

EPISODE 1535

[INTRODUCTION]

Steven Gesis (GS): A forced appreciation – so we're gonna build the value, we're going to grab a property that's underperforming, we're going to do a big renovation, we're going to modernize it, we're going to do new areas like common areas, lighting, suites, all that stuff. And we're gonna raise the rents through this forced appreciation.

John McCallen (JM): Welcome back to The Real Estate Syndication Show with Whitney Sewell. Wait a second, it's not Whitney on the phone today or on the Zoom or on the podcast. I always say that three ways. It's actually Josh McCallen, and I'm so honored to be a guest host for our great friend Whitney Sewell. We had him on our big podcast many, many times. And he and I just get along great. So I said, please let me add value to your community because I'm part of it.

[INTERVIEW]

So today, Steven Gesis is with us, because he has been laying down this whole series of masterclasses on heavy value-add. And today, he's quaking in his boots. He's scared to death to be on the show today. Steven, welcome back to the big show.

SG: Thank you very much.

JM: All right, you're here. I hope you have your seatbelt on. If you're sitting in a seatbelt chair. What are the four best value-adds that you can add? And I do want you to try to show me maybe an example. So either the last deal you did, or the one you're doing now. If I was doing what you were doing, how can I learn from it, I should say? What are the best ways to transform the value? You threw out a few a couple of days ago, that were cool. But which ones? Let's rank them in order. Like, what are the best ways you're gonna heavy lift these?

SG: You really did put me on a test on this.

JM: I did. Let's go. Because what we're trying to do is create forced appreciation. You and I care about, why don't you define forced appreciation for the listeners, right? If you could. You got a lot of homework here, brother. Start by explaining what forced appreciation is, and then tell us why you choose the value-add techniques that you do, the elements.

SG: Alright, so real simple, forced appreciation -- so we're gonna build the value, we're going to grab a property that's underperforming, we're going to do a big renovation, we're going to modernize it, we're going to do new areas, like common areas, lighting, suites, all that stuff. And we're gonna raise the rents through this forced appreciation. Right? So we're gonna modernize it and do this modernization.

We're self inventing values, right? And that's something that's amazing in multifamily, because this is like, the only space you can really do it at scale in alternative investing. Because you're not really gonna know, how many cars can you force appreciation on? Even classic cars?

JM: Exactly.

SG: So that's forced appreciation. Okay. Then you said, what are the top four items for forced appreciation, right? Okay, for sure, for sure. New luxury vinyl flooring, it's gotta happen in this.

JM: I'm going to write that down. Numero Uno.

SG: Numero Uno. And here's why from every angle, right? So number one, aesthetically. Okay. Right away, you get the most modern aesthetic look, feel. Alright, that's important longevity, actual product, how it performs, okay, against unit turns, turnovers and how it smells, that's part of longevity.

Because if you think about it, if you did the carpet thing, you got all these additional add on costs, right? You got to clean the carpet. You got to replace the carpet because it wears down or somebody spilled something on or somebody tore it, or they moved their furniture twice. And that's it, it's game over, you got to really stretch it, you know, I don't know you're stretching carpet anymore. So that alone, big value-add component, I would say this is probably one of the most critical pieces. All right.

Next item, all right, which is kind of an amalgamation of a few items, right? And that's going to be all of your water sense fixtures, right? Gotta do it. That one's 101. Right? So it's not on my top list because you already should be doing it. Right? So it should already be as part of your top four. So it's not number one. A lot of people say "Oh, energy is gonna be my number one." Well, sure. I mean, but really, listen, you're gonna be doing it anyways. Right? You're gonna be putting in the low flow toilets. You're gonna be putting in the low flow shower fixture. The low flow faucet fixture. The type of fixture you choose that's on you, but you can work on that. Also that's gonna have subcategories and sub lists here. So you asked me about the top for these generalists still? Right? So this, like, we're not specialists here. Specialists, as you're

asking me within that number two category, how many subcategories do you have? And we have a few. There are a few of those top-line categories that do carry that with them. So you'd have to think about that because they're all involved as part of your overall renovation. It can be part of the look feel aesthetic purpose. All these things, you got to think about it.

So top, number one, was the LVT flooring. Number two, your watersense fixtures. And the reason we also get into that because it does dive a little bit into mechanical and a lot of times what we're doing on these forests, heavy value-add appreciation properties, you're also doing like shut off valves, right? And a lot of people forget this little line item, right? And you're like "Okay, talking about shutoff valves."

