EPISODE 1406

[INTRODUCTION]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today we packed a number of shows together to give you some highlights. I know you're gonna enjoy this show. Thank you for being with us today!

[INTERVIEW 1]

WS: Our guest is Sam Bates. Thanks for being on the show, Sam.

Sam Bates (SB): Thanks for having me, Whitney. I'm a huge fan of the show and I'm honored to be here.

WS: I'm so honored. Sam is the co-founder and Partner of Trinity Capital Group which is based in the Dallas Fort Worth area. In three years, Trinity has syndicated or joint-ventured nine commercial real estate projects, including apartment acquisitions development and an RV park. He has been directly involved in the acquisitions, development, rehabilitation, disposition, and asset management of over $55 million in real estate since 2009. He has a Bachelor's in Finance and a Master's in Personal Financial Planning and an MBA. He is an avid reader, sports fan, and Christian that strives to create value for his investors, tenants, and the cities he conducts business. Tell the audience a little more about who you are, what your focus is right now, and what you're involved with and we'll dive in.

SB: I have a background in finance and then I got an MBA. I initially got a consulting job after I graduated with my MBA in the stock market. I've planned on going and being a financial advisor and after the stock market crashed, I just couldn't trust it. I started working at a consulting firm. I didn't enjoy the job and I knew it wasn't long-term. I've always been interested in real estate. That initial interest got me started to invest in 2009 or 2010 and it catapulted me into Trinity Capital. Right now we're working on two developments. One is a 252-unit and the others have 48-unit we're about to get another acquisition, which is 137 units under contract.

WS: Tell me a little bit about your company because it's as if you all are acquiring multifamily and you're also developing. Is that ground-up development?

SB: Yes, this is ground-up development. Me and one of my partners started looking to buy multifamily back in 2014 or 2015. We had worked together at the same consultant firms so we had the same values, morals, and work ethic and we felt that it was a good partnership. We kept getting beat out or brokers were telling us we didn't have any credibility because we hadn't closed the deal. After we kept banging our heads against the wall and it seemed that we were repeating the definition of insanity, Michael, who's the second partner, knows Daniel through his church. Daniel has been a home builder and developer for many years and we decided to do ground-up development. If we can buy acquisition, we would create one and it was a mixed-use development. Daniel already had the land that he was going to build a 10,000 square foot retail space for Keller Williams and gym as an Anytime Fitness franchise and then he had a lot of land on the backside of it. He didn't know exactly what he was going to do. We said we could structure the deal with the company to raise funds and that's where it started.

WS: Can we talk about that 252 units development deal? Where's that at?

SB: That's in Weatherford, Texas, which is about twenty minutes West of Fort Worth.

WS: Give us some details about that property. Maybe the top of the area or whatever else you can and we'll go from there.

SB: The area itself is a small community. It's about 30,000 people and it's in Parker County, which is the Horse Capital of the World. It's on the edge of the cities and it has that country feel. We started doing some research, we've found land, and we've been through the development process before with a Kerrville Development and a couple of others. We have a third-party market study done to see if the demand is there. It came back and showed that there's massive demand and we thought that there would be knowing the demographics of the area. It's going to be a class A property and it's going to have one, two and three bedrooms. There are not as many three bedrooms. There are more heavily one and two bedrooms to match the tenant profile of the other complexes.

It's right around the high school and less than a mile from elementary and junior high. It's in the perfect location right off the interstate. We went through a long process. We went almost down the route of HUD financing because there are so many benefits to get in a HUD loan. We were approved, but they gave us thirteen contingencies. After they gave us those contingencies, we felt that it was better for us and for the investors to go down the traditional construction route. After we got that approved, now we're going through the zoning and dealing with the city. As of now, we're having our last zoning meeting so it should be approved and we get the permits and we can start breaking ground.

WS: It's a big decision it seems to me to say, "We're going to go do some ground-up development if I'm used to purchasing multifamily with some type of value add, Class B and C." Tell us a little bit on that decision to say, "Maybe we don't have much deal flow that's worth looking at anyway and just multifamily. We're going to go start our own development." How did you make that decision and say, "We're going to go do this and start developing as well?"

SB: That's where the company started as a development company. I wouldn't have been able to do it on my own. Luckily, I've surrounded myself with a couple of partners that have expertise in areas I don't or whose skills are very complementary to mine. One of our partners has many years of development experience so we felt very comfortable moving in that route. We did a 60-unit development, we did over 48-unit development, and we've done a 200-acre lot development. Developments are very familiar to us. We like to go and be able to create value and create an opportunity for tenants, investors, and even the city that might not be there. We're fortunate because after our project was initially approved by the city, they put a moratorium on multifamily developments. We'll be one of the last developments in that city for the foreseeable future so we should do very well.

