EPISODE 1396

[INTRODUCTION]

Sterling White (SW): This just goes back to your goals, just figuring out where you wish to be and then from there, you can reverse engineer. Okay, I want to just be in the single-family, I want to be in multifamily. If you're looking for a more scalable model, then single-family may not be the best bet. Then consider looking at multifamily. But if you're someone that is a little bit trigger shy or not as confident and you're working towards your first deal then that could be okay starting with single-family and then you start to get momentum and the snowball effect and you build that confidence and then can shift to multifamily.

Whitney Sewell (WS): Welcome back to The Real Estate Syndication Show where I continue the conversation with Sterling. And he is sharing and being so transparent about so many things that I'm learning so much from I know you are as well. I hope you have liked and subscribed to the show, whether you're listening on YouTube or on your phone, one way or another, we would appreciate a comment and a five-star review as well. Please stick around Sterling shares many, just many great tidbits that are going to help you to improve personally and professionally to getting to the next deal.

[INTERVIEW]

WS: Sterling, welcome back. We've had some great discussions from your childhood, just some hard times, how you came out of that college to getting into real estate to finding the mentor and how he helped you find that get into the first space single-family deal finding a business partner to then how you scaled finding deals to even sending potentially maybe you have never done this, I'm not sure, about sending a seller a potato to get their attention.

Sterling White (SW): I did not personally send them potato but that has come to mind a couple of times.

WS: So grateful for the conversation and this is diving into some different topics. I know you're an expert in again, man 150 single-family homes pivoting right in a big way. You scaled that and that definitely didn't happen without a lot of hard work and a lot of dedication to make that happen. I know very few people who have that means single-family homes, right? I mean, they've built amazing business, even local, and I mean, local to me here that I know are like, they're the single-family guy. I mean, they know this city, like the back of their hand, you know, they 150 single-family homes scattered all over. But man, you pivoted down and said you know what, I think I have a better path. But I want to jump into that. And maybe you can help us think through some things to consider when deciding, you know, whether an investor should invest in single-family or multifamily? It's a question I get often I'm sure you do as well. So help us think through that.

SW: Yeah, I'd say I wouldn't call it a double-edged sword. But I'd pull from both ends that if I were to go do it all over again, because this is a common question I get, would you still start with single-family? Yes, because it has a lower barrier of entry. And that's how I was able to get my foot in the door, and then the snowball effect I was able to get from that. And then I was able to use a lot of that single-family experience especially at that scale, it was significantly easier when it came to multifamily. So that's what I would say. But then it just comes down to your goals and where you're wanting to go because someone could easily be let's say 5, 10 or even 15 properties, just single-families and be financially free. So that's another thing on that side. If you're wanting to have a more scalable model from that and you're doing syndications, then that's something to consider whether single-family is the right thing to do stress if you're doing self-managing, that's when you would actually more consider or looking to the opposite of multifamily.

WS: Yes. I mean, there's so many things that are, you know, personal things you got to figure out right? What are your goals? Where are you trying to go, it's just assumed that you have to start with single-family, made you feel like you might almost have to start that way. Not necessarily.

SW: But the thing that can be daunting for most people, I'm trying to think at the time is when I started in single-families what my mindset was, or I don't even know if I consider investing in multifamily at that time, but just saying that it can be pretty daunting to purchase multiple units at once. So that could be why, I wouldn't say recommend, but the single-family side is just from a mental standpoint that it's just one unit there, you buy that. And then let's say you buy the next and then you from there. Okay, now I'm starting to get more comfortable understanding the model, it's less risky. Because if you go to 10 units, for instance, that's 10 different residents now that you have on your plate, so that can be daunting to someone versus just one resident. You get familiarized and then you start to grow from there, and say, okay, this is simple. I understand it's not as difficult as I thought, okay, now I can be able to start to go to larger deals.

WS: Awesome. Speak to, why multifamily? Why invest in multifamily and not just stay in single-family?

SW: I would say, why not multifamily for everyone? You're in a space where you're familiar with why but it's just the amount of transaction. So 110, 120 transactions from the single-family side in order to get to about 150 single-families and then bought as of recently, a 156-unit apartment complex which was just one transaction, all 150 units in one location. So there's that. So that's what I would say is the biggest benefit from those two is really just the scalability, and then also the economies of scale. And then I would say the return on time, your ROI on the time is better as well.

WS: I think that's something so many forget about, the time that it's going to take you. They think oh, wait a minute, you know, why invest in this deal when I can go do that myself? Well, you might be able to do it yourself. But man, if you count all the time spent I mean the time you spent finding those 150 units, 150 single-family homes, I mean, there were so much time invested in that versus finding this one transaction still took a lot of time it's still probably a lot less than finding 100 single-family homes to find that 150 unit apartment building.

