Voice-over: Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment jewels of wisdom.

Dan Breslin: Hi, welcome to the REI Diamond Show. Drew, how are you doing today?

Drew Breneman: Doing well, thanks for having me. Appreciate it.

Dan: Yes, for sure. I like to location-stamp our recordings. So I am recording from Chicago today, and you are dialing in from?

Drew: Austin, Texas, although I used to live in Chicago, so I moved just two months ago. So getting used to the difference here, 'cause we probably lived two to three miles away from each other until recently.

Dan: Nice. Did our wonderful Chicago winters have anything to do with that?

Drew: Yes, I think it was really the safety and the property taxes that's what got me motivated to move. It was one thing after another, and Chicago is really a great city in a lot of aspects, like a world-class city, in line with New York or London or Paris kind of conversation. But I have a five-year-old son, and it was just exhausting just worrying about everybody's safety. And then I had someone I knew, a friend of his got kidnapped and driven around from ATM to ATM. It was just one thing after another.

Dan: Wow.

Drew: Yes, so.

Dan: All right.

Drew: But yes, it's going to be fun to visit and know the city well, and I still own a dozen plus buildings there, and all of them have had a great last couple of years where rents have really gone up. There hasn't been that much new supply, so they've performed really well. So not all negative.

Dan: Yes, I love Chicago personally for the rental apartments that I own. I think Chicago is understated in the national investment context when we talk about apartment buildings, although I don't necessarily know if that would hold true when we get into the main topic here of the size of deal that you are focusing on now. I think it probably is a good market, and I'm not super familiar with, let's say, 20 to 34 units and up in the city of Chicago. But one unique thing, we do deals in Atlanta, Chicago, Philly, around the country, Florida, a lot of other markets as well. And the one thing I found and love about the Chicago market specifically, Drew, is the abundance of two, three, and four-flat buildings. So like, I've found no other market, maybe Los Angeles or New York offers that kind of opportunity to call the entry-level investor to get the two or the three or the four-unit buildings and kind of do the house hacking.

So I've loved this city for that reason. And when I got here, moved here from Philadelphia in

2015 to Chicago, I was blown away by the high prices in areas where I came from. In Philly, we have very, very low prices comparatively. People making the same kind of money in Philadelphia can buy a much lower-cost house in the city. And then the prices were probably almost double in Chicago. So we have expensive real estate and high rents. And my investment philosophy, buying those apartment units over the past couple of years, has been to get into the expensive property and take out, I don't want to overpay, but I want to take out a higher and higher mortgage with higher and higher rents on a per-unit basis because I'm paying down that at a higher velocity over time. And then the two and a half percent increases are larger dollars. So it allowed me to play a little bit bigger than I might have been able to play in the city of Philadelphia. And there's just such an abundance of that type of inventory. Whereas in Philadelphia or a lot of other cities, Atlanta having a duplex or a triplex is like a unicorn. It's a really rare event. But I digress on that. Why don't we, for listeners, Drew, why don't you kind of do our evolution of the business model and your origination story so we can get a picture of who you are and what your business looks like?

Drew: Sounds great! And I've noticed the same thing about Chicago. If you wanted to get started in a two to four-unit, there might be more there than anywhere. I often give that advice to someone starting out, and one of the people I was talking to was in Phoenix, and he was like, "There's no three units here. What are you talking about?" So I was like, "Well, you got to figure out where they are. I'm sure there's some." But anyway, yes. So I got started really young. So started from the Milwaukee area, and both my parents were teachers. I was living in the suburbs my whole childhood, and I started a business online just buying and selling items and video games. I didn't make any huge money on any one sale, but I made five or $10 per sale, and I saved all the money.

For whatever reason, that was my natural instinct and still is, where I want to save and defer and grow something bigger. So I just started doing that immediately. And then over the course of basically a four-year period, I made between 80,000 and a $100,000 as a high schooler. And then in my freshman year of college, I saved it all. During that time, I started reading all these investing books that people probably read normally when they're in their 40s, like "Rich Dad, Poor Dad,: and "Intelligent Investor." I did a book report on "Think and Grow Rich." So I started out just how everybody does. I started investing in the stock market and stocks and mutual funds that my dad recommended and just did the usual thing.

And maybe fortunately for me, that was a down year in the market, or at least it was not a down period when I was investing. This was probably in like 2002 because I graduated high school in 2004. So it was 2002, probably 2003 summer when I was investing, and you know, the market... I wasn't making any money in it. So I would like to go back if I could and see how tight this time window was because it might have been like a two-month period where I was just like, "Yes, I don't like this. This doesn't... I have no control, and it's not going up, and there's no advantage in this thing. So let me see what else there is." And so I did. I read a bunch of books on different businesses, vending machines, and different things you could do. And I really liked what the light bulb went off for me with real estate in a book called "Investing in Real Estate" by Gary Eldred. So that's a basic book that takes you from not knowing anything about real estate to just getting into how these deals work, property management tips, and how to pick a realtor. It's very from the ground level, not an advanced book. So it was perfect for me. And the light bulb moment for me was really when they started talking about the appreciation of the properties and how that works when you also leverage it with a mortgage. They were explaining the cash flow, which I understood, and that you pay your loan down over time. Those were two ways you make money.

Then the third way was the appreciation, which everyone knows, but it's when the price goes up. But what was the light bulb moment was he had an example where you put 10% down on a duplex, and let's say that goes up 3% a year on your 10% down payment. That appreciation is a 30% return per year. So that's not even including cash flow or paying the loan down. Once you do more deals, you realize this is oversimplified. Not every property goes up 3% a year. Sometimes they go up more, sometimes they go down, sometimes there's no change in value. Sometimes you do things to the property to make it worth more or make it worth less if you make a mistake. But it's very simplified. But it made a lot of sense to me where I was like, "Hey, this is combining essentially like a business with an investment. I don't have to go create something, or the other thing that was really popular was opening these, like the subway restaurants were just exploding everywhere at that point." So like, that was something that I got one of the franchise packets about and was reading, and that seemed pretty hard compared to real estate investing, you know, running a restaurant or quick service food place, right? So, seemed pretty simple. You get a couple building with a couple units in it, rent it out, you have a signed contract for the rent, you get a call every now and then. Seemed like something I'd want to do. And so I thought, "Alright, I'm going to go to college next year at UW Madison, and when I get in my freshman year, I'll buy a place, I'll buy a duplex or three units, and then I'll live in it my sophomore year and beyond and rent out the other units and rent out the rooms in my unit to friends of mine." And so I did that. When I was 19, I bought my first deal as a freshman, bought a duplex in Madison for $220,000, put 15% down, around $30,000, I think $35ish. Then I rented out the upstairs unit and moved into one of the bedrooms in the downstairs one. I rented out the other two bedrooms to my two friends, and then I was just kind of off and going. I ended up buying three additional deals while I was in school.