WS: Tell us some things about development that I wouldn't even know to ask you. It's not my space. Get us started. Is this something we want to pursue? Give us some reasons why we should and some of the due diligence that's different than if you're buying a class C property.

SB: Some of the reasons why is taking an idea and if you have an idea or if you know per land is and seeing it from the starting point to the end, it can be very rewarding. I like to add value to all the people that we are associated with and our stakeholders, but it's also beneficial. We're able to develop class A properties for $80,000, $90,000, and $100,000 depending on the land costs and are finished out. In DFW and a lot of areas throughout Texas and the nation, a lot of C-class properties are at that or both. We feel that we're getting a brand-new asset that will have minimal maintenance for ten to fifteen years compared to a C-class property that you're having to put a lot of cutbacks in on a continual basis or having older systems and older units. It's not as energy efficient either as new developments.

There are lots of things to consider when developing. The biggest thing is time. Through the zoning process, in every development we've done we've had lots of issues with zoning. If you've ever worked with the city government, you know that it takes a while to do a lot of things for the city. The timeline always is longer than what we expect. Another thing that's happened in the past is trying to get easements to different properties and landowners. That can be stressful because they can either approve it or not approve it. If you can't get water through their land, the developments run out of luck. If it's out in the county, the city is a lot more controlled.

WS: Tell us about how a deal like this would be structured. I assume it's going to be very different than your normal multifamily class C purchase.

SB: We structure it with a 60/40 split, and we don't do a prep because you don't see it receiving cash flow for possibly two years or even a little bit longer depending on how long the development takes. The lease stuff is usually six to twelve months depending on how big the development is so it's harder to put a prep on it. We always invest a significant portion of the capital upfront and we feel that we're taking on larger risks than a lot of investors that's why the split is 60/40. Daniel, who's one of my partners, has his own custom home business so he structures it where he gives us a fixed price for the contract and if he is over or under it, he benefits or has to give that cost. The investors are never in jeopardy of having to bring more money. It would always fall back on Daniel and his company. That might be a little bit different than how a lot of developers structure it, but we felt safe that way to pitch it to investors since we've started raising capital.

WS: What's the hold time on a development like this?

SB: Since they are brand new, we want to have long hold times. We project for eight to ten years. That's going to change a lot with market dynamics and if we get an offer. We received an offer on the commercial development we did in month eight or nine that exceeded the returns that we projected into year five. We went through due diligence and held it for one year and one day, so we got the long-term capital gains and sold it. The investors were static. We returned a 41% IRR. It changes, but we'd like to hold long-term.

[INTERVIEW 2]

WS: Dallon, welcome me to the show. You are an expert in an asset class that seems to be becoming more popular lately anyway. Seems like I'm hearing more about it, and maybe not the asset class specifically, but ground up to be specific, in ground-up development. So, I'm looking forward to hearing your story and getting into the ground-up and what that looks like, a few challenges you all have faced. I know there are many listeners and investors who are trying to do the same thing and want to learn from you as well. So, welcome to the show, tell us a little bit about who you are and let's dive into ground-up development.

DS: Absolutely. Well, Whitney, thanks for having me on the show. I didn't share this with you before we jumped on but when I started my journey about four years ago, your show was actually one of the first syndication and real estate shows I started listening to so I really appreciate what you're doing here. I'm excited to be a part of it now, and I hope through what I could share a little bit today, people can get a chance to get to know me and that I can bring some value to that space. A little background on me, just a quick high level, 'cause I know there are more interesting things to talk about in real estate. I actually have a background in nursing. I have a bachelor's in Nursing. I started getting into real estate about four years ago and through some stuff that I went through and the transitional process, it took time to transition out. But I've been full-time in real estate for about two and a half years now. And what it ultimately came down to is that I wanted to take control of my life and my future. When you're working for someone else, you just, you can't, you don't. There are so many things out of your control, and even in real estate, we all know that there's plenty of stuff out of our control but there's a lot more that we can control. Ultimately, I just wanted extreme ownership of my future. If things weren't going as planned, I got no one else to blame but myself and it's proven to have been working out well for us so far.

WS: I appreciate you sharing that. Even coming from a career path like nursing or something you didn't just decide one day to go become a nurse and all of a sudden you got hired to be a nurse. It took a lot of work to make that happen and dedication and taking that position. And so I love hearing stories of people, it's like, this was a big decision. It was a big decision to leave that, to go full-time, and even you're elaborating on why and you wanna control over your life and future and extreme ownership. I love that, as well, because I feel like I thrive the best in that type of scenario. I want it to depend on me 'cause then I'm like, okay, I can do this right. I'm not waiting on someone else. I can go figure it out. I will, I'll find somebody if I don't know it. So, I love that thought process of just taking extreme ownership. I appreciate you elaborating on that. So, why ground-up though, and maybe you can speak to getting into real estate, was that the first thing you did? And talk about that transition a little bit.

