EPISODE 1389

[INTRODUCTION]

Alex Rogers (AR): If you're just starting out, I recommend even before underwriting deals especially if you're looking in a market that's outside your own, touch base with a property management company first. Look at reviews. Ask for references from the current clients, and try to meet with as many property managers in your market as possible.

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is going to help you as an operator to think through the relationship you need to have with your property manager. When does that need to happen? What information should you be discussing and when should you be discussing it? It's coming today because it's an important process that's typically done wrong. Our guest today is Alex Rogers. He's a principal of Gray Duck Capital. Alex studied economics and finance at the University of Minnesota. Along with a longtime business partner, Frank Rush, Alex began building a portfolio of real estate assets in the northern Minnesota market and soon expanded into multi-market investments. He has also received his Master of Science degree in real estate. Alex is a CCIM-certified commercial investment member.

[INTERVIEW]

WS: Alex, welcome to the show. Honored to have you on. I know you have a vast experience in this business. You've been doing lots of things and you all have an operating business where you're internally just integrated, where you're doing lots of parts of the business. I know today we want to focus on something you are an expert in. I know that the operators that are listening need to perk their ears. We're gonna be talking about today what you've learned and you're going to share with us. But tell the listeners a little more about who you are and your all's business.

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AR: Absolutely. Thanks for having me. Thanks for the invite. Well, my business partner and I started in real estate in 2009 fresh out of college. We slowly built our own residential real estate portfolio, primarily single-families, duplexes, smaller multifamily. We slowly grew that and self-managed at the time while we were building our portfolio. We were learning the systems as we went. We didn't really have a property management background before. So, we kind of learned as we went, build processes and systems, built our team. And then by the time 2014 came around, we were approached by a number of different colleagues in the market, others asking for help. And we had launched East West Property Management at that time to facilitate the services for our own portfolio but for others in the marketplace as well. To that point, we're located in Duluth, Minnesota, and Minneapolis, Minnesota, primarily focused on Midwest markets. As we continued to grow, we expanded our offerings. We built a construction team, we have an asset management team, and in 2021, we completed our first syndication, a 112-unit portfolio deal in Duluth, Minnesota, and in five days, at the end or the middle of July here, we close on our next deal, an 84-unit apartment building in Robbinsdale, Minnesota.

WS: Congratulations. That's incredible. You know, I self-managed my first couple of triplex many years ago. And man, did I learn a lot the hard way? Not a good experience in some sense. I mean, in other sense, I learned a lot and it paid a lot forward. But, you know, you all didn't give up. I would imagine you all learned a lot as well, you hang in there, as far as you know, on the management side, and now you've even growing that side of the business. Would you recommend others do that? You know, self-manage in the beginning? Would you recommend or is that kind of a recipe for disaster for most people?You probably shouldn't do it or what do you think?

AR: I think it kind of depends on where you are in your life, whether you're starting out and what assets to target. We were fresh out of college. We really had to hustle both to make ends meet, selling real estate by day, and then to facilitate the maintenance and repairs on our small and growing real estate portfolio at the same time. We were well-equipped to focus on both. But other individuals, depending on where they are in life may not be set to jump right into the management aspect. So, having a really solid third-party property manager can go a long way.

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WS: Yeah, I think it's a great answer. Because it would be very specific to the person. I think if you're just out of college, you probably had more time than say, the guy who's already got four or five kids at home, or other businesses, or maybe he's got a full-time job that he's very involved in as well. Or obviously, this could go all over the place, you know, as far as who's a fit. But, speak to how that group, I know you said, you all must have done a good job with your own projects. And then other people were asking you, hey, could you come to manage ours? What was the next step and saying, you know what, I think we could do this at a bigger scale, and do this well, and even for other people?

AR: Sure, our market is a smaller tertiary market. At the time that we started out, there were not too many competent property management firms in our market. There are one or two really strong firms so there was a need for it. Most of the market was probably self-managed as well. As a lot of the property owners start to age out and not want to deal with the hassles mentioned, they really didn't have too many folks to turn to. Then luckily, that's where we were able to step in and provide our services. Our portfolio was able to grow pretty quick on the third-party and on our own side. But along the way, you know, since day one, we've made plenty of mistakes too. That was our intuition. That was how we learned and grew and tried to provide better services to our clients and our own portfolio at the same time.

WS: Now, that's awesome. Well, let's jump in a little bit. I know that as you're growing your management business, you're dealing with other people or other operators. I want you to speak to them, the operators that are listening, you know, that are looking at that third-party management company and thinking through that process of working together. And we talked about different aspects of that on the show but I think it's helpful from the perspective you were talking about before we even got started. Just about, when should I even communicate with my management company? How involved should they be before we even go under contract? Even some of the timing of those things. Let's dive into that a little bit, just that process that you'd like to see as you're the third-party manager working with this person who's maybe going to manage or buy a bunch of projects. But, you know, y'all need to be more involved.

