EPISODE 1371

[INTRODUCTION]

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]

WS: Our guest is Josh Sterling. Thanks for being on the show again Josh.

Josh Sterling (JS): Hey, thanks for having me, Whitney.

WS: Let's back up a little bit, you know, a year ago, what happened then to transition from where you were at to start building this larger portfolio.

JS: Yeah, you know, from we got started really good time back in September of 09 and started with single-family and you could probably hear that background on the old podcast but it was very organic to growth. Mostly a lot of my own capital, occasionally private money, mostly on the debt side, not usually on the equity side, very few of those deals. Made for a little bit slower, again, more organic growth.

You know, a year ago, I think our unit count was around 350 or so. Right about the time of that podcast, maybe just before we make the decision, I wanted to shift into a little bit larger projects and start raising more capital for that. Obviously, it's a capital-intensive business and so you're going to need some money to close these deals. So, sat down and you know, I realized my struggle to bigger and bigger growth was going to be the capital to close those deals.

I knew my network was probably going to be a challenge for that. I always believe you need three things to close a deal: you need the deal itself, you need the capital to close the deal, and then you need the management of the deal. You know, we had the management kind of on lockdown, that's what we do and we had some deal flow from some broker relationships but I didn't think I had that network necessarily to raise that capital.

Got to talking with a buddy and an ex-colleague of mine that had a good, strong network and was comfortable out raising capital and we teamed up and decided on a way to divide up the GP, the equity split, and start growing that way. As that led to something just under 450 units, we've added here in the last year, mostly through the syndication model raising capital, we raised about 10 million dollars during the last year and added quite a few units.

WS: Okay, well there's so much there we got to talk about but I go back through to – you realized the pain point of, Okay, if you're going to grow and grow faster, or do bigger deals, you got to have more capital, right?" You increased your team, right? You added somebody that could specialize just on that and now, probably even lessened the burden on your plate, would you say?

JS: Yeah, absolutely, you know? To be honest, one of the things that I didn't like was going out and raising capital. I've done it a little bit. I wasn't all that good at it and I really didn't like doing it. I'm much more of an operational guy. I'm happy to talk about and share what we're doing but the act of you know, going out and not everyone's going to say yes and I didn't really like that part of it.

So, I found somebody that had the connection and had the network that I think we needed to, to be able to present, really, these are great opportunities as you know, anyone who is passively invested in one of these deals knows. I had found somebody who is comfortable presenting that to a network of people and then handling that investor relation side which was just you know, it was something I wasn't necessarily great at. And something I didn't really enjoy doing. It's a really great fit.

WS: Nice. Yeah, growing your team, I would agree completely, you got to find people and you got to be able to bring them on board. Otherwise, you can't do everything, can you?

JS: No, absolutely not. You know, I'm sure you've heard it a thousand times but two minds are much greater than one or than the sum of one and one, right?

WS: Yes, I'm saying that personally as well, that's awesome. I'd like for you to elaborate though, maybe a little more of the transition and any pain points or growing pains that you can elaborate on, you know because you scale up fast.

JS: Sure, our traditional model was built on most small to mid-sized properties and some sort of a single family. We developed an operation that was basically on mobile management operation. We could – you know, within a 45-minute radius of one of our what's now three offices, we felt that we could service any type of property.

Actually, the management side wasn't so bad as you know, once you're adding properties that are over a hundred units, they'll support on-site leasing, on-site maintenance, and whatnot. We actually found that to be a fairly easy transition. I think the bigger transition is behind the scenes now, overseeing those on sight offices and overseeing that team there and deciding how we're going to run operations that didn't fit into our normal systems such as you know, weekend leasing or such as you know, maintenance emergencies or things like that.

What ended up happening is we had to scale the team quite a bit in the back office, quite a bit more than I had expected originally. That came at a cost and you know, definitely a little bit of strain on the overall operations in the initial months of getting that rolling.

WS: Okay, overseeing the management was a pain point. Yeah, can you elaborate a little more on how did you fix that problem?