SW: And that's another belief and fear, of course, but it goes full circle that also had to remove is the value of time. And one of the things I've learned and it took so long for me to hear, it was Grant Cardone that said this, he would say "rich people buy time". And for the longest time, I did not get that. But this was one point where I was at the amusement park, it was King's Island. And I was with my little brother because I'm a part of a Big Brothers Big Sister where actually get back my time and mentor someone who was actually in the environment that I ended up growing up in. And so I was there with my friend and business partner, Jacob, and he had his little brother and I say, Hey, let's go ahead and get fast passes. Trust me, we'll need those. He's like, I don't know. I said, just get it. So when we were there, the park first opens up, and the fast passes didn't really matter as much, because there were not many people at the park. But then as the day starts to progress, the favorite rides, the top rides were about two hours long for the general admission, but us for the fast passes, it was just 10 to 15 minutes, and then that's when it really just sunk. Okay, that is the value of buying time. And just timing itself is yeah, that's one story I want to share with people when it comes to that.

WS: That's a neat analogy to think through that as well. You could spend a little more money on that ticket, and you gained a ton of time back. Yeah, you're better able to utilize that day as well. Neat statement there. So, return on the time, you know, I had this call, or this investor called me one time and he said, I'll never forget, he and his wife were on the phone and they had owned single-family homes for a number of years, I would say six or eight years, but just the timing in the market, they sell it they make $350,000 on this one single-family home right now because of what's happened in the market. And so during the call, they're like, well, why wouldn't I just go do that again? And I said, how many of those can you find? Do you have the time to go find more single-family homes? And guess what? You bought that how many years ago? That's probably not gonna happen over the next three or five years? Maybe, I don't know. It might but either way, do you have the time to go find those deals? Do you have the time to manage those deals? Do you have the time to take the tenant calls? Just like we forget about that, right? Well, no, I could do it myself and save all the time or save all the money? You know, you don't really think through the time invested. So what about transitioning from single-family to multifamily? It's so common that somebody does start with a single-family home or small multifamily, you know, but especially a single-family home and moving into multifamily. Any thoughts on, you know, transitioning from one to the other whether it's the mindset, whether it's the skill sets needed, or even the team needed? You know, let's walk through some of that.

SW: Yeah, well, luckily, I had the single-family experience at that scale so I was able to build a property management company to manage that many single-family. So, the transition wasn't too difficult to that very first deal of 46 units. It was actually easier to manage that than all the others. But it did come down to different skill sets in underwriting the deals and understanding how they're exactly valued. Because the single-family as an example is, okay that sort of across the street for this is sold across the street for this. It's comparable property to this, it's also a three-bedroom, one-bath, so it's just fine with a detached garage. But on multifamily, you're looking at cap rates, okay, based upon the net operating income, okay, this is the cap rates of properties that have recently traded in this area. Okay, now you can reverse engineer to determine what the value of the property is, which is entirely different from the single-family side. So, I would say that those differences and then also the channels. I was doing some off-market on single-family but did a mix of on-market too. So, it was a mix of on-market and off-market. But then, with the multifamily side, it was just strictly off-market because this was in 2017 when the market was really starting to heat up, was going through brokers, and it was just not penciling out and even close to penciling out. So okay, took a step back. Why not beat the brokers to the punch and actually go direct?

WS: Yeah, you beat them to the punch and go directly. Incredible. You mentioned you know the value and how we value multifamily, single-family. I think that's a common, just misunderstood, right, when you're first starting to think about doing a bigger deal. Speak to cap rates a little bit. What does that mean? Or how would you explain that more on a basic level, what a cap rate is? Maybe how we use that just a little bit without getting extremely technical at this moment.

SW: Without getting too much into the technical side of things. It's just an essence a way to value the property. S,o as an example, I don't have my calculator on me. But if the ROI, I don't know if you're able to pull this up, but if the ROI, not the ROI, but the NOI on the property is let's say $300,000, then you would take that I believe, let's say the cap rate is 5%, then you would divide it by point 05. And then that's how you can reverse engineer determine what the actual purchase price is. So, that's how you would in essence, look at the cap rate.

WS: Okay, so that's 6 million.

SW: Yes. There we go. So, in essence, that's how you look at that.

WS: Yeah, so that cap rate can change things so quickly. Right?

SW: Yeah. And what also comes into play is that when you're valuing the one, when you could purchase the property but also forecasting in the future. Okay, what I believe I can sell this property for, and this is the slippery slope that we've been going into in the most recent years. People have been believing which has been the case cap rates have steadily been compressing, but do now, especially at the time we're shooting this, do you still want to bank on cap rates still compressing? Especially with the rising interest rates and some uncertainty in the future. But then you have some people that are still buying deals based upon that, which is fine. But then you just have to protect your downside that okay, if cap rates don't keep compressing, let's say you're buying it today at a six cap, and you're gonna say in the future, I believe I can sell it for four and a half, five cap, and that is your conservative model, that could be a little bit slippery. But if that is your aggressive model, and it still works on a conservative level at let's say, five cap or five and a half cap, then there we go. So, that's, I would say how that factors into on the multifamily side?

