AJ Shepard of Uptown Properties

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin, I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity and many other investors for early stage and growth companies. I hope you enjoy this episode. The. Investor Connect is a 501 C three non-profit dedicated to the education of investors and startups for fundraising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this is Hall Martin with Investor Connect. Today, we're here with AJ Shepard, co-owner of Uptown Properties. Uptown Properties offers a full range of property management services tailored to you as an investor, homeowner or landlord. They have an extensive portfolio of single family homes, townhouses and condos in the Portland metro area. A.j., thank you for joining us.

Speaker2: [00:00:58] Hey, Hall, thank you very much for having me on. I appreciate it.

Speaker1: [00:01:01] Great. Well, let's take off with let's get right into it. How do you maximize investment property profits?

Speaker2: [00:01:09] There is a lot of ways to do that, but no one thing I think is reducing vacancy. Vacancy is the silent killer. The least amount of time that you can have that property vacant and working for you, the better off. You are going to be a couple of ways you can do that. Number one is try to get it turned over as soon as possible if it becomes vacant. And probably number two is try to not have it go vacant, get good tenants in there that are going to stay a long time, continue to pay rent. You can do that through good screening. And, you know, just kind of trying to figure out what it is that your tenants are looking for and keep them in.

Speaker1: [00:01:49] So if I want to get into it, how do I raise money on my first deal, what should I be doing?

Speaker2: [00:01:55] Oh, well, that is a good question. It depends, I think, kind of on where you are in your investing career. You know, if it's your first real estate deal and you're pretty young and you don't have a lot of money finding money with investors or other people's money as an option. And you know, I would say start out by doing a single family home or a duplex or a four plex. It's pretty easy to get residential financing for that and having a property manager manage it typically find something a little bit undervalue that you can add value to with some construction that will allow for you to raise the price. Typically, you can refinance after you've you've done some renovations to it, and that's typically what we call the BRRRR method. It's the buy rehab, rent out refinance and repeat. So the acronym BR.

Speaker1: [00:02:51] Oh, cool. That's great. So let's back up for a moment. Let's talk about your background. What was your background before investing in real estate?

Speaker2: [00:03:01] So I graduated college with a mechanical engineering degree and went to work for an industrial contractor. I ran a million dollar projects where we put up cranes, we put up built cranes. I worked on steel mills, paper mills, gold mine, silver mines, just doing like large utility infrastructure build outs. For that, it's a large capital projects. During that time, I started buying houses. My my parents were in real estate and my dad always told me he's like, If you can be a passive investor and make money while you sleep, then you are going to be far better off. And then that way, you don't have to work for the man at some point in your life. So I worked for that company for about five years, and then my brother and I ended up opening up our own real estate company. And during that time, we also opened up a brewery. So that's kind of fun. We're out of Portland, Oregon, and it was actually a real estate play, which is one of the reasons we got it. We got into it. But long story short, we ended up buying and we still own the building and still own part of the business. We've we've partnered with some other, more knowledgeable people in the industry to let them run it. And then we were in the back end just kind of making sure the finances go well and have created a business that's then in our real estate that makes us money so great.

Speaker1: [00:04:27] So what excites you right now?

Speaker2: [00:04:30] You know, we are we just started getting into syndication, probably about twenty twenty nineteen. We set a goal to do one syndication project and we did our first one in like January of twenty twenty. I think it was actually January 1st of 2020 that we purchased the property. So that was super exciting. It was fairly small. We've done a few more since then. And if you're if you're looking to go down the route of syndication, I will give a piece of advice that if you're looking to get other people's money, I would mock up a deal. So we we had bought an eight plex in twenty eighteen and renovated it and we're like, Wow, this would have been great if we could have used used syndication to do this. You know, there are some other deals that came up during the time that we weren't able to really capitalize on because we didn't have our own funds to do it. So, you know, using syndication as a tool to raise money and buy apartments as was, was a great thing. But so we mocked up that eight unit deal and you know, we got the LLC for it. We did all the marketing for it. We figured out how to get all the software like we really took it, got really detailed about it, like as if that was an actual deal. And then with that, we could take that marketing material and we could go talk to other people and say, Hey, if we don't have this right now, so it creates a low pressure situation with that person and you're like, But if I had something like this in the future, is this something that you would be interested in? Because it's really hard to be like if you if you don't have anything to present or show someone, it's really difficult to talk about ethereal deals and what could be. So having something concrete that is available as a talking piece is is a really good thing to have when trying to break into syndication and kind of get your first deal, right?

Speaker1: [00:06:26] So you see a lot of real estate properties out there and a lot of investors. What's your advice for people investing in real estate? What do you tell them to do before they write that check?

