In this episode you will learn about:

- Brian Adams, from accounting to buying apartment buildings
- CPA background as an advantage to apartment investment
- How to get yourself educated on real estate business
- How to come up with capital to invest in apartments
- Depreciation and Cap Rate in apartment investing
- How to increase the value of your property
- Brian's 4D Approach to Apartment Investing summed up and more

Show notes: https://s3.amazonaws.com/PPRNoteCo/Scott/BrianAdams.mp3

This is the Strategic Investor Alliance podcast with Brian Adams on Investing in Apartments

Dave: Hello. I'd like to welcome everyone to the Strategic Investor Alliance podcast. And today we have a special guest, Mr. Brian Adams of the Adams Investor Group. Hello, Brian. Are you there today?

Brian: I sure am, Dave. How are you doing today?

Dave: Great. Actually finally got some nice weather here in Philadelphia. I wanted to start by asking you, give us a little background of yourself, how you got to where you are today a little bit, and just a little bit of your background.

Brian: Yeah. Sure thing, Dave. My background is a CPA with experience in real estate taxation and forensic accounting. Forensic Accounting is like the, can be a little bit sexy if you will, it's not like what they profile on a TV shows and things. But from a forensic accounting experience, what we go through is we go through books and records and find out where moneys have been spent, maybe there's some fraud or misstatement of financial things like that. That has hoped me over the years because my focus, Dave, has been in real estate specifically buying large apartment building, 100 to 400 hundred unit apartment complexes. And my business model is really focused on acquiring these assets and other states. And it's always good to have a CPA looking over these financials and see where money is being spent and really does help my investors get very comfortable when I bring up opportunities to them. They know that I've done a lot of due diligence from the financial statements.

Dave: That's a great point. Being a CPA, having that background, knowing how to read financial statements. That can be a big part of it especially when you are looking at a larger commercial piece like that. I forgot to mention at the beginning of the call that today's topic is Investing in Apartments. And you touched on your business model, maybe go a little deeper on what your real business model is and maybe we'll even get into the kind of opportunities that you offer to your investors, for example.

Brian: Yeah, sure thing. I'll give a quick snapshot as well. Over the years, my company has been involved in transactions of about almost 1,000 apartment units valued at over $30 million. But my path way to getting into real estate just didn't start overnight. It kind of start at a really young age. My grandfather owned some rental properties and as a young boy, he would take me around and I would pick up the trash on his property and cut his grass, then we would go and go to each doors, resident's door, knock on the door and the resident would pay the rent. My grandfather would turn around and give me a couple of bucks for my hard work, picking up the trash, the grass clippings and things. I had that connection. For whatever reason that I sold a rental real estate and making cash flows and things of that nature. Let me fast forward a little bit. So I was junior in high school and my accounting teacher was also my high school football coach. He and I had a pretty good connection. He pulled me aside, Dave, and he said “Hey Brian, you are not the fastest guy on my football team or the smartest kid in my class.” *(Laughs*) I really didn’t take that as an insult at that time, but anyway he said “You have a knack for this accounting stuff.” Again, we really had a really good connection and I thought “Wow. I think accounting is something I really want to pursue.” So in my junior year in high school, I know I want to be an accountant. Me and my buddies are thinking they want to be a doctor, attorneys, movie stars and here I am wanting to be a bean counter, right?

Dave: Right

Brian: I was pretty focused getting out of high school to go into accounting. And then I was in college, I knew I wanted to be a CPA. Where all this goes to is that the clients that I was working on over the years, at some of these top firms of the world, I've always came back to those clients making a significant amount of wealth using real estate as their investment vehicle. I was really learning over the years. My clients, the ones that I was advising from a tax perspective and helping them do tax planning and using real estate as an investment vehicle, I was learning so much from them. But at the same time, I was like “Wow. If my clients can make this type of wealth creation happen, I know I could do it.” That really gave that motivation if you will to start pursuing this business model.

