EPISODE 1466

[INTRODUCTION]

Andrew Brewer (AB): I always make sure that I'm not going against the city, I don't want to get into like, you know, a big legal fight with the city over what I can and can't do. I want things to be smooth and amicable. So I'll go in and I'll just straight up ask. And you know, I'll say, 'I got this piece of land. This is my business plan and what I want to do on that. Is that something that you all would like to see?

Whitney Swell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. We're back again today with our guest, Andrew Brewer. He's got many years and lots of experience in ground-up development. We're gonna dive into different aspects of this asset class, whether you are active or passive. I know you're going to learn a lot today.
Don't forget to like and subscribe to the show or leave a rating, or written review, we will be forever grateful.

[INTERVIEW]

WS: Andrew, welcome back to the show. Appreciate the listeners being with us again, today as well. I hope you will go back and listen to the last couple of segments with Andrew as well as just how he got into the development space and also diving into what is ground-up and even dived into more about entitlements. And that process, which I think is so helpful, whether you're active or passive, you need to know about some of those things before you get started with it, like you said, whether you're active or passive. But we're gonna dive even more into things today. That I feel like, again, whether you're active or passive, you need to be aware of. Andrew, welcome, again.

AB: Thanks for having me back.

WS: Let's dive in Andrew to, you know, some of the risks. I mean, obviously, commercial real estate, but ground-up development, or how we mitigate the risk as much as possible. That's what investors want to know. And that's what sponsors want to know, no matter what type of investment structure you have, we need to know how to do the best to mitigate those risks. So, why don't we dive into some of the risks that you're familiar with, and maybe some that you know, that a lot of people are not familiar with that would help us to better understand and how to move forward in investing active or passive?

AB: Yeah, definitely, I will say that the number one risks that you're going to encounter in any kind of development is the government and your neighbors. Basically, other people are your biggest risk. Not all development projects require approval from neighbors, but some do, you know.

So if you're doing a project that's going to require you to go to city council and do a vote there, where you've got city council members that represent, you know, all your neighbors, you know, those neighbors may call their city council person who probably lives in the same neighborhood, and it's probably friends with them and tell them, well, we don't want this development there. And so, you know, vote against it, you know, and that can blow your deal up, you could do everything right, you know, the deal could be awesome. And that could just blow up. That is one of the massive risks.

Typically, you're dealing with that less when you're dealing with, you know, commercial properties and office buildings and stuff like that, because generally you're developing in, you know, not really like someone's neighborhood. Really, you kind of hit those, those city council votes, when you're dealing with, you know, residential stuff, you know, maybe, you know, you're trying to subdivide, you know, 10 acres, or something that's adjoining, you know, a neighborhood, you know, into smaller houses, or, God forbid, you're trying to put, you know, an apartment building in the middle of a very wealthy neighborhood or something like that, you know, that. So that's a huge risk.

And then also, just the government, you know, they're, you know, whatever the governing municipality is, they might say no, and, you know, for me, the best way I found to mitigate that is simply go talk to them, and see what their opinion is. I found that if you, if you go down to the city, talk to the city manager, the city planner, fire marshal, city utility director, you know, all of those people that are going to be making the decisions about whether your project goes through or not, go talk to them, see who they are, as people see what they want to see what their vision for the city is, because just like any other politician. You know, while somebody may have voted them into office, you know, and they may have said, they're going to do a certain thing, ultimately, they're going to try to shape the city, how they want it to be, you know, whether or not that is what everybody in the city wants or not. I mean, maybe it is, maybe what they're doing is what the city wants, or maybe it's not, but they you know, they'll just go against that if they want.

Understanding the city's vision for the future with the current staffing place is another big thing. You know, you can find a lot of stuff like that by looking at a city's future land use plan, which is usually available online on the city website. And that'll give you an idea for, you know, the city's growth, how they want the city to develop over time. You know, if you're dealing with a smaller city that's got you know, you know, a few 1000 people or you know, 20 or 30,000 people or something, generally on the future land use plan, they'll be showing, you know, like, hey, you know, this area over here we want to be like, you know, commercial hub where we're going to put like commercial buildings, this area over here. We want to be, you know, high density residential, this area, we want to be a transition zone between residential and commercial, you know, we want the city center to be over here, we want this to be farmland, we want industrial over here. And they'll kind of outline that. And that'll give you a really good idea of, you know, what they want to see.