WS: Yeah, there's a lot to think about there. Let's say that in the 300,000 NOI, let's just talk about like, say a value add, we all hear that term value add all the time, what might be a typical amount that we're trying to raise the NOI to 20,000? 25,000? 50,000? What do you think would be a good number, just a ballpark? Throw in here so the listener can help think through what we're talking about.

SW: And this comes to the technical side when it comes to the math where this is out of my not having the strength on this, but I would say let's increase it to $50,000.

WS: Okay, so $50,000. So, that $300,000 at a five cap, that's $6 million. So, if we put $350,000 at a five cap, all of a sudden the value is $7 million and so, I just think it's like it's valuable for the listener here. Wow, you know, if I can increase the income, that's how commercial real estate is valued. If we see value there that this previous seller did not capture, we can go in and capture that value by putting in better operations, lowering expenses, and whatever it may be. It may be a dog park, or it may be covered parking, or it may be some kind of trash pickup, all these things right, or just better units. So, we can raise the rent to market rent, like those things. But, a million dollars difference. And that's not adjusting the cap rate at all. But then, I wanted to go back to $300,000 at a five cap, well, let's say, you know, it goes to four cap over the time that you have the project, but we've not increased the income at all. It's $300,000 goes from five cap to a four, all of a sudden went from 6 million to seven and a half million.

SW: There you go.

WS: Right. So that's why we have to know some of those things about the market we're in without getting extremely technical there.

SW: Yeah. And this is the other question that also comes up, where do you get that information on cap rates? And it's one experience which doesn't help for people when they ask questions. Well, okay, I don't have experience. But the second is from brokers. And you just ask them, okay, well, and just doing research, but also having conversations with brokers and saying, okay, what are properties trading for? And then seeing how they previously were over the years, and then how they are now and then you can see a trend, and then you just have to make an educated guess. Because even if we're forecasting the future, we'll say, okay, we think cap rates are going to keep compressing, or maybe they don't keep compressing. It's a guess. Because who knows what's going to happen in the future? I mean, maybe some operators out there. I don't know. You're just making an educated guess in the future. But then you're also just protecting your downside in the situation that doesn't end up panning out in the future. That's the uncertainty that we're facing in today's market, when it comes to forecasting deals in the future, because there's so much uncertainty, that's what's going on.

WS: Yeah, now, that's incredible. I just like that example. Thinking through how we can increase the value or what cap rates do to the value of the project. So, people can think through like your example even that you use, you have that single-family or even a duplex. The value is based on comparable properties. You raise the rent 20 bucks, well, guess what, that's 20 bucks of more income, right? And the value doesn't really change based on that, right? They're gonna still be looking at comparable properties versus if you have that 150 units and you raise each unit by $20, $25, right? It's such a bigger difference.

SW: Exactly. It also varies on your buyer on the single-family side. So, if you have an investor coming in, they'll look at it as more of that but oftentimes the incoming investor of your property isn't as of that sophistication. So, they'll also still be looking at it more as, okay this sold across the street for this, this sort of process for this. But however, multifamily is strictly looked at okay, these are the numbers because it is a business in itself even though with single-family, that also is the same in a way. But still multifamily, it's more predominantly, looks at that, because those are the types of buyers that are actually buying those types of assets

WS: Awesome Sterling, anything else you want to leave us with before when someone was thinking through single-family versus multifamily that the listeners should be considering before we have to close this segment out.

SW: This just goes back to your goals, just figuring out where you wish to be and then from there, you can reverse engineer. Okay, I want to just be in the single-family, I want to be in multifamily. If you're looking for a more scalable model, then single-family may not be the best bet. Then consider looking at multifamily. But if you're someone that is a little bit trigger shy or not as confident and you're working towards your first deal then that could be okay starting with single-family and then you start to get momentum and the snowball effect and you build that confidence and then can shift to multifamily. So, there's a lot of variables that go into that.

WS: Incredible. Sterling, grateful for just the thinking through. I mean, 150 single-family homes, some amazing experiences there that helped you scale in multifamily. But even thinking

through how somebody if they didn't get to 150 single-families, how they can still pivot. They can still make that transition and maybe they possibly need some creative financing like you came up with and you know, many times to get that deal done. You found that seller, he was motivated in some way and you didn't stop when he said hey, it's gonna require this. You kept pursuing him and you came up with some creative financing ways which we're gonna get into next. So, listeners do stick around.
How can listeners get in touch with you and learn more about you?

SW: Yeah, so you can visit SterlingWhiteOfficial.com One more time now, SterlingWhiteOfficial.com and then also on YouTube, you can find Sterling White. Type in the search bar. And coming right up, tons of content that I'm actually putting out on a weekly basis. Sharing more of these stories and also more insights on just the journey from single-family multifamily and how the journey continues.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being a loyal listener, the Real Estate Syndication Show. Please subscribe and like the show, share with your friends so we can help them as well. Don't forget, go to the LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day.

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