Speaker2: [00:06:37] Definitely that the operator you want someone that has a bunch of experience, someone that knows what they're doing, someone that is not going to take your money and run off to Mexico or somewhere else, right? You want to make sure that they're in business and going to stay in business. And you know, from the perspective of the deal, you definitely want to make sure that the deal makes sense, like make sure that they're using conservative underwriting. Like they're only appreciating the deal at what the market says that it should appreciate that rents are at or below market for their pro forma. You want to make sure that they're not charging a huge amount of fees that make the deal go underwater. I mean, ultimately, you want to be very, very sure that you're going to get your money back and that that operator is going to perform.

Speaker1: [00:07:27] Great. Then let's talk about the state of investing in real estate. How do you see the industry evolving from here?

Speaker2: [00:07:34] That's a good question. So currently we've got interest rates are super low right now. Inflation is starting to happen. We're starting to see apartment prices go up. People's buying power has has increased, with interest rates being so low. And I think that there is still a lot of money out there from the the government and also just people, I think, selling their gains off the stock market. So it's fairly competitive. I am not one to predict the future, but I would be willing to bet that in order to curb inflation, interest rates are going to have to go up a little bit. We may see a stall in the pricing, so there may be some opportunities for buying in there as well. So that's kind of like what I believe for the real estate market overall. I think material prices have gone up significantly in the last year. So this is a lot different than 2008 2009. So I don't think that we are going to see this like bubble and a crash. The replacement value or the replacement cost for the value of the real estate is really kind of in tune. It's not like super out of whack. So like in 2008 2009, we would see that like material prices were low, but these sky high real estate prices, and it just didn't make sense like you could just go out and build something for much less and then sell it for more. So whereas like, we're in this spot now where the construction prices are near much closer to the sales price of existing product.

Speaker1: [00:09:11] Right. Well, aside from interest rates and lumber prices, what do you think is the biggest change we'll see in the next 12 months?

Speaker2: [00:09:18] I really think that we are going to see inflation. I really think that some of the costs that are being passed down just have not hit the end kind of consumer yet. So we're seeing these logistics happen. You know, even from coming from China and everything else and like those costs, it takes time for that to be passed down because I mean, there's three to five different intermediaries that it has to hit and each of them has to kind of realize it and then increase prices. And I think that like, I don't know about you guys in this market, but here in Portland, I don't know a couple of years ago, I could probably get a nice hamburger at like 10 to twelve dollars and now it's more like 16 to 18. So, you know, it's it's that type of thing. There's there's an economic indicator, it's called the Big Mac theory. And it's like, how much does a Big Mac cost? Just because McDonald's does such a high volume that they're fairly good at kind of predicting what happens. So I don't know. Maybe take a look at Big Mac prices across the U.S. and see what's going on.

Speaker1: [00:10:26] Great. Well, so you talked a little bit about your criteria for selecting a piece of property. What's your overall investment thesis? Where are you spending your time looking the most for these deals?

Speaker2: [00:10:38] We are vertically integrated in Portland, Oregon, and even more specific, we don't manage anything east of 80th on the east side of Portland. So we even like Niche down into like a specific area and that's like Southwest Portland. So we spend most of our time talking with brokers, talking with owners, talking with people in those areas to pick up properties. And honestly, we're probably willing to pay maybe a little bit more than the next guy just because we're so in tune with what the rents are, what the purchase price has been going for, where the market's going. And so like we're able to. Probably be more effective than some institutional investor coming from outside, just because we're in this market day after day and have been for the last 15 years.

Speaker1: [00:11:31] Well, aside from familiarity, is there something else about that sector that's really attractive?

Speaker2: [00:11:36] We like Portland. It's an inbound job market. People are moving here all the time. The landlord laws here are also if you've seen Portland in the news can be a little difficult. So I think that takes away a little bit of the competition. Honestly, I think a lot of the U.S. is kind of headed towards that route. I believe I heard somewhere that Australia is 60 to 70 percent of the rentals in the country are professionally managed, whereas the U.S. is like 20 to 30 percent. And as the laws get more difficult and harder to manage, you get a lot of the self self landlord type properties moved over in. The self-managed properties need to go to professional management because it just gets so cumbersome. And I do see in our market, I've seen definitely a fair amount of family owned apartments being turned over. You know, it's the next generation of kids, millennials, whatever you want to call it, or just not that interested in learning how to manage property. And as it's gotten harder, it's a steeper learning curve for them to get up to speed.

Speaker1: [00:12:46] Great. So what's the challenge in investing in real estate side, finding the right property and so forth and keeping it occupied? What do you think is the main challenge you see your investors encounter?