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AR: I think we're uniquely positioned with our background in property management to understand this maybe more than others. If you're just starting out, I recommend even before underwriting deals especially if you're looking at a market that's outside your own space with a property management company, first look at reviews, ask for references from the current clients and try to meet with as many property managers in your market as possible. You can get a lot of insight from deals you're underwriting, areas to look at from that resource. And really, they're a part of the team. They'll help you from day one, underwrite, tell you what's feasible for like a renovation perspective, from a tenant base perspective. If your aftermarket rents are going to be consistent with reality and market, they're gonna be your advocate, because they want that project to succeed as well. So touching base with a property management company on day one, before you start looking at assets, it's probably a good idea. Unfortunately, it's all too often that we hear that operators are reaching out to property management companies after they have a deal under contract or shortly before they close which is a recipe for disaster.

WS: You know, it's interesting you bring out, I think it's so crucial, like, often we forget that that management company, they oftentimes can have such a better understanding of the market, you know, what's happening with rents, what should this cost right now to turn these units. There's a good chance they are already turning many other units, right? Or, you know, they're just consistently thinking about what rents should be compared to all the other properties that they are managing. It's such an insight that oftentimes as the operator, you may not have until you've grown to a pretty good scale.

AR: Exactly. They might manage assets next door to the one that you're looking at. If their rents are 1500 bucks a month, and you're thinking 18, 19, well, there might be a disconnect there.

WS: Yeah, speak to that communication there. As far as how much should they ask the management company? As far as like, here's my underwriting, could you help me look at that? Should we expect the management company to have that skill set looking at underwriting? Or

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should it be more simple? Hey, here's what rents we expect. How do you just think through that as far as what to share and advice to gain from them?

AR: Yeah, that's a good question. I think more over the last five, ten years, property management companies started to blur the line almost for asset management companies, to help develop the plan, to see what's reasonable to execute for the business plan. A number of property management companies won't provide the complete underwriting but they'll provide their assumptions, their guidance in terms of what's an acceptable range or practical range for a number of different assumptions, for vacancy, for after-market rent, or after-renovation rents. They're probably not gonna get too much in detail in terms of cap rates, or expected disposition cap rates and that stuff, but they can definitely be your resource to make sure your underwriting is in the realm of reality.

WS: Yeah, no, that's awesome. What about, okay, now, you know, we've had the conversations, we've talked about some of the expectations that the management company would expect, our rent growth, whatever it may be, our expenses. And then we get a deal under contract. Speak to the communication then, as far as, we get a deal under contract between then and closing.

AR: Sire, there's a number of items that have to occur during that due diligence time period before you close on the asset including onboarding. Assuming that the management company isn't currently managing the asset, you'd have to onboard that whole property into the management company's systems. A lot of times that property management company will provide you with the checklist and resources that they're required to do. They can certainly be helpful in terms of auditing the leases with you to make sure that those rent rolls are aligned with what the leases are stating. They can help you with certain financial components, like we discussed, underwriting what expenses the property should be operating at versus what's actually operating at today to see if there's any room for improvements or efficiencies. And then obviously, coordinating the walkthroughs, the unit walkthroughs, making sure that you walk through every unit. A lot of times, they'll help with the inspection process but you probably want to outsource that as well.

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WS: Okay, so you said they will help with the walkthrough, but you want to outsource it as well so you might have both. Speak to that. What does that mean if I'm gonna outsource that?

AR: Well, property condition assessments walking through with an outside general contract and inspector alongside the property management team making sure that those different connections are are aligned when you do that walk.

WS: Okay, what about, you know, many boots on the ground that has to be there to get through that process? Obviously, once you close, the work's just getting started. And so talk about planning a little bit. You're going through the process of closing, hopefully, during that time. We're talking about our business plan for this project. What's our expectations here? Who do we need involved with this? What else should we be thinking about after closing that we should be prepared for?

AR: Yeah, I think it's critical to have different milestones with hard due dates to make sure expectations are in alignment. A lot of times operators will close on the project and then the silence, they're not going to coordinate different calls. So, you want to make sure that you have weekly touchpoints, or if it's a part of the renovation plan that really has many different segments, maybe daily touchpoints to ensure that the few different actions or executions happen on time. But making sure that you have some cadence of weekly touch points between all active parties. So property management, construction, asset management to ensure that the business plan has been executed in accordance with the timeline requirement and with the budget too, obviously.

WS: Yeah, within budget for every track in that. So, what about, so we've closed, what is the communication? What do you prefer to see the communication look like after closing? Maybe the cadence, and how often and what does that look like?