Dave: I think I really know what you’re really saying. You’re saying “Hey this guy with real estate, I think he doesn’t seem that bright. I think I can do what he’s doing”, right? *(laughs)*

Brian: *(laughs)* Yeah, read between the lines.

Dave: *(laughs)* Are you talking about me? No. No.

Brian: Yeah, yeah**.** *(laughs)*

Dave: No, that’s a great point. I mean, how many accountants or attorneys for that matter work with clients yet they never really do significant business for themselves. They’re caught up in their day to day of doing legal work, doing accounting work and they never apply it to themselves.

Brian: Yeah, exactly.

Dave: That’s the point.

Brian: I will never forget this moment. It was in 2008, I was working lots of long hours at this highly, this top rate law firm in the world and just cranking all these hours, Dave. At the time my girls were 4 and 2 and I was working so much missing my girls and my wife and I was looking at this guy’s tax return. And I said “What is this guy doing right that he’s travelling the world and basically living the lifestyle that I really wanted to do?” I started looking at his return and saying “Oh my goodness!” He’s got single purpose entities set up for all these apartment buildings. He had a management company, a construction company, he had this whole business model in front of me. Dave, I had an “AHA” moment, like, if this high net worth client can do what he’s doing, I know I could replicate this model. And so on '08, I went out. I bought a duplex. It had a vacancy, I filled that duplex and it just generated more cash flows. So I knew that from a very small level that I could replicate this approach. Because again, I was just putting my little toe in this water, from a very small scale. That was in '08. And in 2009, I tried to take down a 132-unit deal. Unfortunately, the seller and I could not agree on terms. But was I scared? Yes. That, I mean, going from a duplex to a large multifamily, there was some scare there. But what I’ve learned over the years’ experience being a CPA, I needed to make sure I was educated. So before I made that big jump from a duplex to a large multifamily, I spent a lot of time getting very comfortable and understanding this business model. And the more and more I started peeling the onion, I said “Wow, this model can be, can really generate a significant amount of wealth.

Dave: Yeah, what you really said just there is a big leap for most people, just to go from a duplex. I know for me, I think, when I got to about 20 rentals then I was looking at, starting to look pretty heavy at the commercial side of things. Because I wanted an economy scale, I want it "Yeah, you want it more, you're ready to graduate to the next level", that kind of thing. And I think you did it sooner than most, but it had a lot to do with your CPA background that you're analyzing everybody's financials along with getting educated. But it takes some guts *(laughs)* at some point, too. So, maybe talk a little bit about how you came up with the capital. Because everybody always says "I need a ton of money to do this". So maybe you could talk about that a little bit, like how you were able to, what does that model look like and what does that investment opportunity look like and then how you do it.

Brian: Sure thing. What I do is go out and find this opportunity and I'm just going to quickly throw the CPA hat back on. It's that I really want to understand what my clients are looking for, what's going to motivate them, what are their financial challenges and then how can I bring an investment opportunity that is going to provide either cash flow or maybe tax benefit where you put in dollars in self-directed IRA and compounding this wealth over a period of time. So really once I understand what the investors are looking for, Dave, I go out shop form. I said "I'm going to go buy this particular deal because it matches up with what my investors are looking for." So when we're putting this large multifamily deals together, it's what we call a syndication or we're pulling money together from individuals and we do everything legal and dot the I's and cross the T's from, 'because at the Securities and Exchange Commission (SEC) has specific rules that we need to follow. And I engage myself with a good attorney to put all the paperwork and make sure that we're working with the right investors and keeping them informed of the opportunity. But I think that is a challenge those folks have is that they really want to do real estate but they're not exactly sure how to get the dollars raised. And everyone has in their specific network people that they know or people they know who they know who have money, and we're all connected in some form or fashion. It just a matter of getting out there and maybe take a little bit of risk and as a CPA, I tell you, I'm a pretty conservative guy especially for my investment model. But what, again, I've learned that once you take a little bit of a leap or big leap of faith, you got to trust some of your, I guess, your instincts a little bit as well.