JS: Right, initially, as you might picture, you have a 150-unit apartment building, you're going to have someone in there every day, you know, leasing units, collecting rent, the office type admin stuff. Then you're going to have a maintenance person there. What we had taken for granted up to that point is our management operation is really a 24/7 operation.

So, at our smaller properties, at our single-family stuff that we oversee, if a call comes in on Saturday at five PM, we still have someone there to answer the phone, we still have someone there to receive rent payments, that dispatch maintenance. whatever they might do. At those 150-unit properties, you can't staff them 24/7. You need to have a backup to that. You need to have somebody who can be there to respond but also is not going to be on the payroll burning that property the whole time.

To come up with a way to provide those services and provide that level of service that we had become used to across the board but not burden the property with that amount of payroll and that amount of overhead was really the challenge. That's really where we had to work through updated systems that share resources.

WS: Okay, even sharing resources, was that a way that you all – it's helped to grow because now you can share resources, you already have. As you said, you already have the management model in place, sometimes, that's a burden.

If you're not used to – if you don't understand how to manage and you grow too fast, right? I mean, you're all of a sudden is all kinds of things happening and it's way out of control. But you already have the management piece down, you already had a property management company, right? At this point, you're growing and experiencing that growth but now II guess you're having to hire more employees and now their overseeing has become more difficult.

JS: You know, from the management operation, it went from you know, really entry-level type and then a manager type role to really adding a whole other depth, a whole other layer of management so we could oversee those other office managers all about. Just add a lot of depth to the org chart.

That just naturally is going to come with growing pains.

WS: Yeah. Other than management, any other growing pains you can elaborate on?

JS: You know, the management and really the getting the properties on board was really the – I think the most challenging part, you know, I said earlier, I think there are three pillars any deal, there's the management, the operations of that which we just discussed. There's the deal itself and that's naturally a little bit of a challenge in this market, you know, in the last 10 years or say It's gotten a lot sexier, right?

So, there's a lot more competition for the same deal. But you know, I felt that we'll be able to find a sufficient amount of deal flow through either the connections we had or through the reputation we had from closing deals. I don't think that was so much of a struggle. And then you know, again, the capital that close the deal, that was a key piece that we really just put in place in the last year. I don't think we would have had the ability to raise the amount of capital we did had II not gone to that teamwork model where I divided up the GP split a little bit and brought somebody else in.

[INTERVIEW 2]

WS: Our guest is Vince Gethings. Thanks for being on the show, Vince.

Vince Gethings (VG): Hey, Whitney. Thanks for having me.

WS: I want to say too, thank you for your service. Vince is active duty military. He started investing with a zero, no-money, VA loan in 2013, have since scaled to 120 units. Man, congratulations. That's awesome. I look forward to hearing more about that. He successfully invested in markets 4,000 miles away by building efficiency teams and systems. He closed his first syndication in April during the height of the COVID-19 pandemic.

Vince, thank you again for your time. It was a pleasure to meet you. I know we met out in Orlando. It's probably been, what, six – It's been longer than that I guess now. 8 or 10 months ago at a conference and I knew you'd be a great guest then, so I'm grateful to have you on. Give the listeners a little more about your background. I'd love to hear a little about the VA, how you got in using the VA loan. I think it's a very important piece to draw listeners' ears to and how you got started that way. But then I want to jump into that first syndication as well.

VG: Absolutely. Okay. Taking back to 2013, I was stationed at Travis Air Force Base, California, so Bay Area California. At that time, you're coming right out of the great recession or the housing bust thing, and I was like, "Probably, now is a good time to buy." It was our first home. Me and my wife, we just had our first child, and I was pretty financially savvy at that time but I was really big into stocks, so I knew that I want – whatever this vehicle was is going to be an investment, and I was starting to do some research on how the VA home loan works and everything like that.