So as a developer, if you, you know, get a lien on some piece of land, you think like, "Oh, this would be great to put up an office building," but you go and look at the future land use planning, it says that, well, that area, they want it to be a heavy industrial, or they want that to be, you know, apartment buildings, you know, you might think, "Oh, well, that's going to be a harder project to get through now, because the city is not saying that they want this here."

Whereas if you say, like, "Oh, I want to put an apartment building here, and you look on the land use plan, it says, you know, we want high density residential, you know, rental, as you say, "Okay, perfect, this will probably be a little bit easier."

When you go to talk to the city about that. And I think as long as you are conforming to the city's plan that they already have, that lessens the risk a whole lot, you know, so whenever I'm doing a deal, you know, I just I go to the city, I talk to people, developing relationships with the city is great also, but ultimately probably isn't going to change the future land use plan just by you knowing someone. Yeah. So I always make sure that I'm not going against the city, I don't want to get into like, you know, a big legal fight with the city over what I can and can't do. I want things to be smooth and amicable. So I'll go in and I'll just straight up ask. And you know, I'll say, 'I got this piece of land. This is my business plan and what I want to do on that. Is that something that you all would like to see?'

WS: Would you own the land in though or would you just have it under contract? Or would you even have it under contract?

AB: I was under contract.

WS: Okay. And your contract is dependent upon you getting the entitlements completed and some of those things. Is that accurate?

AB: No, with the market the way it is, like sellers don't go for that, like, they're not gonna go into a contract where you're gonna say, like, "I'm only going to perform if X, Y and Z." And this is why I get along feasibility period, because it allows me to go in and do everything I need to do and still back out. But I also know that at the end of my feasibility period, my earnest money is going hard. So I have to find out my answers in that period of time. And that can be anywhere from three to six months, okay. Or even longer, maybe depending, I don't think I've had a project that had longer than six months on it.

But yeah, you know, I go to the city. And you know, if, if I get any inclination that the city is not going to be on board with the project, I'll just drop it then and there and go find another project. Like I don't need to go fight with the city or trying to force a deal through us. There's too much risk. Yeah, same way, I want to go find projects where the city is excited about the project, they want to see it. They say, "Yeah, this is a great idea. We really need this product type right here right now. Like, we're going to help you out on that." Like, that's what I want to hear if I don't have that enthusiastic yes, it is too much risk for me.

WS: Yeah. What about many other strategies just to mitigate the risk, you know, I mean, for your investors, as you are pursuing ground-up, or just ensure they're protected. Anything else that maybe we haven't talked about?

AB: I follow my, you know, my list of kind of internal questions that I have, you know, I'm always, you know, I run a series of, you know, third party reports, you know, environmental reports, geotechnical reports, you know, if there are specialty reports that I have to run, you know, waters, the US delineation reports, wetland reports, you know, endangered species reports, anything like that, that I have to run, I'll do that. So that I have all of the answers, that really is the only way that I have found to mitigate risks.

I mean, unfortunately, development is an expensive game to play. It's, you know, it's not cheap, you know, it's not like, you know, flipping a house or, you know, some of these deals where you see where it's like, oh, you know, I did it with no money down out of pocket by just, you know, negotiating a seller carry back thing, that doesn't work the same way, in development, if you're doing it, right, because you do have to go out, you have to spend money on third party reports, you do have to spend money on you know, an engineer, if you don't have someone on your staff to figure out some of these questions, you know, and that could be anywhere from five grand to over 100,000. And I've done deals, I think, but I think the lowest deal I had was about 15 grand and I've had deals that were over 100,000 and, you know, that's risk that I take on, that's just what it is like, I don't feel comfortable, you know, half asking the deal and saying like, yeah, that's gonna be fine. Like, you know, no, it's gonna be fine.