AR: Most of the time, after closing, you're having communications meetings weekly, especially during the high-energy part of the business plan execution after the property stabilizes. And

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after you're out of the business plan execution portion, you're going to be maybe falling back to the monthly touchpoints when you provide their different reporting and different KPIs. But definitely when you're in the thick of it especially if you're doing unit renovations and leasing up from the previous stabilized property, definitely weekly.

WS: Is there a way that you'd like to share information through the week even, say with the owner or that team that you're managing for? Is there a way that you all share documents? Or is there a way that information is shared or communicated even outside of meetings?

AR: A lot of times, these standard financial statements or reporting documents that we go through this automatically generated at whatever cadence we decide - rent rolls, lease up reports - showing reports to see what activity is on the lease inside. Those are automatically generated through our property management system. Before the detailed aspects regarding, maybe a rebranding or unit renovations or community renovations, we'll have a number of different reports from the GCs or the subs or the asset management team just with not too much detail but just generalizations in terms of where we are in our timeline. Are we on-pace or off-pace to meet our milestones that we set before we close on the property? And if anything is off off-pace, we'll see why is that and how do we resolve that.

WS: Who are you communicating with on the team? You know, as a property manager, who should be your point of contact on the owner's side of things?

AR: A lot of times, it's going to be that contact that's set up for asset management. Usually, it's one person, a lot of times, it's maybe the whole asset management team or the whole GP team. For us, we prefer one, that way, we don't have to repeat ourselves, which occasionally can happen. You get a call from one contact and a call from the second, we go through this exact same stuff. Time is valuable for everybody. So, we usually like one contact on the asset management team

WS: Speak to the role of the asset manager versus the property management company. I think that's kind of a transition that a lot of companies go through, right? We did, it's like, we're

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growing, we're growing, we're trying to do all the asset management while we're trying to do all the other stuff in the business as well. And then all of a sudden, it gets to a point where it's like, it's really difficult for us to be the asset manager. And then, we finally hire somebody full-time that is that point of contact. But speak to the difference because I think that it's not always clear for a lot of groups when you're getting started. It wasn't for us initially, anyway. But property management versus asset management and those two roles.

AR: Yeah, no great questions. Like I mentioned today, those two roles are getting blurred more and more. We see a lot of property management companies starting to take on partial roles. An asset manager will usually play overseeing certain aspects of a business plan execution, coordinating more detail than ever with renovation plans that property might undertake. But really, the asset manager's goal is to be that representative for the ownership to make sure that the macro level items are making the timeline that they requested or required upfront so that the unit renovations are happening at the cadence that they're supposed to, make sure that leasing is hitting the different benchmarks that they're supposed to. Whereas, property managers can oftentimes kind of find themselves in the leads, focusing so heavily on leasing, or tenant communications or tenant relationship building and engaging with that community that they may not be as focused with the higher macro level benchmarks that have to be hit for that business plan to succeed and for the project to be a success.

WS: This is helpful. I think if we had thought through it earlier we should have hired faster for that position. It would have helped us to manage better. or at least ask better questions, you know, having somebody that's more involved in the operations of the properties than when we tried. But still, when you're trying to hire other people and manage a business and raise money and look for deals, it's hard to be a good asset manager especially as your portfolio scales. One of the best decisions we did when we hired that out.

AR: I agree it can be a huge challenge. Yeah, you definitely have. You don't wanna expand bandwidth so much for an asset manager that they can't focus on or reach the milestones that they need for each project. Scaling appropriately for asset management can definitely be a challenge. A lot of times asset managers default to provide more autonomy to the property

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management company which can be good or could be bad depending on the strength of that property management company.

WS: Well, Alex, knowing what you know now, you started with smaller multifamily, you're self-managing, you grew. Now you're syndicating, buying larger projects, and your management company is growing as well. If you could talk to yourself when you were first thinking about real estate, what would you say? You know, Alex, you do this instead or you need to know this thing? What would that be?

AR: It would have been not to pass on the deals like I did for the last five years, seven years where our underwriting didn't pencil out. The guys behind us, you know, paid a higher premium and just knocked it out of the park. We missed out on numerous doubles, triples, home runs, really because we didn't expect the market to exceed, you know, kind of what it's done. We're not really changing our underwriting practices, we're still very conservative with it but we would have been much more active than we were.

WS: That's you and hundreds of thousands of other people, right? No way to have known for sure. But I appreciate you even mentioning, you know what, we're still sticking to what we know works. Whatever conservative means to you like you're still sticking to those things that hey, we're not going crazy because of what we should have done two years ago or three, you know, a year ago even. No doubt, that's so important. In that train of thought, do you have any predictions for the next six to twelve months in the real estate market or maybe ways that you are changing what you're doing? Buying or selling or anything?

AR: Predictions? I expect, there'll be a number of great opportunities for the prudent operator. Those that had done the underwriting for the last five or six years with cap rates compressing might be in some trouble in the future here. We expect that to be a great opportunity, especially for those that may have debt or targeting deals where the debt structure originally may not have been all that advantageous for a changing debt markets. So, we see a really great time to acquire more assets in the next 18 months just due to the volatility in the debt markets.