I found some content. I can't cite it right now. I can't remember what, where, or was, but it was pretty much you want to find the house that like just is over the line of VA thresholds for acceptable that they're going to sign off on because there's a line where they're like, "Oh, this property is not up to our standards. We're not going to approve it," So you want to find a property that is just above that line. It needs a lot of work but it's still habitable in the VA inspector's eyes.

We found that property, we moved in, and we did a live-in flip. That's the house hack is you get the zero down with the VA home loan and you live there and you fix it up while you live there. You're going to do the floors. We did some bathrooms, some kitchen stuff as the market appreciates, so a little bit of force appreciation with the Bay Area market appreciating as well. Then around 2016, my orders were coming due, so we ended up selling that place. We made 130,000 net, after everything, and this was a two-bedroom, two-bath, 1,100 ft.^{2} house in the Bay Area, California. So this was not a big house at all. It was just a very well executed plan and a lot of it was just the rising tide and just being at the right place at the right time. We took that as the seed money to start building our portfolio 100% out-of-state, in Michigan.

WS: How long had you all been married when you all bought that live-in flip?

VG: Oh, man. Maybe a year at that time.

WS: Okay. Well, congratulations on making it through that. I had to say that my wife and also purchased a house and pretty much did a live-in and remodel or almost flip but we did not have that kind of plan. I'm just thankful now that we're still married after that. It's been a long time ago but that's awesome. It's awesome that you were able to use that VA loan, get in, and then make that kind of capital and that deal too to just launch you all forward. Just congratulations on that. What kind of deals were you focused on then? Then let's get into moving into syndication as well.

VG: Got it. 2016 happened. We took that seed money. I was like, "Okay, I'm going to do real estate. That was a good play. Let's keep it going on." So I started going some more educating. I found BiggerPockets, and at that time they were really focused on doing the small multifamily to duplexes, the triplex and quads. I read all Brandon Turner's books. They are great for starting out. I went and bought – It was like 20 units in 18 months, but they were all small multifamily, so some duplexes, fourplexes, and random single-family in there. It was great and that was all in Michigan, so we built the team.

At the time, I was still in California and I built that portfolio in Michigan. That's where my wife is from. So around 20 units in 18 months is where we started. Then I started hitting some roadblocks in my processes and my systems, and realized I need to scale again and move up to commercial property.

WS: Going down that path, why syndication though? Why not continue to do smaller deals?

VG: At the time, I knew that with the 20 units I had that I was running into issues with my process. Like I said, my systems and processes. I couldn't – I was reaching kind of a critical mess with my time. I was managing more than I thought I should. At the time, my property managers, they needed more time for me, so it wasn't really scaling for me time wise as a business. I was building myself another job, so to speak.

Then on the other side of it was the conventional loans. I was kind of running out of those, the 20% down. Get a property 20% out and get a property. I was running out of those and then also the force appreciation of it. I wasn't growing very fast. The cash flow was great but the appreciation on the residential property wasn't there because they're residentially go off comp value instead of income value approach, so I wasn't really scaling my net worth as fast as I would like. Then all of that kind of culminated and then there is one event that kind of broke the camel's back. Then I was like, "I'm never going to do residential again. I'm going to scale up to commercial."

WS: Even in your bio, you talk about successful investing in markets 4,000 miles away and efficiently building those teams and systems. That's one thing you just mentioned as well. Let's talk about that a little bit and how you've done that. I mean, being that far away and how you've been successful at building those teams. If you can elaborate and let's jump into that.

VG: Absolutely. The first teams I built with the small properties. Again, that was an issue with the small properties. You can't really afford. The cash flow is so tight that you can't really afford the high-power people or the high-speed people that are in this game because they demand a higher salary and rightly so, so you need a higher revenue to afford better teammates when it comes to the out-of-state teams. There was no limitation.

Then what I did was I had to sit down and kind of do some self-reflection. Do a strengths and weaknesses analysis of, "Okay, here's what I'm good at. Here's where I'm weak at," and then focused on the weak part. I was like, "I need to find team members." Not really to build up my weaknesses but find team members that will fill-in on those weaknesses, so I can build those effective teams. We got some mentorship. They helped me identify a lot of those weaknesses.