Dave: That's a great point. It's all about managing risks, right? A lot of people don't realize especially in commercial, it can be very creative. You can do a lot of creative things that are easier to do with commercial than residential, for example. You can also raise enough capital for the down payment, for the renovations. But investors like to see you have the skin in the game as well. Maybe talk about that a little bit. What a typical, let's pretend you found an opportunity, what does a, it's hard to say typical 'because they quite out different, but the general flavor of how this model work.

Brian: Yeah, sure thing. Again, coming back to that investor, what are you looking for, go shopping blah blah blah. Once we have this opportunity, normally the investor is, a minimum investor of 100,000 or more. That investor is in a, I believe, pretty good position. What I mean by that is they're in a passive role, so I'm the quarterback of the team, I make sure that I do all the due diligence for the investor and obviously share all data with that investor. Very transparent. Making sure that the investor knows exactly what they're getting themselves into. Normally my deals last three years to 7 years. So this is a marriage, this is a partnership. This is something that we as a team need to work together. And I certainly take into account what the investor's, again, goals, opinions are. I want to make sure that they're really comfortable because normally these deals are kind of a lock-up. And what that means that their capital is in the investment for that period of time and usually they get their dollars back, the principal back plus the juicy return at the end when we, the refinancers or sell. And through the whole period, from the date of purchase to date of sell, they also share as equity partner, they share in the cash flow. When this property goes up in value as well as the day they operate in cash flow, the investor's share in cash flow and they share in tax benefits like depreciation.

Everyone thinks that depreciation on my building is crumble and all falling down, but what depreciation really means is the IRS mandates you that you have to take a depreciation expense against your income. So in most situations, these large properties take off lots of depreciation and that saves individuals on their 1040 which is a great strategy. Then we, I, again, oversee the whole project for that investor, keep them updated if it's a project that has a lot of rehab to it or it's a property that doesn't require much of a rehab. Again, the investors brought up to speed. I handle all the day to day stuff using some management companies and other folks and I don't burden the investor with all the day to day stuff. 'Because a lot of folks think that "Oh, you're going to buy this 200-unit deal and I got to deal with tenants, trash, toilets, oh, such a, it's a nightmare!" They hear about themselves that they've that same experience or they've had friends who've told them about owning a rental real estate. I come and say "No, you don't have to deal with any of that. Put your feet up on your desk and wait for my cash flow checks to arrive because I'm going to run the show for you. You just sit back and enjoy the ride and I'll run everything else for you."

Dave: You hit on something very early on when you said you typically look at 100 to 400 units. And it reminds me of years ago, I had a painting contracting business and I did a lot of apartments. And you could tell the larger complexes with 400 and 600 units, 300 units, they all had on-site management, on-site maintenance and under a 100 units it's hard to justify some of that. Like if you had a 25-unit property, it just doesn't justify that. And you are force to bring in some subcontractors from outside and it really runs up the expenses I think. I think a lot of people don't really appreciate that. The only reason I know that is I was involved in it from the other end and I saw all that first hand. The other thing is you mentioned the depreciation, things like that. Do you look at the cap rate though going in or do you look, or what? I know what is your exit strategy and it sounds like a lot of times it's either you're refinancing or selling the property. What's your goal there? Do you do that when you're going in and explain it to the investors in the beginning or that's something that happens over time?