So I bought four deals total in Madison, with all that initial money that I made with the internet business, and also reinvesting the profits. I bought two deals, then I sold the first one and used that money to buy the third and just kind of did it that way, just building in the snowball of sorts. But then when I graduated in 2007, I didn't know if I ever even heard of somebody getting investors, even though I had a real estate degree at this point. So yes, I graduated, but that was more about how to underwrite, how to do big deals, and how does this all work, but not so much about raising capital or running a business. But anyways, I thought the next thing I should do is I should go work at a big company and maybe learn what they're all doing.

The market looks pretty bad anyways right now, I graduated in December 2007. The first sort of CMBS auction failed, and some sort of things were going on. So, got a job at a multifamily development company up in Minnesota, and that's where I had a really fortunate, we'll call it a break career-wise. I had told this story to everyone I knew about the deals I had done. And so, sort of, I mean, in a way, I made my own luck with having done all of the stuff leading up to this. But one of my coworkers there, he was like, "Why don't we go talk to my dad? He has money that he could invest in real estate. He has one building now that his business is in. Maybe the three of us could buy some stuff together."

So, I don't like to waste time. We met with them the next day for lunch, and I had deals printed out, like, "Here's what we could do together." And they really liked the $3 million shopping center, which I was surprised by the size. I printed out stuff that was $5 million, $3 million down to $200,000 duplexes. I didn't really know what they wanted to do. And again, with my parents being teachers, it was surprising that someone was just like, "Yes, $3 million, I can put the $600,000, the million down with what we need to do on this one." But we ended up actually forming a partnership, the three of us, and we bought one of the deals that I printed out in that meeting, and we went on to buy 20 or so deals together. We're still doing deals together now. We bought just over $100 million of property together, the three of us.

And then sort of fast forward, the first six or so deals were in Minnesota. Then I relocated to the Chicago area for a different job. So I was still working full-time, even though I had bought those rentals on my own and I had formed this partnership. But I was doing all this nights and weekends and on my lunch break, I was calling brokers and lenders and getting the stuff all done still on the side. And then in 2011, I quit my job. And then we started getting into multifamily, where at that point, we were doing commercial deals, buying shopping centers that needed to be leased up or industrial deals, buying deals from developers. 'Cause there's a lot of distress in the market. So we were actually picking off some of the better deals.

And feel free to interrupt me. I can keep going. Then we started doing deals in Chicago, and really all those were value-add, but they didn't require a renovation. Necessarily some did, but most did not, where we would just buy them, the rents were below market, we'd raise the rents to market, then we'd do a cash refi with the Freddie SBL program. And on those apartment deals, we did 12 in a row of full-on average cash flow refinances of 100% or more of the equity. I think the percent's like 107% on average, pulling it out in a year or so's time. So, and just all around the city in like the better neighborhoods, Lincoln Park, Lakeview, North Center, Logan Square, Wicker Park.

Dan: And what were the sizes of those deals in those neighborhoods, Drew?

Drew: Yes, One and a half million dollars up to $6 million were the sizes we were buying. And so in Chicago, that'll get you between six units and 20 units on the north side. So, to your point, what you were making earlier when we were starting, Dan, was the price per unit is high in Chicago, so a lot of people see that as a negative. But one thing that is nice about it is you can make a lot of money, have a lot of dollars at work, and not have that much of a management burden. I bought an eight-unit for $3.25 million, and then we raised the rents to what they should be, and it appraised for $4 million. I mean, to do that in some of these other cities, you'd have to buy like a 40-unit to do that.

Dan: Raise 40 tenants' worth of rent. It's a much heavier lift than what you do.

Drew: Yes, or maybe renovate the whole property, where we didn't need to do anything. We bought it from somebody who had built it, then it went through a foreclosure, someone else bought it. They did not manage the deal aggressively, let's say from a rental rate standpoint. They made a lot of money just buying it cheaply from the lender. And then we pick it up and then we raise the rent to what they should be. We owned another [inaudible] units just like it sort of around the corner. And, as we did more deals, we kept doing the same type where it didn't need a renovation, but the rents were just below market and significantly below market. Typically, we're buying from developers that did not maximize their lease-up. They leased it up in the winter. There's a lot of seasonality in the rental market in Chicago.

Dan: Yes, there is.

Drew: So then you buy a new deal that maybe leased out in December, you can get all those leases to end in May, June, July, you potentially can raise your rents just on the timing difference, you know, 15%. There's a big discount in the winter on these really nice units. So, yes, I think on average the deals we've sold, our IRRs have been 25% on average across a five-year hold. So the deals that we did have gone really well in Chicago and in Minnesota. And then got hooked up with another family, similar deal of father and this time a son-in-law or father-in-law's son-in-law. And we did about a similar amount of deals together, about $100 million. In 2019, 2020, 2021, we bought our largest deal, or largest deal that I've done so far, at the end of 2020. So sort of peak COVID, if you will, in Chicago. Closed ended in October 2020, got started in the summer in the West Loop, a 72-unit new building built in like 2015. So new building, Class A, really nice. But we had to assume their loan, so, we bought it off-market, was sort of shopped by a local broker, but not widely. And then we just jumped on it quickly and got it at the right price, and that's been a really good deal for us. So, and then, sort of fast forward to today, I looked at all the deals we had done, and they all went well, but I wasn't really benefiting from any tailwinds or trends. You're buying in Chicago, maybe the north side is holding the population where it's flat to slightly increasing. The north side of the city, but overall the Chicago land area is losing people or flat depending on the year. Minnesota's not much better. Taxes are high there, so they're losing a lot of folks to Florida and other states that have a better tax system, let's call it. They're losing a lot of high-income residents and people that owned the business' in Minnesota. So, while fighting these headwinds, the deals went well. But why not go where there are tailwinds? Start doing deals in Arizona where the population is booming and they have a 5% per year assessed value cap on how much your taxes can change. They have tax certainty for once, which I didn't have in Chicago. And then Texas, that's obviously the number one on every list for job growth, seemingly the Dallas-Fort Worth area, Texas as a whole. So, that's what I did. I moved to Austin, and the last five deals I bought have all been in Phoenix and the surrounding suburbs.