Then I went out and did a lot of networking. We found some three awesome guys that really had the same morals, values, and ethics as me, same timeline as me. We put together this team and went into Michigan and found brokers that align with us as well. That was really a big part of it is just making sure everybody understood what we were going for and what our investing was.

WS: You had mentioned that you're looking for team members that had strengths where you had weaknesses, but you also mentioned some type of mentorship there. Can you elaborate on that and maybe how that helped navigate this part of your path to syndication?

VG: Absolutely. When I had to the 20 units, as I mentioned, I was reaching the end of my rope there. I was building another job. My systems and processes at the time started to crack, so I need to take a step back, do some self-reflection to kind of see where my strengths and weaknesses were. Find mentorship on the weaknesses, so I can understand, "Okay, where was I weak at?"

Then instead of working on building them up, I found team members that were strong where I was weak, and we got together and took – This is where networking comes into place, and we started networking. I found three guys that had excellent skills in their areas of expertise. We had similar timelines, similar goals, similar values and ethics. We got together a business plan, started going out, reaching out to brokers in Michigan. We ended up landing a 52-unit as our very next property, so we ended up going from – For me anyway, I ended up going from duplexes and fourplexes, and my very next deal after doing the self-reflection took about three or four months. It was a 52-unit that we scaled up to. That was actually a JV. We hadn't gone up to syndication yet, so we JV'ed a 52-unit.

WS: Nice. 52 units. That's awesome. That's awesome. Building this team, I mean, it was crucial. It sounds like too you're all success in doing larger deals. Is that right?

VG: Absolutely. Once we scale up to the 52-unit and we build those, we had a business plan. We started executing it and really started refining our processes and systems, our new ones because we completely rebuilt a new company and started building that proof of concept or getting that proof of concept from results. We're able to firm up some areas, improve some areas, drop some other areas of the business plan that wasn't working and redefining.

Then now going forward into the next deal which was a syndication, we already had a lot of the kinks worked out, a lot of the systems worked out. We moved on to better processes, better software platforms and going into that 48-unit even though it was during the middle of coronavirus. April 15th is when we closed. We had already proved a lot of our systems and processes up to that point where we didn't have that much of an issue closing that deal or convincing our investors that we had what it took to close the deal, so we already had the track record and we had the confidence of the other 52-unit that we were executing already in our portfolio that we couldn't forward on this deal.

WS: Nice. Could you elaborate on like the better software systems even that you all have in place now that you didn't before?

VG: Exactly. Some of it was – It wasn't just like property management like Yardi or Appfolio. A lot of it was the internal software systems to how we manage. Before we were going off like Excel sheets as far as trackers of tasks, then moving up to something like Asana, so using Asana and integrating that with our calendars has been huge because now we have task lists. We can create test groupings, create test lists, create test flows through our self-recurring task.

All this sounds really easy like admin type things, but there are so many moving parts in real estate and running teams that so many things to get through the cracks, fall through the cracks. Having these work flows with these reoccurring tasks on a platform that works just as well on the computer as it does on your phone and you can add collaborators outside third parties and then integrate it with multiple other platforms has been a real boost. We've only started using this program, Asana, in the last four or five months, but it has really cut down on our wasted time and our repeat recur like having to go back and fix stuff that was messed up the first time or stuff that fell through the cracks.

That's just one example of using software to firm up your systems and processes. Other ones we use is like Loom videos. It is awesome as well whenever we're hiring out a tasking. Anybody who's ever hired a VA knows I'm talking about the communication breakdown of you have a process in your head, you type it out, you give it to a VA, and you get something that's completely different. Using a Loom video, we can write out the process, show it on our screen, and create a video with us narrating it actually going through the task one or two times and then giving that to the Loom video with all the resources to the VA. Now, they don't have as many questions, and the product that we have is not as much back and forth, so no more time wasted. It's very efficient process. That's just another small example of using a software to firm up your business and your processes.

[END OF INTERVIEW]

[OUTRO]

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