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WS: Yeah, have some capital ready, right?

AR: Exactly. Otherwise, our underwriting standard's the same. We're still underwriting expanding cap rates, vacancy that is higher than currently held, and being pretty conservative on our aftermarket or after renovation market rents.

WS: It's interesting you're an operator and a property management manager. So it's neat that you get to see both sides and that you also get to see the way numerous people operate. And there's a lot of value in that, I think as well, right? You're getting to learn from numerous projects that aren't even yours. As you are learning and growing and operating, how do you prepare for a downturn? Or how do you ensure you're prepared? Or maybe even how you see other operators that you're managing for, how are they preparing? But ultimately, what have you learned from that? How do you know you're prepared if there's this downturn in the next year or whatever?

AR: Yeah, and I don't know if downturn might be a bit strong but there's going to be some challenges that you can see or delinquency might increase, economic and fiscal vacancy might become a challenge. Not terrible like the great recession. But underwriting 2% credit loss and vacancy, I don't think is going to meet the realm of reality. So, how we prepare is to make sure that we look for assets like cash flow. We're cashflow investors. We look for yield. We don't bank on that market appreciation that the asset might have 5 years away.
We look for the cash flow from an asset. And then the other structure is pretty consistent with what many other operators are looking for, strong fixed-rate and long-term debt that buys us time if anything happens to the markets. That's our general strategy.

WS: What's your best source for meeting new investors right now?

AR: Our network. Our existing investors are usually our best referral for other new investors. We network a lot, we go to different events. But to find our passive investors, they usually find us quite frankly.

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WS: Is there a way that you're promoting that to your current investors like asking them for referrals? Or how are you encouraging that?

AR: I mean, we ask every now and then. But I think it starts with being really transparent, to communicate frequently. The more we communicate about our existing deals, or what we're looking for, or just how we operate builds a lot of transparency and trust in our organization. And they all know individuals that could use some help on, you know, their wealth planning. We love talking to new investors about how many of our investors have never invested in private real estate through syndications before. So, it's an educational process for them most of the time, and we really enjoy talking about that.

WS: What are some of the most important metrics that you track? It could be personally or professionally, either one.

AR: Personally, I think habits are pretty critical to grow in a personal manner. I have different metrics that I like to hit each week from how much water I consume, to go in the gym at 5 am each morning. Just making sure I keep building and expanding on my habits in a positive manner. From a professional manner, for a property management company, there are numerous unique KPIs for tracking. You know, rent per square foot to vacancy, different occupancy metrics. From an asset management perspective, we generally look at, you know, the milestones that we're hitting next, your business plan on time and on budget, as well. A lot of times look at rents and make sure that we're hitting our rent expectations.

WS: Speaking of habits, I agree, I think habits are crucially important, but what are some daily habits that you are disciplined about that have helped you achieve success or produce the highest return for you?

AR: I think it starts with hitting the gym first in the morning. I don't need to take down three or four cups of coffee just to function in the morning. Going to gym gives me that natural high. I'm most effective from 6 am to about 2 pm. After 2 pm is usually, I schedule, maybe my less

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important meetings of the day. So, I focus on the really core task items I have to accomplish each day between 6 am and 2 pm and after that, it's maybe less important after that.

WS: Yeah, I think it's just important that you know that. You're being purposeful about how you're scheduling meetings based on that as well. They can be very helpful, especially just over a long period of time. What about the number one thing that's contributed to your success?

AR: Surrounding myself with people that are smarter than me. I've said it before, if you're the smartest person in the room, you're probably in the wrong room. You continue to grow, learn more, you learn something new every day about asset management, property management, how to be a better operator, how to be a better communicator, just a better person. That's my number one piece of advice to everybody, just keep growing and surround yourself with people that are smarter than you. They'll just rub off and provide better resources for you.

WS: And how do you like to give back?

AR: I'm very passionate about animal welfare. I sit on the board and numerous committees for our local Animal Humane Society.

WS: Awesome. Alex, a pleasure to meet you and have you on the show. Just a valuable conversation to think through how you if you're buying a project, if you're an operator, and you're going to use third-party management, you need to be having these conversations, to think about when we should be communicating, how involved should the management company be? And then even, you know, do we even know what those milestones are afterwards? Or KPIs we're trying to hit, what that communication need to look like? Who are we talking to? All those things that you shared with us today? I'm grateful for that. Tell the listeners how they can get in touch with you and learn more about you.

AR: Certainly. You guys can reach me by email alex@grayduck.co. Or you can check us out on our website at GreatDuckCapital.com.

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[END OF INTERVIEW]

[OUTRO]

WS: 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, go to LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day.

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