Brian: Yeah, yeah. We dissect the deal forward, backwards, upside down, from all different angles. Again, we want to mitigate risks for the investors, best we can. I'm not going to say that the apartments are the less risky of the other types of investment, but what we try to do is that look at this opportunities from the eyes of the investor to help them make informed investment decisions. So we look at going in cap rates and really what a cap rate is what determines the value for apartments. It's taking your net operating income at whatever the market cap rate is and that helps you determine value. It's an inverse relationship. Not to confuse our listeners but, normally I try to buy a cap rate at a high cap rate. Let's call it the 10-cap. I want to buy in the market where the market cap rate is a 7-cap or an 8-cap. So, what we do there, Dave, is we add value to the property that might be fixing a problem such as a maybe deferred maintenance, maybe installing a new carpet, new appliances, new lighting, maybe painting the exterior, landscaping, increasing rents, decreasing the expenses. So what all it does is it boost our net operating income or our NOI. Since it's an inverse relationship, the lower the cap rate the higher your valuations going to be. We also look at "Okay, what is our risk?" If we're holding this deal for a year, 2 years, 10 years, whatever that might be, where do we think our cap rate is going to be? Where we think our net operating income is going to be? And let's budget out. "Okay, how, if cap rates don't go from a 10 and to a 7-rate and they only go to a 9 ¾, how are our investors are going to get paid back?" That's really is what also drives our decision-making when going after deals. Again, matching that deal up to what the investors are looking for. Again as a team here, we're all on the same page.

Dave: Brian, do you look at the, sure you look at things like price per unit or, I know you do some emerging market stuff, maybe you could talk a little bit about that.

Brian: Sure thing. Where we're at, Dave, in Pennsylvania, our local market, there's a certain price point per unit and the cap rate versus I can go to other parts of the country and get a better yield for the investor that is driven by economic and job growth. And one of the states that I've specifically focused on is Texas. Texas is the state the produces solid jobs, solid economic growth, both from the blue-collar, white collar type of job as well as it is a very business-friendly state. Big employers, let's say California, are leaving California go to Texas because there is no state income tax. As well as Texas is a central in the country so it's a great place for distribution of product. Again, I follow Census Bureau and other reports, job data report, from not only Texas but other parts of the country to say "Okay, where is our biggest influence of our prospective renters?" And just to bring this up really quickly, as you may know the babies of the baby boomers which are called the millennials are really driving the demand right now. Everyone needs a place to live, it's a commodity and what out millennial profile are doing right now is they like the flexibility of owning a rental. They like the flexibility of being able to pick up and go wherever that next opportunity is, such as a rental. They can just break a lease and move from New York to California if they need to. Now compare that to if they own a house in New York or wherever that location and they wanted to move to a different state or a different location, what do they have to do? They have to sell the house, deal with the mortgage, all these other good things. Plus these millennials when our economy tanked 7 years ago, what did our millennials do, they need a place to live. So they're moving back in with mom and dad, but now mom and dad is like "Okay, we've had enough." We want you to get back out and work for it. *(laughs)* So this supply and demand, again not to confuse our listeners, but call absorption rate where these units being absorbed at a very fastest pace. Because when you get that metrics of demand and supply, you can then start increasing rent as well when that absorption rate is really humming along at a good clip.

Dave: I have a question for you like when you were starting out, you were, you know you didn't have a real track record yet. You're going from owning a duplex to trying to buy a hundred unit, what are some of the things you did to compensate for something like that?