If you're dealing with other people's money or you're expecting to get other people's money to fund the deal, you got to be sure. I treat other people's money the way I would want other people to treat my money, which is you know, with the highest degree of respect. And you know, I do my research beforehand. And if that means that I end up losing money, I would rather lose my own money up front, because I know that I can go out and find another deal that is going to work. Well, you know, and my gains will refer for the deals that I have to draw. You know, that's, that's just my opinion. I know people that don't always do all that research. But I think that would be necessary.

WS: -- which leads to more questions you're an investor should ask. Right?

AB: Exactly.

WS: But even on that note, what about structuring these deals, I know, you know, especially developing, you have to be willing to be flexible in the way deals are structured, or there's so many different ways and types of ways to structure a deal. But maybe you could elaborate on some of the structures you've used, or ways that those have maybe helped mitigate risk, or maybe even types of structures that may not help mitigate risks, but at least the ones that you'd like to use are found to be successful?

AB: Yeah, definitely. Like you said, there are, you know, an endless number of ways to structure deals. And, you know, really, it's about what everyone can agree to, sometimes, that's not always what I would think people would agree to. You know, in my personal opinion, the best deal structure, you know, when you're dealing with a passive and when we're dealing with a large number, or just a few passive investors, the best deal structure is one where the sponsors' and the investors' goals are aligned. And where the LPs or limited partners, capital is protected, which is really easy to say, but you know, not everybody does that. Everybody always says, "Oh, I've structured the deal to protect my LPS capital," that's not always true. One of the main things that I do there is I try to tie all of my compensation in the deal to performance metrics. So a lot of the deals I do, I won't take any fees, or my fees will be very,

very minimal, you know. So I'm typically not charging a development fee, not really charging an acquisition fee. I'm not charging, you know, management fees throughout the course of the deal, I'll structure it so that all of my compensation is in the form of a profit split on the back end.

Typically, I'll give my investors a preferred return, and a full return of their capital before that profit split. And I'm doing that because, you know, I'm trying to convey to my investor, like, look, you're trusting me with your money, and you have a good reason to so much so that I'm willing to do this work for free, up until a certain point, because I'm confident in my ability to execute the deal, I've done my research, I know that I have a good deal. And if this deal doesn't work out, I want to make sure that you're not losing, because at the end of the day, you're a passive investor, you don't know what I know, you know. I could hide a bunch of stuff in the deal, and you would never know about it. I'm not going to do that. I'm gonna put my money where my mouth is, you're gonna get your preferred return and all of your money back before I see a dime.

I try to do that because I think a lot of deals where sponsors are collecting a lot of fees, those fees are coming before the LPs are getting their money back, you know, so I'm, you know, I'm sure a lot of people that are listening, have seen value-add deals where the sponsor will take an acquisition fee at closing, and they'll take an asset management fee, maybe they're the property manager, also, and they're taking a property management fee. Well, all of that gets paid before you as an investor, you get your split of the cash flow. And before you get your capital back, so the deal could lose money, you as the LP could lose money on the deal. And the sponsor still walked away with something in their pocket, which, you know, to me, and I'm not gonna say that, you know, people have bad intentions there because they don't.

But at the end of the day, if I was an LP, and a deal lost money that I was in, I wouldn't be like, I don't feel too good about the fact that I just lost money. But this guy gained, like, that doesn't seem right to me. So I try to structure deals in such a way that anything that I'm doing is performance based. I do do deals where I take fees, you know, I'm not gonna say that I never do that. But in that I always try to tie those fees to performance metrics, as well.

So when I build out my project schedules, you know, I'll say, "Hey, my development fee only comes at these specific intervals. It only happens when I've completed this amount of work, you know, and then I will be allowed to take a tranche of the fee." If I don't get that work done.

For whatever reason, I don't get the fee. You know, so I'm always trying to incentivize myself and my team, not that I need the incentive to perform ethically but you know, so that the, the investor can see like, "Okay, if this guy doesn't do what he says that he's going to do, or if the deal doesn't work out the way that he's projected, at least, bacon rest, knowing I don't walk away with a bunch of money in my pocket."

And there's risk in every deal. Like, you know, there's risk, no matter what even putting your money in a bank, you know, that's FDIC insured, there's a risk that. You know, the US could lose global reserve currency status, that we can get bombed by some other country, like, you know, whatever could happen, you know, and you could still lose that money. The risk is very low, but it's still there.