Speaker2: [00:12:59] The House, the houses and duplexes and small multifamily investors that we see the challenges in finding the deal. There's not a lot of product out there. I don't believe that they're making more product either. We see a lot of single family developments going out, but there's just not a lot more of that multifamily. And currently, it's still even at a high price. It's still a good deal compared to like a single family home. As far as, like more institutional investors, I think the challenge is really finding that operator someone that you have a lot of trust in, you know, is going to perform and is really good at what they do. One of the things that I have seen with some operators, as they get larger and larger, their deals, percentages start going down and down. So it's like it's trying to find that happy medium of like, how do you want to grow your investment? But also, like, how much do you trust the operator?

Speaker1: [00:14:00] But it seemed like demand's going up for more housing out there, but it doesn't sound like supply is going up in the area. Why the mismatch?

Speaker2: [00:14:08] Are you? Is the question specific to Portland or are you talking about U.S. National Portland?

Speaker1: [00:14:14] Yeah.

Speaker2: [00:14:15] So in Portland, we have an urban growth boundary and the city of Portland doesn't allow a lot of development outside that. So it's like an artificial island. So it can be kind of compared to like San Francisco or New York. They do open up a tiny bit of the growth boundary kind of every year, but it's not a significant amount. So the amount of development that you can do kind of spread out is very limited and they are really they like to see like higher buildings. So you see more kind of like the apartments that you would see in, like Chicago and New York going in here in Portland rather than like an urban sprawl.

Speaker1: [00:14:57] Do you think that's going to impede the local economy? They're not having enough affordable housing?

Speaker2: [00:15:02] They have a provision for a certain amount of affordable housing for all the new developments that are going in, I think anything over 18 or 19 units is required to have affordable housing. And the term affordable housing, I think, can be construed a little bit. Some people believe that affordable housing is like whether a house is affordable or not. Kind of like single family homes. Affordable housing is actually a code written into the zoning codes that is a certain type of market rent that has to be offered. Typically, HUD will actually own some properties. So housing urban development, and they are the ones that kind of monitor that. And if your property is a HUD property, typically it'll. Apply, like when it's being built, if it's one hundred percent affordable housing, it'll apply for a tax credit for, like the first 15 years. This is, I know, just enough to be dangerous in this arena, so I don't know that I can comment with too much knowledge. It's definitely something that like I'd like to learn more about, but currently I'm just kind of I know enough to be dangerous with it. But I do know that that term affordable housing gets thrown out a lot. And understanding the difference is is pretty important, especially when you're talking with a bunch of different people.

Speaker1: [00:16:26] Right? I think it's important to almost every major city trying to, you know, put more affordable housing in place, but it's got very specific requirements around it. But you see a lot of different applications. You see single family, multifamily, duplex and so forth. What you think is the best opportunity for investors to pursue today.

Speaker2: [00:16:46] I really think it's up to the investor. I mean, if you're a type of person that wants to be hands on, I would definitely say going for a small multifamily, you know, you can pick a property manager, you can pick different markets, you can really you can really try a bunch of stuff out. If you're the type of person that's more passive and you just know that the real estate market is going to be a good one. Number one, because you get to leverage your money and to because real estate hardly ever goes down, then you know, doing finding a syndicator or a fund or finding some way to get your money into a passive investment.

Speaker1: [00:17:25] Cool. So well, in the last few minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:17:31] I think we've we've definitely covered a lot. You know, I don't know that I have more to add other than like the details of a bunch of the different processes. You know, we're we're newer to syndication, but have definitely grown. We have. We started our first one was like nine units and then 12 units and then 20 and then twenty five. And I think we're looking for somewhere between 30 and 50 units next. So we're we're excited about that and I think it's important to continue to grow. We're one of those people that were always like trying to learn for what comes next. And I think that, you know, as an investor too, you should be thinking about like, well, what's what's the next thing that can happen was what's next on the horizon?

Speaker1: [00:18:19] So great. So how best for listeners to get back in touch with you?

Speaker2: [00:18:24] My email is A.J. at Uptown PMCs. And if you don't remember that uptown syndication, you can you can put it in an investor contact there, too.

Speaker1: [00:18:38] Right? We'll put those in the show notes when. Thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:18:43] Awesome. Thank you very much for having me on. Appreciate it.

Speaker1: [00:18:51] Investor Connect helps investors interested in startup funding in this podcast series experience investors share their experience and advice. You can learn more at Investor Canaccord.

Speaker3: [00:19:04] Hal T. Martin is the director of Investor Connect, which is a 501c3 nonprofit dedicated to the education of investors for early stage funding. All opinions expressed by hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.