Dan: A couple of things there I want to touch on. As I hear you talk about your career, and I think about my own, I just thought small for such a long time. We have a really sizable business and a great competitive advantage, and we are thinking big in that aspect and have been for a long time. I can credit my partners for bringing that to the table and expecting something bigger than I might have done on my own. And I had live up to, grow into and hopefully deliver enough to meet, or maybe even someday exceed their expectations I [inaudible] for my business partners. But when it came to rental properties, man, I just thought so small from the beginning. I was always afraid. My dad, part of how I got into real estate was because my dad had three rental properties. He bought them, renovated, refinanced with no training, no books, none of that, in 1987, 1988, and 1989. He ended up giving them up to one of the partners and kind of walking away as the economy shifted.

I remember being a little kid going down there to collect the rent and they're not paying. South Philly, not the South Philly that the Philadelphia listeners know today. This was when it was much, much different and challenging we'll call it. Much higher crime, no gentrification going on in this area. So anyway, I was nine or 10 years old, maybe it was early '90, '91, somewhere in there. It's me and my younger brother and one of my sisters in the van, and he's knocking on the door trying to collect the rent. He's pounding on the door, trying to collect the rent, and no one's answering. He's obviously frustrated and things were not going well with his business. The economy was faltering. He's pounding even harder. He knocked so hard on one of those little diamond glass windows, those real old diamond glass windows in the wood, knocked so hard that the window breaks and his hand gets cut on the glass.

So now that's bleeding down his arm, and now the tenant yells from the upstairs window, "Hey, what are you doing? There are kids in here." And he's like, "I'm going to collect the rent." It was just this great moment of confrontation that I saw in my childhood. Like, oh my gosh, the tenants are not going to pay the rent. So I think I attached that fear, and it took me a long time to get over that and start investing. I did not go to school for real estate like you did. I think that, I'm going to go out on a limb and assume or guess or paused it may be doing the deals and studying these things at the age of 18, 19, 20, 21, like you did, and going to school for real estate gave you a much higher level of comfort with the larger numbers that you immediately got into. 'Cause when I look at West Town, I look at Lincoln Park, and I look at two or three million for six or seven or eight units or whatever they were, and that price per unit and those rents would scare the crap out of me, especially early on when I wouldn't have been able to cover any shortfall for the very large mortgage payments that were due. So I probably would not have shown up as prepared for the conversation that you did with your friend's father and picked out a three, a five million, and a 200,000-dollar deal. I would have showed up for that meeting with, like, $90,000 single-family rentals and thought it was like the greatest thing because that would have been where my comfort level was. So the question I'll ask with that packaging is, if we had a younger person or even someone who wasn't younger, who was considering a real estate degree, how impactful is that long-term? Would you suggest taking that two, three, or four years and investing it in that space if somebody had the long-term vision to want to do the five, 10, 20 million deals that we're going to start talking about in a moment? Is that important? Would you recommend that to somebody who's considering that?

Drew: Well, I think it depends. So, I think the college is still important, so I don't want to say like everyone should not go to college. For me, a lot of the stuff that I was learning in school, I had, believe it or not, learned it on the streets, so to speak, already like six months prior. And then we're doing, like, an appraisal class, and the teacher asked me, like, "What are you seeing out there for cap rates in Madison?' 'Cause I'm the only person doing deals, she's not, none of the other kids are." So I would say it would it be worth, stopping what you're doing if you already have a career? Go get the degree? I would say probably not. But if you're already going to college, of course, like I think it's important to have something to fall back on. And college is, honestly, useful just to learn how to be an adult. So this is maybe a different answer than you're thinking, where I go with it, but it's like, I think college is still worth it at these places where it's not, like, the 10th best private school for $50,000 a year in the state, like, those schools, I think I'm worried about if the value's there, but I mean, for what I did, going to a, in-state public school, paying the in-state tuition, and then getting a real estate degree, definitely worth it. I would've wanted to get a college degree anyways. And then I think if you were going to do it as an adult, you already have a degree. The I would only think it would be worth it if you have something where it's a degree totally unrelated and you need that sort of credential to make the pivot. Where if no one's going to take you seriously 'cause you have a, I don't know, we'll pick on an art degree or something, and now you're doing deals, like yes, sure, if you get a master's degree in real estate from Madison, then maybe they look at you different. So it's more about the credential, I think, and the network, more than the... the education though.

Dan: Yes, I think, I think it probably does help, right? It's like you showed up and you were going to school for real estate, and so this kid's dad, was he also in school for real estate with you at the time?

Drew: He was a year or two younger than me, the son. So what's crazy in retrospect is, I was probably 22 years old. I seemed probably a lot older than his son, let's say. Like, I was working full-time, so I was kind of, I was like his boss, he was an intern there. So I already graduated. I'm working full-time in real estate. [inaudible] like for six months only, but it was... so I'm already full-time, kind of like this guy's boss, one of the many people that he would help as an intern. The main thing though is I already had done four deals on my own. So it wasn't like, "Hey, here's some idea I have, and if you want to put all your money in it, we could see if it works or not." Like, I already have four deals that went well. I mean, one of 'em I bought for 220 and sold for 270, and another one for 650, sold it for 780. And the idea wasn't short holds like that. And that was, like, both of those deals I just kept for, like, a year. So I had, like, a track record and a good... I heard what he wanted. He wanted cash flow and newer buildings 'cause he had a construction company. So he cared a lot about the physical condition, and still does. And so I catered to that, like, here's the deal that's full, we can buy it at a really attractive cap rate, seven-year leases on it. Verizon Wireless is one of the tenants, brand new building like that. That's what he wanted.

Dan: Nice.