Brian: Yeah, sure thing. Exactly what you just brought up from a duplex to a 130-unit deal, and the seller and I couldn't agree on terms, this, that and other and the deal kind of fell apart. So I realize, Dave, "Okay. There's got to be other ways to skin this cat." And what I mean by that is how can I add value to somebody else's. Maybe, you're already doing this to get my track record. Most folks know that Brian, know me as a CPA and now I'm going real estate. I had a lot of value from a CPA perspective, but "Hey, that's a lot of money. Do you know what you're doing, Brian?" That type of thing. So what I did is I looked through the network. We all again have people in our network that can help us and help each other get further ahead. I looked to the database and located a team that was actually in the process of buying a 270 plus unit deal. Back in 2010, it was some what of a tough economy but it was a bank REO, we bought it for a $4.5 million and on the day purchase appraised for 12 million. So I was able to do is partner with this group and absorb 'because I had never been in a driver's seat of a deal. I was just kind of sitting out in the back seat and I had a value by raising some capital and being a partner of the deal and just was able to learn. What happens next when the deal pays off (laughs), my investors are super happy. And that helps build that track record. That helped build that credibility. And that just spring boarded me to, that was in 2010. And then come back a little bit of my story, this whole time I'm still in this law firm, just working these crazy hours. And I realized, Dave, I just wasn't getting ahead. I just wasn't getting, I wasn't accomplishing the goals, my passion. I've started switching to this whole real estate, and missing my girls and my family, I decided at the end of 2011 to push all my jobs in. I had this determination, I had this focus, I know I can get to where I needed to be and I quit my job at the end of 2011. Sure, that's stressful. A lot of people think that think that's nuts. Of course. Here's this conservative CPA guy who's got a really good salary and making this stuff happen from a CPA model and he quit his job. Certainly, you probably know that building all these businesses that you've been involved with, building your own business from scratch has a lot of challenge, has a lot of struggles, has a lot of things that make you either stay up late or get you up in the morning and like "Oh my gosh! Did I make the right decision?" *(laughs)* So 2012 was a tough year, but I knew that I could persevere and keep me cranking along here. So in 2013, I bought a 144-unit deal for $10.3 million and then in 2014, I bought a 209 for $6 million. So in 2015, as we're recording this call, I'll be taking down another 100 to 400 hundred-unit deal sometime this year.

Dave: That's actually one of my questions for you. Everything sounds so great, right? So what are some of the biggest challenges? We have challenges, everybody have challenges in the business, but obviously it's a challenge to make the jump from the corporate America job. You got to look at this way, right? You can always go get that job again. It's not like you cannot go out and be the CPA again. It's pretty easy to jump back again if you have to. You know what I mean, so.

Brian: Yeah. Sure thing. I know taxes are not going anywhere, right? *(laughs)*

Dave: Yeah, yeah.

Brian: Truly. Yeah, exactly. *(laughs)*

Dave: So, what do you think is the biggest challenge in the apartment business? Is it finding the deal? Is it finding investors? Is it putting all things together? I don't know. You're in the business more than me. (laughs)

Brian: Yeah, sure. No, it's a great question. What I've done is, there's a lot here. When you think of buying a large complex, you've got to, first, you've got the find the deal. Then you've got to obviously find investors. Then you've got due diligence. And you got third-party reports. I don't want to confuse you too much, but what I did is I had to break this thing down into what I call this my 4D approach to the apartment investing. I just broke it into 4 chunks. First, my big chunk is the **deals**. I need to find really great opportunities that maybe other folks don't know about. And I do various marketing, direct-mail campaigns to owners of those apartment buildings, deal with other investors, obviously brokers, attorneys, all those sources where I can get the greatest deal flow. At the same time I need the **dollars**. That's step 2 of my 4D approach. I need to get a lender if I'm using a bank loan or if I'm using a private capital raising dollars from others. I need the deals and the dollars are kind of seamless, they need to be working together. Third step of my model is "Okay, we got the deal closed. Now how are you going to **direct** the deal? How are you going to execute that game plan so everyone gets paid?" So that's either working with a management company or manage it yourself. And then ultimately where we all want to get to is the fourth part is the **DONE**. Everyone is paid. Everyone is getting high fives hopefully, and just counting their money and feeling good. My model has been "Okay. When this deal closes, let me get you into something else and keep your money working for you. And how can I best serve you to get, help you accomplish whatever your financial goals might be. "

Dave: I kind of look at this thing as a forced appreciation type model. And you touched on education earlier. I know you learn some of it from doing the returns, but then you talked about you went out and got educated. What are some of the things that you did to better educate yourself whether there are courses you took or books you read or that kind of thing?

