, which allows us as developers to understand kind of where it is at that point. And what kind of change could be sustainable, what could be viewed as gentrification, and I despise that word, like, I cannot tell you how much you know, that word, how much baggage and gross I believe truly in community enhancement.

But I wasn't surprised at all by the level of sophistication that was there personally, but a lot of people are, not for Kyle per se, but these other small towns, but what I do find is, you have a lot to learn in those smaller towns, because the folks that are there, like you said, have lived there themselves for years, they have family that have been there. And sometimes it's you know, it's generational, so when you open up that dialogue with true authenticity, like that's the key is really listening, but like really saying we listened or saying you want to build a long term relationship, and like really doing it and go figure, something special really happens. And we've had some great experiences there.

So, in these types of situations, I don't see them as adversarial. I don't look at them adversarially. We had a project in Dallas, Texas on 1899 McKinney Avenue, which what I would argue is one of the most strategic locations in the entire city of Dallas, right on Klyde Warren Park, this unbelievable location and uptown where we went through the zoning process as well. And I personally went and met with over a hundred condo building owners and myself personally within the area in order to basically ask for affidavits of support for what the zoning process would be.

And again, going and listening and hearing, the ideas that we got were stuff that we never would have thought of that were so good, so smart. And to where we got to the end result of getting one of the largest up zones in the history of Dallas, Texas. What was beautiful about it was we felt like the community and the neighbors had ownership in it and felt the joy of what that could be because they literally saw their ideas be incorporated into our position so to

speak, or what our thesis was, is we spoke to the zoning committee, and it made it a process that look it's so called work. It's not necessarily you know, sitting on the beach in Tahiti. My grandpa used to say if you pray for the rain, you got to deal with the mud.

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WS: I love that.

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AR: I mean, that's it really in a nutshell. We're agnostic when it comes to the type of assets that we invest in. We're looking to find deep value and we've done so and self storage master planned communities. I know everybody talks about this, the retail apocalypse, which drives me crazy, because at the end of the day, people are still people and they're gonna want to go shopping because they can buy it on Amazon for convenience, but because it's an experience.

So, we've owned a significant amount of retail, sold positions recently, we actually sold a restaurant or a registered building that housed the restaurant. We got it during COVID, the previous tenant went bankrupt. We repositioned it, reimagined it and signed a fresh 10-year lease with a fantastic local Austin restaurant.

But again, I think this concept is very much lost in real estate in a lot of instances where people are just drilling into the numbers or drilling into what they believe the thing needs to be and just muscling that thing in versus really, truly zooming out and not being so self-centric, and creating something that fills a void.

And people asked me and I've said this before, you know, well, how do you make a lot of money? How do you build a big business? And my answer has always been "solve a big problem." The bigger problem is all the more money or whatever, you're gonna have more value, you're gonna create.

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WS: You talked about in the very beginning about Kyle, we talked about reimagining, we talked about working with the city and really listening well, and even the ideas that came from that how valuable those were, which is so crucial, but anything else that you could add that would help us to recognize opportunities like Kyle. What did you see there? When did you see it? You know, did you see the growth coming? How did you do that?

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AR: Well, I mean, it's a great question. You're only as good as the data that you have. Right? Mark Twain used to say that history doesn't repeat itself. But it sure does, right? And so, by watching other cities that have grown, and I was an English major, as an undergrad, book nerd, I'm just a nerd all around.

And honestly, I don't think I have a cool bone in my entire body, but honestly, when I look back at some of the growth of Silicon Valley, and understand how Silicon Valley became Silicon Valley, you start to see a pattern, how these cities were created. You can then take that pattern, have pattern recognition in these other types of cities, and you begin to see economic indicators.

One of the big ones for Austin, as an example, was when Google Fiber was announced in 2013. So when you have the fastest internet in the world, coming to Austin, which effectively was a diamond, a city, I would say, it's a town on steroids, you start to think, Okay, well, there's a vast amount of the world is here. Interesting. That means that technology companies have a reason to be here, you see the tax incentives, you know, the GDP of Texas, to surpass the country of Brazil.

So meaning, you look at this high level first -- the 50,000 feet. You look at where the past was, you know, and how those cities develop. And then you start drilling down more and more and more as you start this. And by the time you get down to 700 Bunsen Lane in Kyle, Texas for this property, you end up learning a lot, and you apply the things that you can apply.

And not this particular one really wasn't rocket science, because when you have 165 people a day, moving to Austin, Texas, and you look at all the major cities in the US, a 30-40 minute commute is at the very least the average or nearing the mean for normal working class people. So, Kyle is a 20-minute drive to Austin, and you drive another 30 minutes to East San Antonio. So seeing the barbell between these two cities—

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WS: It's a mess that gets lifted, right?