But look, a lot of times you're showing up, it's an older property, it's got a lot of work to do. And so you forget, it's like, "oh, man, I gotta go 30 bucks per unit and shut off valves. That's a lot. It could be a lot." 100 units, you know, very quickly prices climb. So you got to be cognizant, that's why I said, within a category, there could be a subcategory. So keep that in mind. Then the next thing is, right, so number three, all right, so number three, I mean, look, this one's a hands down. This is the simple simple one, you got to paint it. Paint it, right. But it's got to be the right paint. Alright, so it can't just be like, we're going to show up and paint it. So number one, you have to have a purpose. So, first purpose has to be on making that all standard. I'm not putting in a bunch of jazz here. Like we're gonna find a neutral modern caller that we could paint everything with. All right, but we're not just going to paint everything. And so that's how we're gonna paint it. Right. So that's like, we got to paint it. That's number three no matter what, but we're gonna paint it we're gonna think about okay, when they move out, am I gonna have flat walls? Am I gonna have semi-gloss? What's the easiest way? What's my easiest path here? On unit turn? And what's the? What's the burden? What is it usually what type of man I knew you were gonna ask me, ah, you know, we're still kind of battling this, this semi-gloss probably holds up the best. But it's impossible to touch up. So you got to paint corner to corner regardless what we're doing all right, but you can't beat the system, you got to paint corner to corner, man, I have to be that way. All right, every time we've tried, we've gone round and round battling this thing.

But you got to also, you know, you got to keep in mind, you got to paint your ceilings don't skimp out, you got to put a fresh coat on that thing. It's got to smell good. And you got to get it ready for that next evolution, it's next life, right. And part of that is who you're going to attract

through your marketing and who's going to walk through the door and who's going to apply and what their, I mean, all this plays, right. So this is number three is paint. And you can't again, you're not just gonna paint everything, just the same color. Now you got to do the trim work. Sorry, man, you got to paint the trim, you got to do the semi gloss, you got to put it, you got to put in the effort. Sorry, like you got to do it the right way.

Like, it's just gonna have to be that way, we're going to spend the money doing it. But we're going to do it the right way. We're going to do it one time. You know, hopefully the guy is doing it. We'll do it one time, but we're going to do it one time. All right, so that's three.

So we got number one was the LVT, number two, that was the WaterSense fixtures, number three is paint. Number four is to hit the common area. Common area flooring and lighting, whatever we're going to do bare bones, you know, got to do common area, flooring, and then flooring, we're gonna change it, we're gonna take the carpet on, we're gonna take it, we're gonna also put on the LVT. And we're going to do that for the reason this has to happen. It's got to happen, man, we operate both garden style and tower apartments.

And here's the thing, people use all sorts of products to cope with that stuff seeps into the pores does carpet of the wall. So you got to really be thought forward. Because that next evolution of after we do such a heavy value add right or you're sitting as an operator, you're doing this heavy value add, right? Like you want to preserve that. And you want to be able to maximize its value by being able to then market it and bringing the best possible candidates through that door. And to be able to capture those best candidates after your marketing team did such a great job. All those things have to play. And that's the top four.

JM: Yep, I'm gonna give you credit, because I would have thought you would have slipped in there some stone tops, or the kitchen cabinetry.

SG: We're doing that man that's already stuck, paint in there.

JM: I mean, I'm thinking you're gonna throw paint in there.

SG: But you gotta do it the right way.

JM: Okay. Okay. So, I'm going to ask you for the future, because you threw them out in an earlier episode we did. You said the future value-add, maybe you're already doing the future. And it revolves around technology. And I want to ask you, let's do another ranking of the tech options that you want us to do. I love these first for the mission critical value ads. But what about you said earlier? First of all, I got asked the question LVT flooring, I like it, you like it. Very

cool stuff. noise transmission doesn't it increase your problems for noise transmission between units and how do you solve that I should just ask.

SG: So we actually use a really nice high-grade product. So we're not just putting in an inexpensive, the product that we're putting in, you're gonna walk into Home Depot, that thing's over \$3 a foot. So we're putting in a nice high-grade product that also has a built in foam pad. And so we're not getting this noise transmission issue really throughout. But in South Florida to this point, so we have some multifamily that we're doing out of South Florida, right in South Beach, few blocks off the water, love that location. And so, there's a soundproofing code that you have to abide by. So you got to put in special soundproofing, anything over one floor, second floor and above, you got to put an additional layer of soundproofing.