Drew: And but what's crazy hearing when you're asking about, you're saying you were thinking small back then or maybe still are. To some extent, I feel like I'm still thinking small, which is funny 'cause I see people that are younger than me and they're buying, 40, $50 million deals. You know, like, "Hey, I have this, network of investors I throw it to, or I got this partnership with this family office," and I know someone who's my age, he has a $2 billion industrial portfolio in Texas. I have 200 million. And so I mean, that's more than I thought I'd ever own. But it's funny to think, like, really the levels to this where he probably, if you asked him, he's like, "I wouldn't touch something under 30 million. It's not worth everyone's time." If you asked him now, you know. Even I thought I was kind of thinking too small for a while 'cause what I did was I stayed... the deals were going well, so I really want to change it. And this is the money that the father had to invest. We just only deployed his money, reinvesting it for 10 years. From 2008 to 2019. I guess it's 11 years, pretty much. Like, that's all we were doing was just reinvesting the same money and just building that portfolio. And so most of the deals we did were always still in that two, three million dollar range. Sometimes we bought something for four or five or six, but we didn't make any big jump-ups. And then that next family that I met, I showed them like, "Hey, the best deal I see right now is a 45 million deal, 15 million down." And he was like, "Alright, like these numbers are good and I see what you've done." Like, he wasn't afraid of that and had the money, whereas really a substantial guy, the second investor that I picked up. And so that was, just again, another sort of like, whatever your mentality at that point really kind of blew it open where it's like, "Geez, this guy, you show him a 40 million dollar deal and he is like, sounds good, let's roll." You know, like that was really... And now after I bought the bigger deal with that other family, then going back to the one where I was limiting us to the two and the three and whatever million-dollar deals, since then, we bought a couple deals each for nine. Like, now we stepped up in size and I'm not afraid to show him a bigger deal now as well.

Dan: Where do you land on the spectrum of hold forever versus sell everything at that five-year deadline? 'Cause we need that cash out. Where do you land on that? Warren Buffett, right? Intelligent investor. I don't really remember all the philosophies there. It's amazing that you read that at such a young age. I got about halfway through that and didn't make it much further. But Warren Buffet says the best hold time is forever. So, like, where do you land on that spectrum, Drew?

Drew: I agree, I agree with that. Where if it was just all my own money, I would buy deals and I would only sell them if I thought that it was like just turned into a waste of time, size-wise, or I really did not like the prospects of it going forward. So let's say some of the commercial deals we've sold where it was maybe 70% full when we bought it. We finally get it up to a 100% occupancy. It worked at the numbers we had at 70%. Like the returns were fine if we never filled it all the way to a 100, but then we get it to a 100 and we're surprised we actually got it all the way leased. And we feel like the rents are high and we're like, "Man, maybe we need to think about selling this. We'll lose a tenant, it'll be kind of right back where we were with and it'll be worth less." Like, so are we sort of at, like, a peak value that we might not get back to for a long time? Which is more applicable in the commercial deals where those are really... So right now I own four shopping centers, one industrial deal, and then the rest is all apartments. So 25 or so apartment deals from there. And the apartment deals, I don't think like that, like, "Oh, it's topped out' or anything." But these commercial deals, it's kind of fickle where it's like you finally get 'em full. If you lose a tenant, you got to add a lot of money back in or it could be empty for a year. And so then every time you get it full, you really need to think about selling. But no, I think if I would hold very long term until it's a waste of time in your mind. Like, "This is too small." I recently sold a five-unit earlier this year in Chicago.

And at the time when I bought it was like I was excited about the deal. I bought it for like 1.2 million. I assumed this guy's loan I bought it directly from, actually, a lender that I knew or a deal he had bought. And so, like, at that point when I bought it, I was excited about a deal that's a million dollars and then now that seems like... it's like it's not as good of use of time if I can go ahead and buy a 20 million deal. So then, in part, I thought that they just made sense to sell, almost from, like, a time usage standpoint and then take the money and get it into the next deal that we buy the next larger one. And if you need money to buy the next deal, ideally, you're doing these deals where you're creating value. And so just like what we were doing with the Chicago deals I was talking about, where we'd buy it, then we'd refinance at all our money. Now we just have our profits left in it and we haven't paid any taxes yet in terms of capital gains or anything 'cause we didn't sell anything, we just borrowed more money, which isn't a taxable event. So I'd much rather just buy, raise the value, and refi some money out. If I need more money to deploy, if you don't need more money, then don't lever it up more, just cashflow it. But yes, I'd much more. I'd advise that if it was all my money. That's why I said I would do that 'cause sometimes we're selling and it's like a five-year hold like you're talking about because we might have a dozen investors in some of our newer deals or whatever it is, and then everyone's got a different sort of life timeline. But yes, with these two families I've worked with where it was really just one of them investing in a deal plus me putting in some money. Yes, a lot of those deals we've owned for over 10 years and we plan on owning for a long time. Some of those early deals I was talking about, like that shopping center we bought in that first meeting in 2008, we still own that and we're not planning on selling that anytime soon.

Dan: Nice.

Drew: We've already 4xed our money on that deal actually without selling it, just in terms of cashflow and then a refi we did.

Dan: Sweet. Yes, there's something to the forever compounding. And I have a handful of assets that I would love to sell. And I think the reason I'm probably not going to is because it's a little bit of a hassle for me to then try to sell it. So it's like the lesser thing to just kind of keep it sitting there than, than selling it. But I might have to bite the bullet and get rid of a few of those smaller ones that were so exciting and I got years back.

Drew: Yes, 'cause what's your thought on that, where you're more of a long-term hold?

Dan: I am, yes. So for me, it's like cost segregation on the front end to minimize my taxes on the income. Obviously, our main business is doing well. So my, I guess, problem of privilege is to keep investing the income that comes in from that. So for me, it's like, I just want it to compound as long as it possibly can without having to create the taxable event. But I think I'm running into the same thing where I'm just now like going to the next level. Let's say in the commercial buying industrial properties, we're looking for 40 to 100,000 square foot industrial buildings, flex base, things of that nature. If I could find it with 70 or 80% occupancy and ideally with low rents like I'm in, I want that. Right? And as I'm doing the numbers and we're closing on those, it's a lot more exciting and it's moving the needle a lot further, a lot faster for the same lift, if you will, on the transaction closing time effort needed, right?