And on real estate deals, there is a lot more risk. And I have not had a deal that, you know, went completely sour, where I lost a bunch of investors money, but it's always a possibility, like, it's always a possibility, we always have to be prepared for that. And in the event that that were to happen, I want to be able to go to my investors and say, you know, hey, things didn't work out the way I projected they would, I did everything that I could to, you know, get the deal across the finish line.

But even though there was, you know, the returns didn't work out the way we thought they worried if you maybe lost a little bit of money, God forbid, still, I got you back as much as I could. I didn't profit on this. Because, you know, for whatever reason, and I would hope that LPS could look at that attitude and say, "Okay, the deal didn't work out, like we thought, but this guy performed, as well as he could have in the circumstance." And hopefully, understand that this was hopefully just a one-off thing. And, you know, still, trust me for other deals maybe going forward?

WS: Of course. I like how you're talking about the fees being structured documents at specific times. And on the operator side here, I will say as well, you know, I mean, I'm a passive investor as well, and an operator, it's a hey, that costs a lot to get these deals done, right. I mean, there's a lot of expense, you know, it's a lot to expect as an operator to fund all of that out of pocket, you know, the whole time without being paid anything. But I do like seeing things like that, you know, it's like, well, I expect operator to be paid. But I like, "Hey, with these, like, milestones after these things have happened after we've performed, I feel like that does provide some risk mitigation to the investors." Would you say that that's pretty common across the development industry? Or would you say that not so much?

AB: It's not common across the development industry. I don't know, you know, really, anyone else that's doing it that way. I will say, I think that's made it a lot harder for investors to accept that, which has been surprising to me, you know, I get a lot more pushback on structures like that, which is interesting to me, in some I've hit, you know, no pushback, and people like it. But some people, you know, get kind of stuck in the kind of standard metric of LIGO, it's going to be, you know, like a 75-25 split with all of these fees. And, you know, seeing something that's, you know, radically different than that is a little tough for some people to understand.

I will say the way I'm structuring deals with with no fees is a lot, it's a lot different in development. Because you know, when you're dealing with development, or you know, new construction, or whatever, there's no cash flow that's coming in from the property.

And so it's like, nobody's really getting paid at that point. So it's a lot easier for me to say like, "Okay, well, it's not like my investors are getting great cash flow every month, and I'm getting nothing," it's like nobody's getting anything every month, like everybody in the deal, myself included, is going to make money when we sell the deal, or, you know, when the deal is built in stabilize.

Value-add deals, it's a lot different, because you know, you do have recurring cash flow that comes in every month. And I think that those, you know, fee deals are a little more appropriate for the value add space, because you have this kind of like recurring thing, it's like, it's not like, I mean, if your multifamily property doesn't make any money for six months, clearly, something's very wrong.

Whereas if you're dealing with a development deal, that could take two or three years, you may not know something is wrong, like a year into the deal. sponsor, just, you know, hide everything and say, “Oh, yeah, everything's going great, everything's fine." And then suddenly, you know, it's, you know, whatever you're supposed to exit at month 24. And you as a passive investor, find out that, "Oh, my god, there was this huge problem this whole time," as the sponsor has been taking money the whole time with no, you know, performance metric tied to that there's just such a risk for fraud there, that, you know, it's like, the investor doesn't know. And that, you know, so that's why I like to be like, "Look, you know, I'm gonna be completely transparent here. And you know, if the deal doesn't make money a sale when we're supposed to make our money, well, like, I haven't made any money in the meantime, and I'm not going to make my money until you get yours back."

WS: Now, that makes a lot of sense. I appreciate your you exposing really the listeners and I to that type of process for at least thinking. So it's like even investing in a development deal. I don't know. It's just something to lease ask the sponsor about or have you thought about maybe doing it this way? I think that's helpful just to know we are always trying to align with our interests with investors as much as possible. Right? And so that's one of that's, I think, attractive, you know, in a big way. So at least something to consider it as we're doing some developments as well.

So all right, Andrew, we're gonna move to a few final questions. And I'd love to get your opinion on some of the things. But, you know, I'd love to know, especially in development, your thoughts around what's happening right now, or any expectations you have over the next six to 12 months, or maybe how that is changing how you're looking at deals or how you're moving forward or buying or not buying or those things?