JM: What does that typically look like? What is that soundproofing?

SG: It's just another underlayment product.

JM: So it's like on the floor?

SG: it's in addition to that LVT in the built in pack, you have a whole another layer that's specific. It's got to meet a specific, I think it's got to be over like 60 ASTC out in South Florida. So there's a particular code that you have to abide by.

JM: I've kept you too long on that one because that's just me getting nitty gritty, I always worried about. So let's jump into the future of value-add elements that you threw out earlier. I'm gonna see if you remember some of the great ones from another show. But, go ahead and tell me what are the future ones that you think or current ones that are going to really transform value, they're going to change the way you can charge and they're gonna force appreciation. Let's go top one futuristic value-add that we need?

SG: This one is actually a Bluetooth speaker.

JM: What? What you're talking about? Bluetooth speaker?

SG: People love the light, built in light with Bluetooth speaker. This thing is the ultimate sales piece, because you hit the light. And it goes do-do as soon as you walk in, and it connects to your phone, and that's it, you are connected. That's instant in our units.

JM: Whoa, what are we talking about investment? What does that cost you?

SG: I don't know, maybe 30, 50 bucks per unit.

JM: But we're talking about a speaker that's sitting in the ceiling. But where's the speaker?

SG: It's in the hallway light. It's integrating the light, in the light fixture. It's got a little Bluetooth speaker integrated in the light.

JM: It is in the hallway of the corridor, the common area?

SG: In your unit.

JM: You walk into your unit? You put your keys down, you turn the light on, and your phone jumps through to the speaker?

SG: Yeah. And then you could say and then you're connected asleep to the Alexa. You can say Alexa, you know, we have an app that we're rolling out where you're gonna say "Alexa, can you put in a scheduled maintenance order with Smartland and it will just send it to our at folio database, you know.

JM: Good job. That surprised me. Okay, okay, I didn't see that one coming in. Number two?

SG: Number two is definitely the USB outlets. No doubt about it.

JM: So literally just take the outlet out and put the one in that has those extra little Jack rooskies on the side.

SG: Yeah, but it's so much value because you know you're in your bedroom or in your living room, your friends over and everybody's always looking for that darn --

JM: Dongle thing they call it.

SG: You got your cable but though square you know.

JM: I'm gonna throw this one What about USC or USB C like that little or one that all my Apple stuff.

SG: Now, that's just our next evolution of more modern --

JM: Good lord. Okay, so okay, fine. That's a cute little one. Got it. What else? You can charge more for that? Maybe you could, maybe you could. Perceive value, I get it.

SG: So you got to look at it as a collective whole. Well, we're gonna dismantle the package. And we're going to offer it. This is a product line. So it's an ala carte service, you'll be able to move in and you can rent your Smart TV.

JM: Let's talk about that. So Smart TV, you haven't said that one yet. That's pretty cool. But that implies Wi Fi in the building, did we skip over that?

SG: What we're already do, I mean, I suppose but we already do that as part of our regular --

JM: No auto upcharge fee? I don't pay anything for that?

SG: Well, that's extra that's separate. So you will pay, so as a resident you'll buy directly from Smartland rather than AT&T.

JM: Okay, now there see you buried the lead. Therein lies a really cool thing. So am I paying \$1,400 for the room, the unit, and then I'm paying a technology pack?

SG: Yeah, so your technology pack will include the internet, we have three internet packages. \$29.95 is three speeds that you'll buy. So we have, you know, up to the premium speed at \$49.95 a month. So what we do is we'll go in, and we'll actually purchase the wholesale line directly from the local provider.

JM: Sure.

SG: And then just like how you arrive at a hotel, you'll get your own individual pen. And so, as long as you're paying your monthly due as you would be to AT&T rather than us being status quo and taking a rebate from AT&T, we're just selling it, you know, we have a pretty big captive audience. We have 100 units plus typical assets. So in this case, rather than getting a few 100 bucks a month off of your rebate, we're able to just sell them directly to the residents.

JM: What are we paying? I'm Billy Bob and I just --

SG: Anything between \$29.95 to \$44.95.

JM: So that's it, and I get, I get all those other fancy things.