So it's kind of the same effort. It's a little more of the skill. Yes, it's a little more risk to get that deal to the settlement table. But if you're talking about loan, it's the loan documents, it's the application for the loan, it's going to sign off on the loan, it's arranging for the appraisal, you're going to have all that same stuff on, I don't know, six, seven, $800,000 building that you're going to have on a 4, 5, 6 or $7 million purchase. And you're already probably aware of that. And I assume that it's probably the same lift if we were dealing with 25 or 35 million. I mean, maybe it's a few more phone calls, but it sounds like you have a call with an investor and you're raising a million bucks and he says, yes, let's do it. And you have a call with another investor and you say, all right, it's going to be 9 million. He says, yes, let's do it. And it was essentially the same 45 minute maybe phone call, maybe even less. Maybe the guy with more money's more busy and he only gave you 20 minutes to get your pitch done. I don't know.

Drew: Yes, no, both of them are really great. But the guy with more money, he's very high level. So he's fun to deal with 'cause he likes the big picture on it, he just trusts, "Hey, you said this is the best deal. Let me look at the numbers. Okay, let's go." But yes, I think you're right. The bigger deals they're more work, but it's not in proportion to the dollar amount, like you're saying, like buying a 30 million deal isn't a hundred times more work than buying a $300,000 deal. It's a lot. It's more work, but it's not like one for one. The deals are harder. Some of these bigger deals that we've done have been when we get 'em closed, I'm like, "Oh, it was kind of an accomplishment to getting that one done. Like it was tricky or you know, complicated." But yes, I think you're right. Yes, I think you'll know like once you kind of feel like, okay, yes, I'm working on this industrial deal, getting it close and you get a call about one of your rental houses and you're like, Okay, maybe I don't, this is time to not own this one. Or you know whatever find someone who can be in the middle. You know, I have an asset manager who works for me now who's like the frontline of defense with the property managers. So he can handle like, I'd say 80% of the stuff that comes in.

Dan: Nice.

Drew: So that's going to be a big time saver.

Dan: That's going to be something I wrote down as a hire at some point. So one of the things I want to touch on personality trait habit, I wrote it down for myself as much as I wrote it down for people on my team. I'm thinking it's something that probably sounds self-help a little bit, but I wrote it down in all capital letters prepared. You were prepared for the meeting on that first investor with multiple different deals. You spent the time preparing, right? You did all that work ahead of time. Obviously you were excited about the meeting and everything like that. I'm wondering two parents as teachers and reading books that most people are reading at older ages in your high school years. Really cool, right? So I'm like buying and selling like dirt bikes and motorcycles and car stereo equipment. And I remember doing that and I would sell it in this little newspaper called Sell It. It was like you posted ad and I'm like running ads and stuff and it never amounted to the volume that you were able to sort of build your momentum early on. I had fits and starts for a long time before I came very, very consistent and focused at the age of about 32 on, now I'm like 43. But the preparedness as a character trait, where did that come from? Was that something you saw in your parents? Was that drilled into you as a youth? Where did you come up with that? I don't know. That was a real skillset 'cause you're preparing by reading all the books, you're preparing by finding the deals you're preparing by selecting real estate going into college, which I've had conversations with people going into college a lot in the last couple years, especially as my daughter went in and they don't know what they want to do and they, they just don't really have the same direction change in majors. That kind of thing is, we never really sat down and prepared maybe early enough in those situations to make the course corrected decisions really early on. Which it seems like you did.

Drew: Yes, it's interesting. Yes, looking back on it, and I would say yes, I always think I was like that where in school I'd end up over studying, maybe for tests we'll call it. I was studying more if you were like, how many minutes are people studying? I bet I was studying more than most, but I guess, my mom definitely is super organized and prepared for stuff like, if she's going to go to a doctor's appointment, my parents retired now so, a modern example would be, you know, if they're going to go to a doctor's appointment, my mom would be there with questions and already looked into everything. So yes, I'd have to chalk it up to her if I had to point to something, but I was just somehow always like that. And it's interesting looking back on it 'cause you could... If I told you my like career in 30 seconds you would probably assume, "Oh, you just got lucky, this was your neighbor or somebody and you threw in all the money, right?" But like, what's interesting when I think back on it is like, wow, I really created that luck where I bought the deals. I just saw. And then when I met them, like the guy that I partnered with Brian, he also was majoring in real estate. I didn't meet him at school 'cause he was a year or two behind me. He also was working at this company where everyone else was doing real estate, but like, why me? And it's like, well, because I was the one doing the deals, talking about them, and then, maybe he said like, maybe we should do something with my dad to somebody else. I never asked him. Maybe they came there, they had a little chat and then nothing happened. Like I don't work like that. So I'm ready to do business. Yes, this is always like that. And I think those early deals too when you think about mindset, something that I've thought about where I never was worried about those first deals. Like I thought, I have the money, it's my money.

I want to buy these properties, so I'll buy 'em. I didn't have any hang-ups like can I do it or what will happen? I am much more cautious, let's say, with investors' money where I don't feel like I should be learning on their investment dollars, but this was all my own money. So I thought like worst case, like I will just make sure I'm buying a property that's cashflow positive and if I overpay, like let's say I don't understand how cap rates or gross and multiplier works and I screw that all up, I'll just have to hold onto it and just pay the loan down and cash flow it out and eventually it'll be worth what I overpaid. But, but I didn't overpay. It ended up it was as simple as I thought. And yes, I think a lot of this stuff when you look at like the people that are doing real estate or any business, like they, I mean some of them are really, you know, exceptional. Like, you know, Mark Zuckerberg and all these people like, yes, they went to Harvard and they dropped out, they don't even need Harvard. They're just ready to go with a genius idea and can execute it. But I mean a lot of these people that do stuff, it's like they're just regular guys and gals and they just went for it. Like they took the risk and they did it. It's like the big difference. So yes, I was always prepared, but then I think also willing to put in the work and then actually do it is actually what I had thought about like thinking back on it. So it's interesting, the prepared comment. I've never had anyone say that actually. Like, where'd that come from?

Dan: Yes, I mean luck is when preparedness meets opportunity, and I find myself being more like your mom these days at 43 years old where, I am preparing for the doctor and I'm reviewing my own lab results and I'm making sure I get them back from the doctor. And like I didn't have had to develop this desire and hunger and like advanced thought process for whatever the next thing is that is coming up. And a lot of my stuff in my life now is like that, and people would probably say I'm obsessed and it's a little overboard, but "Hey, luck is when preparedness meets opportunity." Drew, I have one more big topic before we get to the wrap-up that I want to pull apart with you if we could. So I invest in deals, let's live, talk through what a deal might look like for me as an investor in one of your future projects. So here I am, I'm not going to be the guy that's going to write you the 9 million check. I'm probably one of the 12 investors who's going to throw some money into the pot for the next project. So with that context, what does that look like for me as an investor in your deal?