AB: I mean, we're, I guess, in the, you know, the definition of a recession right now, although I think some areas are feeling it more than others, you know, I'm in I'm in Austin, Texas. And you know, as a lot of people know, Texas, and especially Austin have been seeing some pretty explosive growth over the last few years, the entire Texas triangle from Dallas, Fort Worth to Houston and then to San Antonio Austin, I think that, you know, growth in you know, in these markets specifically, is going to slow. But I don't think that we're gonna see a dramatic reversal.

And, you know, property values or anything like that, or, you know, population trends, there are so many people moving to, you know, to Texas, and especially to Austin, there are so many, you know, companies, especially, you know, big tech companies like Google and Facebook, and Tesla and Samsung, and all these companies that are moving here with high paying jobs, I don't see that trend reversing, you know, because it's not like, in this, you know, recession that, you know, California, New York has suddenly gotten affordable for the majority of Americans.

So people are still going to continue to come here. And I think that's going to provide a boost to the local economy, I think that Texas is going to fare a bit better than some other areas of the country in a recessionary environment, at least in this recessionary environment. You know, I could obviously change in 10 to 15 years, but I see strong growth ahead in the short term.

And in the long term. I mean, we've seen, you know, 20 to 40% appreciation here in Austin, that's not sustainable, that's not going to continue anyone that thinks that it is and anyone that tries to pitch you a deal, saying that their property is gonna go up 20% A year, don't do it, it's not going to happen. I think that, you know, if anything, we'll see a very slight dip in prices, or that prices will just stay flat, which I think is more realistic, you know, maybe we'll see, you know, a couple points going up, or a couple points down.

But I think it'll remain kind of around the level, it's at, at least until we see some stabilization and inflation and interest rates. And once that happens, I think we'll resume, you know, the upward March, again, it's not going to be 20 to 40% a year, it'll probably be at a more standard, you know, three to 7%, you know, maybe 10% In some areas per year. And I think that now's a great time to get into development, because development is a multi year process that doesn't necessarily matter around, you know, in terms of recessions, you know, the way I looked at it is think historically, from peak to trough and a recession is about the average is about 18 months.

So you know, if our recession started in January, you know, then we're about nine months, and we've got about nine months ago. And so we hit you know, the bottom, and this, this is just, you know, this isn't, I'm not thinking like, Yeah, we're gonna hit it in nine months, I'm just looking at historical patterns, if you're doing 18 to a 36-month development project, well, ideally, that whole project is funded, you know, when you close the land, you know, projects that I'm doing, I raise all the money upfront, you know, we've got all of our interest carry, we've got all of our costs accounted for, we don't need any money for the next 24 months.
So if you're doing all of that work during a recession, while it's not like you're trying to like get new tenants in and you know, all this kind of stuff, new financing, in that period of time, you're just like moving along your checklist. And ideally, by the time you're done, then the market is starting to go up again, and you can kind of ride that wave up. So that's why I like development right now. Because if you've got a solid deal, we've got the land at a good basis, you've got a good deal with a product type that needs to be going in something like, you know, housing at a good price, apartments, things like that.

I mean, those are things that people are going to continue to need, whether there's a recession or not. And it's certainly something that Central Texas needs, you know, we've got a pretty severe housing crisis. So putting in product to solve that is going to be a solid play.

WS: It's growing like wildfire there, it's massive growth. It's incredible to watch that. Andrew, what's your best source for meeting new investors right now?

AB: I guess referrals. You know, I've got referrals and networking. I'm actually you know, fairly busy so I don't network as much as I probably should. But I make good connections just through people that I've worked with before, you know, I've kind of built up a network and people will, you know, refer me to other people in their network that you know, are doing something similar that are looking for deals like mine, you know, the investors that that I've worked with know that, you know, I behave ethically, I put my investors first.

And so they feel pretty comfortable introducing me to other people in their network, and maybe they've done a deal with me and said, hey, you know, I did this deal with this guy, you know, he did a great job, you know, you have a real good attention to detail. And, you know, really, just as research, the project did very well, now, and so they, they feel good, you know, kind of put my name out there, I think that's where, you know, a lot of my connections come from it.