SG: Oh, so that's just for the internet. And then you'll have an ability to now, so before, you know, a few quarters ago, you're getting already all those smart things in your unit, the Alexa, the Bluetooth speaker, the USB outlets, that was just already included as part of your market rate rent. That was just what we did.

Now, you will be able to upgrade and let's say you want to 55 or 65 inch TV. Oh, it's gonna be another 29 bucks a month or 19 bucks a month, whatever it is, and then you could add to that a smart coffeemaker that's going to be nine bucks a month and you're gonna have Smart microwave, that's 90 bucks a month, and you can add a smart, you know, so we have a bunch of little smart tech.

JM: It actually works. See the TV, you already got me a little --

SG: You can use it every day.

JM: I love this. So talk to me about this TV idea. So how many people, first of all, we're going to do, let's go back to the Wi-Fi payment, how many of the 100 rooms are going to, on average pay you for the middle package on that or any package? Everybody?

SG: So it's primarily a rolls out median, is in the middle of the tier package.

JM: And then of that 50% of those will buy it?

SG: Yeah, so the absorption rates right around like 40%. And then we have a dedicated staffer that works on you know, doing an upsell and selling the product to the residents.

JM: Because otherwise they'll just use their cellular data is what you're saying?

SG: Yeah, right now our absorption has been increasing because really what we learned, we were doing a bunch of surveys internally, it's part of the sales process. So, as long as our sales team is better educated internally, we're seeing a much quicker absorption rate.

JM: I'm very impressed with you, buddy. Okay, and these things you add to the valuation of the building, that's the thing people might need to remember who are listening here. So I imagine, okay, let's get down to EBITA. How much of the \$49 per month in Wi Fi is net profit to you of that transaction?

SG: Yeah, it's a very high margin. I mean, it's --

JM: Wow, okay. It's really nice.

SG: What's fascinating actually, is we did a small study, so that breakwater we talked about in a different episode, the tower asset that we cycle on. So that's where we launched that initial idea at where we beta tested it. And so we did that beta testing there costs about \$60-65,000 in equipment. And then the back-end value with the actual absorption that built into the noi, that's \$60,000, our investment was worth rally \$350 or \$400,000. So in actual value towards the NOI.

And then we do other cool stuff. So you asked me the other top tech thing that we do in the buildings is our Payless. Pay By Phone laundry systems.

JM:Ooh, wow.

SG: Yeah, so you just scan a QR code, you have the app on your phone. So you load the money right into your phone, the laundry service machines extra do not need to be connected, they're connected through the cell signaling on your phone. So they're activated when you scan the QR code. And so you have to have a mobile phone device. But so what we've done is we've been since we have the tower property, larger properties, 100 plus decent size pool of population, we've been removing the laundry management companies out of the buildings, and we're putting our own Pay By Phone laundry services. And we're increasing laundry revenues, almost 10x per resident towards the bottom line.

And so the equipment's actually fairly inexpensive. You'd be surprised but the payback on it is absolutely huge. So those are some of the other cool techy things that we do just as a very cool status quo.

JM: Very, very cool. Well, you know, it's been fun getting to know the deep dive with you, Steve. Anything you wanted to share with the audience before we let you go?

SG: Now, if you'd like to visit us, you know, visit us at smartland.com We're really accessible. You can email me, text me directly, or visit us at our office, either out of Miami or out of our Cleveland location. You know, we love entertaining folks and showing them what we do. We're really proud of what we've done. And so, welcome in smartland.com. And thanks for having us.

JM: Yeah, it's a great URL, by the way. smartland.com And since we're sharing some ways to follow up, I just want to share one quick, quick thing. I think you'd love this Steven, one of our favorite parts of being part of Whitney Sewell's community is he has this foundation that we are contributors to my wife and I called the Omna Foundation and it helps families full pass-through money. He just puts the money towards helping people pay for the adoption process and giving families, children that needed a forever home.

So if anybody wants to join us, Melanie and I are at supporting the Omna Foundation. omnafoundation.org. I know it's probably close to so many of our listeners' hearts to help the children. So hey, Steven, absolutely wonderful to have you on the show. Cannot wait to follow up and where's home for you in case I have to drive over and see one of the cool properties you are --

SG: I'm out of here in Cleveland.

JM: Okay. Some of your assets are in Miami but most of you are working out of Cleveland. Thank you for that. We will talk to you again soon, brother. Have a great night.

SG: Thank you very much.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: 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.

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