Drew: Yes, in 2021 we sort of re-arranged the business to focus on these sunbelt markets and then also to take on individual investors like what you're talking about. Where from until that point, I had just only had those two investors and they were never in the same deal. It was always separate deals too. Like one works for one guy, one works for the other. But then sort of like, I would have people that I knew who would say, "Hey, I could invest a 100,000 or 50,000 or 200,000 in the deal. Like what could we do?" And I actually just tell 'em like, 'I'm literally, I'm not set up for this. Like I don't have investor reporting, like they're just in our accounting. Like they're basically partners. Like there's no reporting. I don't have a pitch deck really. Like I just send them the model and we go to the property. So we had to change things up. So now we're set up to take on what you're talking about individual investors. So where we redid our website and got an investor portal now. So we're set up for that. And we've been syndicating deals like you're talking about and deal multifamily deals today. So we specialize in just multifamily and only in Phoenix, Dallas, and Austin, Texas. So why those markets? It's because those are some of the fastest-growing parts of the country. And then also Dallas is such a big economic engine, as well as Austin. Austin is number one for population growth and job growth in the country as a percentage, so not in raw numbers, but for a city its size. And then Phoenix just always been growing fast for a long time. So we focus on those markets. I know I've mentioned it before, but Phoenix too. It has a 5% per year assessed value cap. So you have really good tax certainty. And the taxes are low there, but I have a 30 million deal in Phoenix, and my taxes are 38,500 on that deal. And then I have a 30 million deal.

Dan: What!

Drew: Yes. And I have the 33 million deal in Chicago. I was talking about our taxes on that are 525,000 a year.

Dan: That's about right.

Drew: Yes. So Arizona's got it, got it right for taxes. And then same thing with insurance where the insurance growth is fairly stable there because there are no big losses. There are no tornadoes or hurricanes or floods or anything. It's just hot. But that doesn't create any insurance loss being hot. So, we're just in those markets, and then we just do certain types of multifamily. So what I focus on now is I want to buy a property that I can create value with. So force the appreciation of the property. So we're looking for deals that are five to call it 30 million deals that we can take and then make worth more. And what we try to do is get it to, on a cap rate basis, let's say if we want the un-trended yield on cost is a term that is used for this, but our stabilized cap rate, we'll call it as well. So either term stabilized cap rate, un-trended yield on cost to be 1% higher than what like the going cap rate is in the market. So if it's a 5.0 cap rate market, we are only buying deals that stabilize to a six or higher. And why we're using the cap rate and un-trended yield on cost is that's how most investors are looking at the deal on a cap rate basis. If you don't use those terms, just to keep it simpler, it's like we're creating with our business plan 15 to 25 or 30% of value doing our renovation or resetting the rents to market if it doesn't need a renovation. But we're generally, our business is not like, "Oh, we just bought it a little bit cheaper than it should have sold for or we're just buying it to buy any deal in Dallas because like that's the best market."

Like we do think those are the best markets.

Dan: How difficult has this buy structure with a 1% higher than the going cap rate? Un-trended yield on costs. How have you dealt with that in the last six to 12 months, as I imagine we've seen at least 1% change in cap rate in the markets that you're looking at. Maybe I'm wrong.

Drew: Yes, you're right. And this is also why it's important to be buying value-add deals, is the deals we bought in 2021, and you know, we buy 'em at one cap rate, then we do our business plan, we stabilize 'em higher, but then also, yes, cap rates increase, so then the values drop in the face of that. But then a lot of that value decrease was offset by our business plan, adding value to the property. So we like that from that angle where if you have a market pullback, you're offsetting some of it or all of it with your business plan. But it's been really hard though, to answer your question. The last year, the last property we bought was would've been put under a contract in May of 2022. And we were doing a 10-31 exchange from two smaller deals. We sold rolling open to a bigger one closed that in July 2022. And, and that one was just with money we already had. And so, yes, the last indication we did, we weren't, we were, that would've been January 2022. So I mean, it's going on. Yes. Cuz if you don't want, if rents are some of these places around the country rents have been flat or falling, cap rates are increasing, interest rates are increasing. So, I mean, to me that's a good time to, we're still looking at deals, but if you can't, if you can't still get that, you know, premium that you need with your business plan, when you adjust to the new cap rate you shouldn't buy. So, you know, it hasn't worked cuz sellers are holding onto the old prices or they're not selling at all. But I mean, over the next couple years, there's going to be a lot of deals in the market where people, they maybe bought it in 2020, 2021, they did a three-year loan. They don't want to refi at these higher rates. Or if they did, they'd have to add money to it, and the people that don't want to do that will have to sell. And then that's going to be a good buying opportunity. And that's coming the next call at three months to two years that'll be happening.

Dan: I think you're right about that. Let's peel that apart. Do you guys do like a 50-50 split with a partner pref returns to my $100,000 is going in the next deal that we find in the next nine months, let's say, what are my returns looking like? What does that partnership structure syndication look like?

Drew: Today with where interest rates are, there's not a lot of cash flow on these deals or in the market in general. So typically, if we're renovating a property, there's no cash flow during that time. And then once we're done with the renovation, the cash flow is call it 5% a year to the investors. And that's not as exciting as how it used to be. We used to be passing on deals where, oh, it's only a 9% cash on cash, let's not do it. Where those days are long gone for, as long as interest rates are high, cuz you really, your cash flow is your spread between what would this property make if we had no debt on it from like a percentage yield standpoint and how you're borrowing? If you're, the deal makes 5% if you had no debt on it, and then you're borrowing at 5%, like there's no spread, you're not generating a lot of cash flow. And so, the deals though, what we're looking at is we're trying to find a 15% internal rate of return deal level. And then over a five-year hold, typically that's going to be a 2x equity multiple. And then our fee structure is 1% acquisition fee. And then we have our incentive fee, how that's set up is there's an 8% preferred return and then after the preferred return is paid and all capital is returned, all the investor capital, there's a we start splitting 70-30 with the investors. So then the investors will get 70 and we get 30% of the profits from there And then if from there it exceeds a 12% IRR, then we're splitting 50-50. So, [crosstalk] typically all those splits, yes, on the remainder, all those splits, any of that's really just on sale. 'Cause nowadays, you're not able to do large cash-out refinances until rates drop. Let's say if the rates drop and you've done your business plan raise to building value, you can pull out money. But typically that's all sort of done on sale. So it's sort of more or less like the investors get all the cash flow while we own it 'cause they're getting the 8% preferred return and then if that's not paid, the preferred return that accrues so then they'll get it when it's available. So it's not, you don't lose it. So that's how it works and I think the best place to be in the market right now 'cause if you are buying stabilized deals that don't have any value add, you definitely need to trade up in quality right now and buying nicer stuff. But if you're just buying a deal at the prevailing price, you're not getting like a any better return than just the market. Like you're just getting whatever the market's going to make and maybe that's going to be flat or down. Whereas with these deals we buy, we already have a going-in plan where we're going to be able to create equity and then in turn have higher returns 'cause of that than the you is your average deal in the market.