WS: What are the most important metrics that you track right now, that could be anything personal professionally, in the business? Not? What are a couple of those things for you?

AB: I track, you know, expenses pretty heavily in my, in my deals, and in my personal life, I like to, you know, and in other businesses I own too, you know, I'm always trying to look at what is my gross revenue as it would be, which I guess for a property would be the price you're selling at and, you know, what, what is it going to cost me to get there? And then, you know, what's the, you know, the profit on that? And how does that get split between investors and partners, I pay pretty close attention to investor return metrics also.

You know, I think it's very important to give investors an appropriate level of reward for the level of risk they're taking on. So I try to be very, very cognizant of that, make sure that, you know, I'm putting a project out there that has returns that are competitive with the market, and that are appropriate for that specific deal. Not every investor is going to understand the nuances there. But, that's always what I'm looking for, is I want to make sure that investors are getting a good return for what they're doing. I'm not trying to like lowball investors.

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

AB: I try to maintain you know, a pretty regular sleep schedule and just basic schedule throughout. I try to go to bed around the same time, wake up around the same time, have a morning routine, which is, you know, I'm not getting up at four in the morning and like, you know, reading self help books or anything like that. But, I try to get up at the same time, exercise, you know, make my wife coffee, make my breakfast, check my email, and, you know, that kind of helps keep me centered, and focused. And I find, it just helps my brain and my body turn on and turn off, like at the right time.

I'm less tired. I try to like, for instance, get up at six o'clock and try to start my day by eight. And in having a routine, my brain and body kind of knows, like, oh, it's eight o'clock, it's time to turn on, it's time to go to work. And it's ready for that. I'm not waking up at a different time. And, I'm still groggy and trying to get started, just kind of helps there. You know, same thing, I go to the gym, you know, I go to the gym kind of on regular days, and my body knows, like, oh, like it's Wednesday, it's time to do this work. Like, let's go and --

WS: The important thing that you said there in the mornings was make your wife coffee.

AB: That's a big thing. And she goes, "I noticed when you don't make the coffee."

WS: How do you like to give back?

AB: I like to give back through helping people. I'm a big believer kind of in the adage of, you know, teach a man to fish and you feed him for his life. So, I always try to help people more than like, just give them money. But I don't feel that just like giving people money really solves problems. I mean, any lottery winner can like kind of attest to that, like, just having a bunch of money doesn't solve your problems if you don't know how to you know, manage your life.

So, if I'll see people asking for help, or you know, typically what I'll say is like, "Well, I'm not gonna give you money, but you know, I own this business, if you want a job, why don't you come by and I'll see if you know we can we can help you out there and get you in a position where you can help yourself." I think that's really important. That's always what I wanted from people in life. I don't really just want money I want you know, opportunity so that I can do it for myself. So that's, that's how I try to give back to people whether it's, you know, advice, whether it's a job, that's my preferred method of giving back.

WS: Yeah. No, I like that. Teach man to fish right. And not only help feed is him he feed his whole household, hopefully for generations. Right. So Andrew, grateful to have had this time with you get to know you and just dive into development and different aspects of development. I think you've helped back active and passive investors in many ways to help think through that next development that they're looking at investing in and many questions and things that they need to know to ask about, so grateful for that, tell them again how they can get in touch with you and learn more about you.

AB: People can learn more about me by going to my website, which is www.irongallinvestments.com. That's i-r-o-n-g-a-l-l investments.com. You can get in touch with me directly by emailing me at andrew@irongallinvestments.com. You can also look me up on LinkedIn and Facebook, if you'd like to connect that way, you know, and if anyone out there is you know, looking at development deals, wants some advice, wants some help evaluating a deal or anything, you know, feel free to get in touch with me.

I'd be happy to walk you through some certain things that you should look for, and see if I can find some red flags. You know, hopefully, we can make a connection there. And, I'm always looking to network with investors, Capital Partners, and deal partners. I'm always down to have a conversation with somebody and see if there's a way to work together or just become friends. I've got people that I don't work with but I'm good friends with and always happy to make friends.

[END OF INTERVIEW]

[OUTRO]

WS: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about The Real Estate

Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

[END]