Brian: Yeah, there's a lot of great content. In the age that we're in, you can go to YouTube and there's all kinds of forms and Facebook pages, people that are sharing data and learning. But, Dave, I will admit that sometimes as a CPA, I know probably some others, they get in their own way. They get really smart and maybe learning the books or learning about a particular topic. But there is another thing that needs to happen. There has to be some type of action, putting that one step forward and moving forward. I think a lot of people just they feel that they understand it from a book perspective, but sometimes real life and the book or hearing about someone's story, you actually do need to take some action and get started. I think that's a critical part and maybe that investor doesn't need to do it all themselves. Okay? Just going back to my story, my first deal, it didn't go very far. I couldn't get the seller and I agree to terms, but I knew there was another way to move forward in this business. I just partnered with somebody that already had that track record and help me get credibility. I'm helping them. It's creating this win-win strategy. And again sometimes we forget about that, it's always about that one person and I think the further that we can form this strategic relationship so that each is getting something out of the relationship. I think that's really important.

Dave: You hit around a lot of things I say to people to is, "You got to get educated, no matter what space it is, get educated in space, try to network with people doing it and even go as far as getting a coach." I've got a coach for years. I've got multiple coaches at the same time. I think a lot of that is something that you've touched on. You've had help along the way. I've had help along the way. I think nobody becomes successful alone, that I know of. *(laughs)*. Any final word of encouragement you want to pass on to everyone who is listening today.

Brian: I think for me, I could have given up a lot of period, I've got struggles. I'm not saying by any means, Dave or to your audience, this has been a cakewalk. It's been a lot of challenge. But for me, when I decided to make that shift in 2011 to quit my CPA gig, if you will, my real passion, my focus was my family, spending time with my girls, at that time were very young, they're a little bit older now and certainly my wife. And having now the flexibility to enjoy this business and work when I want to work, creating this passive income for myself as well as for my investors. My point of all this, I think, maybe at the end of this call, take 5 minutes and just write down "Why are you doing what you're doing?" What is that purpose? What is that passion? What's that stuff that's burning in your belly? Or what's that stuff that gets you excited? What's going to keep you up late at night or springboard you out of the bed in the morning? For me that's owning real estate, making my investors protected, buying these large apartment deals, I get excited about these. So now my real mission is helping other real estate investors. You mentioned about the coaches, I also have a coach as well as, not for real estate anymore, but just for big business, strategic building purposes. But I'm teaching other investors how to get started in real estate, raising private capital, all this other good stuff. I think that just to sum that up one last time is to really understand your why and what is going to move you forward. There's got be a lot of negative folks and you can't do this. You got to clear out the noise and get very clear, have a clear focus on where you want to head, one step in front of the other.

Dave: That's some really good stuff. *(laughs)* So where can our listeners learn or know more about you, ways to connect with you, ways to invest with you and all the above?

Brian: Yeah, sure. Thank you, Dave, for that. My website is **adamsinvestorgroup.com**. I'm Brian Adams. Should I give them my phone number or? Should I?

Dave: Sure. Yeah, sure. Whatever you want. Whatever works for you.

Brian: Yeah, great. Phone number is **215 967 1464**. My email is **brian@adamsinvestorgroup.com**. I'm currently looking at opportunities on a regular, consistent basis to get the investors into, again, these large apartment opportunities where they are not involved in the day to day stuff. Again, that's where I come it to help out that investor, accomplish the financial goals that they are looking for and we create this win-win and team-in opportunities.

Dave: Now that was really good stuff. I definitely want to thank you for being on the call today. A lot of good information. I also want to point out to the accredited investors out there, if you want to find out more about us, that's strategicinvestoralliance.com. Brian actually participates in there as well as I do whether it's on a panel or attending. If someone is interested in that by all means go to that website, strategicinvestoralliance.com. Brian, I can't thank you enough. I'm sure I'll be seeing you soon.

Brian: Yeah.

Dave: Thanks for the call.

Brian: Thank you, Dave. Enjoyed it. Thank you.

Dave: Take care, Brian. Thank you.

Brian: Thanks. Bye.