Dan: Nice, nice. Yes, and I imagine, like you said, the buying opportunities that will come, there's probably going to have to be some workouts done with a lot of that first mortgage that is probably underwater with some of those lenders challenging market, that's for sure.

Drew: Yes, when I say, a lot of times I don't lead with what my track record is because it's, you can't make those returns today. So I don't want to be misleading where our average returns are 25% IRRs and it's so way better than 15 obviously, but we spend all year looking for 15% returns and can barely have a hard haven't found any in a year. So what happened before was you buy it, you think, okay, I'm going to run this business plan maybe it's a 15 to 20% IRR, and then the market would surprise you, like, oh, cap in, you know, cap rates dropped and rents went up more. You know, right now you know, we, something we buy, yes, maybe we'll, we'll beat these numbers where yes, we're not assuming interest rates drop or rents explode. We're sort of assuming things sort of stay how they are when we underwrite. So we have like the ability to like outperform. But yes, that's where the market's at now. And so it's not as exciting, let's say as what it was five years ago or 10 years ago. But compared to the alternatives, like I really still like it, for the individual investor, whether you want to invest passively in like a deal of ours or just buy something on your own and hire a management company and run it. I mean, real estate still makes a lot of sense today where you, even if you're getting a call it a 12 to 15% return, I mean, that's still in my opinion for the risk involved. Like I like that a lot more than the stock market where real estate is less risk given the stock market and has higher returns. So the negative though is your money's tied up. It's, it's illiquid, so it's not like you can just press a button and get your money out. So that's the big negative with real estate. But compared to the alternatives, I really like it and I got, you know, I'd have to count it up, but probably 98% of my, you know, my net worth all in real estate and I just have the rest waiting to go into the next deal.

Dan: Yes, that makes two of us. We're at this unique position in the marketplace. We are all expecting this. I don't know, there's going to be like a tsunami of workouts. I mean, there's probably, I think when I was doing some math with another mentor of mine, it was like 10 to 15% of these loans were going to come due. Maybe half of those are in a position not to add capital and turn into a truly distressed situation. And I don't know, same mentors commenting, I don't know that it's going to be like the savings and loan crisis where that was a literal tsunami of commercial assets that came through and we saw a lot more even maybe come through after the '08 debacle. So if the economy shifts and the job losses mount and the rents do drop things could get much worse. On the flip side of that, we're sort of in this very odd time in human history where the interconnectedness and the news cycle and all of the cycles that occur are so fast. So I remember when 2008 occurred, I remember reading about the headlines and what was going on in Business Week and Fortune Magazine, and these were like weekly or monthly periodicals when Silicon Valley Bank collapsed. I remember reading about it, on Google and on Facebook and on Twitter, and it all happened in an instant, and all of a sudden it was like swept under the rug. And the government was able to act exponentially faster than in 2008. It felt like weeks and months as that unfolded, and then the $800 billion credit line was implemented, whereas it was over the weekend this time. So we have this like compression almost of the business cycle, and maybe I'm a complete fool and we're going to run into a tour or four-year downturn cycle. I mean, I don't know if you recall when the rates were going up, I think in what, 2017, 18, and 19.

Drew: Yes. And that didn't nothing plummeted 'cause of that. Yes, I remember I did a couple of refis in 2018 and my rates were in the fives. Then they started dropping again and then we're back into the threes.

Dan: Yes.

Drew: The thing that's really interesting now, comparing at least to the 2008, the most recent stuff, I mean, at that point especially on these, on the smaller deals, let's say, one to four units, everyone was doing five-year or three-year arms where the rates were not good. They were like so adjustable rate mortgages where you start out with like a teaser rate. Yes, I've been paying 5% for the first three years, and then it jumps to like 9%. So and they could only afford the low rate. And some had negative amortizing loans where yes, the rate the whole time is 9%, but then you just pay like it's three and we'll tack it onto the principal balance. So we really didn't have like a lot of that, you know, people were picking, you know, 30-year fixed this go around, they're putting in real down payments. There wasn't as much no-money-down stuff. People were still selecting arms, but they weren't the those, this would seem way more punitive back then where it was like, okay, you can, the spread people were, I don't know if they just didn't pay attention to it or what, like once it starts adjusting well, I guess they thought they would just refi and then they, and then all of a sudden you couldn't, where now this go around, I think people were picking lengths of fixed-rate terms where they thought they'd be in it. Like, like I bought a house in 2017, I've already sold it now, but we picked a seven-year arm and we're like, that will even be in this thing for seven years and we weren't. So I don't know, just, yes, seems a lot more healthy right now than 2008, definitely than the '80s from what I had heard, where people were just building stuff that didn't even make sense financially, but somehow you could get the enough tax losses where you still made money, even if the deal didn't.

And two, like, the I think I don't remember the stat exactly, but it was something to this effect where it was, you know, something like 80% of all mortgages have a rate below 4% right now, you know, on homes. So it was something in that neighborhood. Maybe it was two-thirds below three and something, but it was, you know, it was hard to imagine a lot of like distress if all people need to do is like, "Hey, just don't do anything, just like stay home and pay your 3% mortgage," and you know you would need, I guess, to have a lot of job losses would be the thing. Because before people were just in really bad financing products and then it was just a cascade of prices falling and people overbuilding, you know, most of the stuff's being done on the commercial side. They have people doing bridge debt and building condos and stuff that weren't going to... that had no buyers for it, where there wasn't like a big condo boom to go around.