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AR: Yeah, meaning there's a certain amount of common sense that gets in the room, and then you sharpen your pencils, obviously. So, I wish I could tell you I had a crystal ball.

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WS: It didn't take it.

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AR: Yeah, this one. You could see that the growth was going as Austin was pricing and continues to price native Austinites out of the market. And look, I grew up in the apartments that we buy, we're on an asset by asset level, not by number of doors, by number of properties, we have more apartment complexes. I think this was sold through more individual apartment complexes than any other private equity firm in the city.

And so when you look at that, you look at the city that's growing, and you see those rents really starting to escalate. And you look at the median income that individuals have, you can start to make assumptions of where the price needs to be for people to live a good quality of life and what they're willing to do, or what's actually feasible.

And again, drilling into that human element, which I believe to be something that I'm proud of, quite frankly, that we look at as a firm in a very, very serious way. And then once we believe we understand the human element, that's when the math really starts to be started digging into because we do. I would say less than 1% of the deals that we look at.

So, do we have a 70-point due diligence protocol, proprietary protocol list that I created over the last seven years, one of them being when I call the \$5 Uber ride. So I kind of look at some of these apartment complexes that we renovate and if it's within a \$5 Uber ride and all the fun stuff, that's kind of one of the one of the little boxes that we check.

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WS: That's awesome. That's awesome. All right. Unfortunately, time flies when we're having fun, right? So I want to get to a few final questions and you know, so tell us, what are some of the most important metrics that you track and that can be professionally or personally or a little bit about?

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AR: That's a great question. So population growth is clearly one of the one of the critical factors, but more importantly, job creation. And so it's one thing if people are moving, that's fine. But when you look at like Oracle moving their global headquarters to Austin, Tesla, moving their global headquarters; Facebook having their second largest office in the world; Google's second largest office in the world, you start to see, again, back to this kind of stickability of

what will keep someone there, the certain how many people are coming up concerned about why they would say, and once we figure that we kind of understand that for the same reasons Nashville, Raleigh, the most parts of Florida, Phoenix, Arizona, the population migration trends and people fleeing East and West Coast is because that's where employment is, and there's a better kind of standard of living. So, you know, those are the things that we pay attention to at a very high level. And that's when you start getting the calculators out after those things kind of track.

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WS: What are some habits you're disciplined about that have produced the highest return for you?

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AR: Transcendental Meditation.

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WS: What is that?

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AR: Transcendental meditation is a mantra-based meditation. Some of your listeners might have heard Ray Dalio talk about it. I believe in the public markets he is probably the greatest investor of all time. But health, wellness, exercise, meditation, and treating myself like as the business and making sure that I'm showing up as a human being in a certain light and allowing the business to be an extension of the refinement and the kind of dedication to improvement that I have as a person and the people within our team have dedication to themselves and to the team.

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WS: What about the number one thing that's contributed to your success?

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AR: Luck.

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WS: It's hard to recreate luck, you know, hard to count on luck.

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AR: Depends on how you look at it. You know, luck is, we've heard all the luck is when preparation meets opportunity, because that luck does happen, but has to find you working, but there's a certain element of luck. And when I use that word, it's a very funny truth that the harder I work, the luckier I get, if you know what I mean.

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WS: That's no doubt about it. How do you like to give back?

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AR: There's several ways through a family foundation. We have several mandates. One thing we're very focused on is homelessness in Austin, and use it for athletics of health. Really, more so than anything is making the business itself built in servitude to where you're renovating these properties, delivering a classic experience delivering celebrity-like customer service at a price point that is really giving a great end-user experience where the work itself is servitude.

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WS: All right. Pleasure to meet you and have you on the show. I know the listeners have learned a lot today. I love the thought of reimagining right what it could be and seeing the future for our community. The example of Kyle, Texas, I thought that was very valuable and even working with the city there, and thinking about man, how helpful they could be, but really going into the attitude of helping them. But even the metrics that you went through as well, I think it's a great reminder for most of us to really think about and what are we tracking? Or what are we looking at? What are those metrics before we go in to try to complete a project like this? How can listeners get in touch with you and learn more about you?

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AR: Sure. They can go to our website RastegarProperty.com. And I kind of laughed at this 12-year old gentleman in the UK. The New York Post covered it on Page Six, reached out to me through Instagram or LinkedIn, through our website, and we were able to talk. His mother has become a very dear friend of our family. And we're actually writing a children's book together about instilling healthy habits, goal-setting. And I say that just with the example of it's pretty,

pretty public, what we've done, where a simple Google search if they really want to find us, it wouldn't be too hard.

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