DS: Not the first thing we did. And, I don't think most people consider ground-up to be the entry point. And so my first real estate investment was a fourplex after reading "Rich Dad, Poor Dad" as I started my journey, like most people that let the real estate bug. And two weeks later after reading that book, we bought our first fourplexes without any of our own money. And then a couple of months later we bought a second one and I started recognizing, this is it. This is what I was looking for. The future I wanted to create was within real estate.

And then, I attended a syndication conference, out in Texas, never heard of the word. I always thought it was one really rich guy that bought these large apartment complexes, which is probably the case in some cases. But I came to realize that majority of these purchases are done through partnerships, come through people like you and I, Whitney, that combine our resources and our networks, and we together take something down much larger than we could on our own. And that excited me.

So, I stopped buying small multifamily and started pursuing my course on the educational path 'cause I didn't know anything about syndication, and looking back, I didn't know anything by most fourplexes either. I just knew I wanted them. And I learned a lot. I learned by doing, and as I think most people do, I just tend to jump in easier. I feel like a lot of people that it's easy to get caught in analysis paralysis especially when you're new to the space.

I started going down that path of education, and naturally it's value-add education. All these conferences, most of them that you go to, it's, hey, here's a property, here is how you underwrite it, here's how you raise capital, go on and get it, right? So, we started looking for a lot of those deals and it's become saturated. The value-add market is just ridiculous right now. It's been really competitive and being new to real estate and being younger, it's difficult to gain some of that traction.

So, my partner and I at the time, just started thinking about, okay, where do we wanna be in five years? What was the whole reason we got into this? Where do we wanna be? And we always were interested in ground-up development. We like the idea of taking dirt and creating something new, and I think part of that goes back to that extreme ownership that I talk about. As for me, I know I would take more satisfaction and take dirt and then create this project or this product. And I understand there's a lot more work and a lot more steps involved, and I think that's why a lot of people shy away from it.

But anyway, when we had this conversation, we were like, okay, where do we wanna be five years from now? And we just envisioned ourselves doing ground-up development. And this was after we all are swimming upstream. We couldn't gain the traction that we were looking for in the value-add space. And I see everyone in my network, they're buying a property here, buying a property there, and you start getting this negative self-talk and this negative feeling, and it really messes with your mindset a little bit, especially when you want it so bad. So, we have the conversation, we said, hey, look, five years from now, if we wanna get in ground-up development, the idea was to do some value add syndication, gain some experience and then transition over. And when we talk about it or like, okay, well, if we went that route five years from now, we're still gonna need to learn ground-up development. Like yes, we'll have some experience, but at that point, our investors are gonna know us as value-add investors. So, following this conversation, we transitioned to ground-up development.

It might be like, why the change? What's going on? And we understood that there is gonna be a learning curve. So, after talking through that and thinking about it, we're like, okay, well, what if we just started today? Because whether we start today or in five years, there's gonna be a learning curve. But if we started today and development is ultimately where we wanna be, are we gonna be much further ahead in development five years from now if we start today rather than waiting? We felt like the answer to that was yes. So we just pivoted a few degrees and still with that multifamily, and within a few weeks, we found this project that had been sitting on the market for over a year. Then it was a smaller deal, it was eight units but next to it, there was an acre of land that was already zoned on multifamily and we're like, this is it. This is the perfect entry point to get in because these eight units will cover the cost of the land. We're new, so the risk of getting in seemed very low to us. Its worst-case scenario is we just cash flow eight units and we turn around and sell it in a year, whatever the case may be.

So I called up the agent and we went down there a couple of days later to just look the exterior of the property, and we looked at this one-acre land and figured out how many units we could build on it. As we were in there talking, he casually mentioned that the same seller owned two and a half acres of commercial land adjacent to this property just on the other side of it. And this commercial property was right on the main highway, cutting through the smaller town in Arizona. So a lot of exposure, a lot of traffic, so I asked, well, is the seller interested in selling that as well 'cause it wasn't listed or marketed. And he's like, I think he would be. So, we negotiated a deal and we bought the eight units and in total, about three and a half acres. So, what we decided, was that commercial lot, we didn't want to re-zone it. It was in a good spot and we had one of our partners in self-storage. So, we're like, this is a perfect self-storage property. So, we split it in two. We started going after the multifamily development experience and then also the self-storage development experience. And that's kind of how we got into our first deal.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being a loyal listener of 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 to go to LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day!

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