Dan: Yes, in this day and age, where we're at now compared to 2008 with the rise of the gig economy, Uber, those types of things, it's like if someone's in a jam in one of my apartment units in Chicago, in theory, they could go out and drive Uber for the weekend and they can make up the three or four or $500 shortfall. They could do it all week long and cover the rent, right? So there's like more access to the opportunity this time, which potentially I think [crosstalk] it could kind of help the economy at large stay somewhat liquid. Whereas in 1980, there certainly wasn't in 2008 there was a lot less, I think it's a lot more normalized now where people have options to be able to go out and makeup shortfalls. It simply didn't exist [crosstalk]

Drew: Yes, that's interesting. I keep always coming back to the lending side, but yes, 'cause I haven't thought about that. I just keep thinking like, well, in 2008 and 1988 or '87, like, whatever that was, the lending just totally stopped. Like all the savings and loans went under, so they're not lending obviously if they're closed. And then everything stopped in 2008 and then that just created as things fall just keeps cascading down where... Yes, so haven't had a stop in lending. We've had a slowdown, but at least, especially in the multifamily stuff, we look at, if anybody needs a loan, they just still can go to Freddie and Fannie. Both of those agencies, they do somewhere in the tune of like 70 or 80 billion a lending each. So that's one thing that's nice about multifamily is you have access to that where the other types of properties, like retail and hotels, industrial, you aren't using them.

Dan: Hey, it's 50% down right now or something. If you can't get a loan, it's kind of tough. Cool. So let's go with the crown jewel of wisdom if we could, Drew? Okay, so you were a young guy, you were starting off really early. You're getting ready to walk into the meeting with your buddy Brian, your partner Brian's father, and you are already prepared, but now you know a lot more. If you could go back and share the crown jewel of wisdom with yourself the night before that meeting, what would it be?

Drew: Yes, I think I would be telling myself, like, "You have everything already that you need to do this." Like, there's no difference between the people buying these deals and that's where you guys. One guy's got the money and then the other two good people know how to do it. Like, you got it. So that would be what I'd be telling myself. And to be honest, that's what was I thinking. That's why we did it.

Dan: Nice.

Drew: And that's where too, when you're talking about the confidence early on, I was more confident having a really strong partner financially where I wasn't taking chances we shouldn't have been taking, but it was not where now I'm not making an investment because I'm too scared of the downside and I can't take advantage of the upside, if that makes sense. Where collectively the three of us, if something happened, we could weather the storm with him involved. So that did also make us more confident. I just thought of that. But not overconfident where we're just making gambles. We shouldn't, but not where we're saying, "Hey, this is a good deal, but I can't do it 'cause this is my last dollars. Or if we load that tenant, I don't have the money or we could go back to him."

Dan: Nice. Where can listeners get more information about you and your companies?

Drew: Yes, so the best place to go is breneman.com. That's the company for Breneman Capital, our firm. And so you can learn about our company there, our portfolio, the deals we do, you can sign up to be on our investor list, where you can sign up to be on our newsletter. We also have a guidebook on how it works, investing passively in real estate that you can also download on our website in the download section. And then I guess lastly, I also have a podcast. It's called the Breneman Blueprint. It's a real estate investing podcast. It's on every podcast platform and YouTube. It started out more Chicago focused, let's say, but then as I started doing deals in the Sunbelt, it sort of just shifted to just all active real estate investment stuff. And then sometimes I do some episodes for passive investors, just sort of solo, like, "Here's how a 1031 works," or "Here are some red flags to look out for or how to vet a sponsor." And then I guess I'm also everywhere on social media, just at Drew Breneman, so you can find me wherever you want. I'm all over.

Dan: Cool. My final question, what is the kindest thing anyone has ever done for you, Drew?

Drew: Yes, and I think, we talked so much about this, the first partnership I had, and I think, there's been a lot of great things that have happened in my life, but it's certainly in a business context. The father in this initial partnership, he has been really great to work with, and for early on, he could have just dictated probably any terms we would've taken 'em. We're just trying to get our careers going and sometimes you see that where people are overhanded if you will, like overplaying their strength in a business deal. And he never did that. And we worked out a deal we all liked and stuck with it. He didn't overplay the fact that he was putting in the money. And so we haven't had to change anything with the deal structure in the 15 years we've been working and it got still doing more deals together. So worked out great for everybody, but that was definitely not overdoing it. Sometimes you hear people saying, "I'm getting bent over a barrel" or whatever on this deal and, you know, I've never had to say that. So thankful for that.

Dan: Nice. Sounds like he was fair and it really opened the door for you to get to the next level.

Drew: Yes, it definitely was, but not where it's like charitable, but where it was not, where we're not getting sort of wondering if we should even do it or something, you know? So it's been great for everybody.

Dan: Yes, and I think that's key. As we wrap up, like finding partners whose interests are aligned is really important to me. I try to structure any of my partnerships so that we all feel like we're aligned, we're working toward the same goal, we're getting fair outcomes from all that. Not having the balance of the partnership where one person's effort is not correct or the money is trying to take way too much off the table, then perhaps it should, has been a sticking point for me. And I think that's the source of a lot of frustrations for a lot of partners. So it's really cool to hear you.

Drew: Yes, and another thing that he never did that comes up a lot is where people will, they'll try to change things to the last second. I hear that all the time. Like your investor, let's say they're putting in all the money or most of it, 95% of the equity, but from one party you're buying the deal, you got your earnest money in already and then they have the idea like, "Hey, I was thinking about this," and it's like a worse deal for you now is their idea. That's extremely common. I hear that all the time from my peers that have similar businesses and are going to single-check investors where it's just like a retrade towards the end to make it better for them. So kind of shortsighted, if that's what you're doing, where then, the person you're partnering with is almost despises you at that point and goes, "So it's fine. I'll continue it. Cause the deal we're already non-refundable on the earnest money already doing it, but this is not like the partnership I wanted. I'm getting messed with here." So yes, they never did that too. That's a common thing that I hear happening to folks. I know.

Dan: Good stuff. Drew, I have tons of notes here. I really appreciate you taking the time. I know we went over what we would normally allocate for these episodes. I'm sure the listeners appreciate it, and I certainly do. So thank you for coming on the show.

Drew: Yes, thanks for having me. Appreciate it.

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